

GULF COAST WATER AUTHORITY

FINANCIAL STATEMENTS

August 31, 2013

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Gulf Coast Water Authority
Financial Report for Fiscal Year Ended August 31, 2013

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FINANCIAL SECTION



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Independent Auditors' Report

To the Board of Directors
Gulf Coast Water Authority
Texas City, Texas

We have audited the accompanying financial statements of the business-type activities and each major fund of the Gulf Coast Water Authority, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the Gulf Coast Water Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Gulf Coast Water Authority, as of August 31, 2013, and the respective changes in financial position and cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 5-10 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gulf Coast Water Authority's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink, appearing to read "Sugar Land & Co.", is written in a cursive style.

Sugar Land, Texas
November 8, 2013

GULF COAST WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Gulf Coast Water Authority (the "Authority") offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended August 31, 2013. We encourage readers to consider the information presented here in conjunction with the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The Authority's total assets were \$178,455,014; of this amount, \$125,239,921 represents net capital assets and \$45,944,704 represents cash and cash equivalents under both, current and restricted assets.
- Liabilities for the Authority totaled \$46,551,946 of which \$38,699,646 accounts for obligations under long-term debt.
- The Authority's total assets exceeded liabilities by \$131,903,068. This amount represents net position; of this amount, \$82,210,275 is investment in capital assets. An additional \$4,613,439 is under restricted net position and the remaining \$45,079,354 represents unrestricted net position.
- Operating revenues for the Authority at year-end were \$46,948,919 and exceeded operating expenses by \$10,168,046.
- Non-operating expenses exceeded non-operating revenues by \$521,612. This was primarily attributable to interest expense paid on bonds that totaled \$1,507,638 as of year-end.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements include two components: 1) business-type financial statements, and 2) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

ENTERPRISE FUNDS

Enterprise Funds are used to report the same functions presented as business-type activities in the basic financial statements. The Authority's major Enterprise Funds are presented by division as follows:

- Industrial Division
- League City Southeast Plant
- Water Treatment Plant
- Canal Division
- 1998 A-B South Projects
- 1998 C Series Texas City Projects
- 2002 Galveston Projects
- Chocolate Bayou
- Pearland Southeast Plant

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

STATEMENT OF NET POSITION

The Statement of Net Position for the Authority is presented as one of the required basic financial statements. The Statement of Net Position includes all of the Authority's assets and liabilities. A major function of the Statement of Net Position is to measure the ability of the Authority to meet its current and long-term obligations. In the Statement of Net Position, the difference between total assets and total liabilities is titled as Net Position.

State and local governments report the net value or "Net Position" in these major categories:

- Investment in Capital Assets
- Restricted
- Unrestricted

The Governmental Accounting Standards Board (GASB) believes the users of the Authority's financial statements should know whether "Net Position" were invested in capital assets, are restricted for future use or their future use is unrestricted.

FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a financial statement position. In the case of the Authority, assets exceeded liabilities by \$131,903,068 at the close of the most recent fiscal year.

As of August 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current and noncurrent assets	\$ 53,215,093	\$ 53,197,822
Capital assets	125,239,921	123,795,457
Total Assets	<u>178,455,014</u>	<u>176,993,279</u>
Liabilities		
Current liabilities	\$ 7,852,300	\$ 7,813,473
Noncurrent liabilities	38,699,646	45,772,644
Total Liabilities	<u>46,551,946</u>	<u>53,586,117</u>
Net Position		
Investment in capital assets	\$ 82,210,275	\$ 71,596,314
Restricted:		
Debt service	3,906,551	3,825,541
Construction	706,888	1,836,292
Unrestricted	45,079,354	46,149,015
Total Net Position	<u>131,903,068</u>	<u>123,407,162</u>

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position is the basic statement of activities for all the Authority's Divisions. The Authority does not seek to earn a profit in the long term. However, the Authority must cover its operations, maintenance and other costs, and provide sufficient reserves annually from fees and charges since the Authority does not levy or collect any tax revenue. The Statement of Revenues, Expenses and Changes in Net Position measures how well annual costs are covered by fees and charges.

For the Years Ended August 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Metered water sales	\$ 31,894,400	\$ 25,610,055
Bond payment revenue	6,901,675	6,679,086
Irrigation sales	2,855,535	3,298,860
Total Operating Revenues	<u>41,651,610</u>	<u>35,588,001</u>
Operating Expenses:		
Personnel services	4,900,543	4,386,157
Supplies and materials	18,877,306	18,045,485
Contracted services	3,382,054	2,700,910
Other Charges	114,604	99,300
Depreciation	9,506,366	8,128,117
Total Operating Expenses	<u>36,780,873</u>	<u>33,359,969</u>
Operating Income	4,870,737	2,228,032
Nonoperating Revenues (Expenses)	<u>4,775,697</u>	<u>(1,605,900)</u>
Net Income	9,646,434	622,132
Net position at beginning of year	<u>122,256,634</u>	<u>122,785,030</u>
Net Position at End of Year	<u>\$ 131,903,068</u>	<u>\$ 123,407,162</u>

The beginning net position was restated in the current year by \$1,150,528 due to the implementation of GASB 65.

CAPITAL ASSETS AND LONG-TERM DEBT

The Authority's investment in net capital assets as of August 31, 2013 totaled \$125,221,082. This investment in capital assets includes land; office furniture, fixtures and equipment; other machinery and equipment; automobiles and trucks; buildings; water systems; wastewater utility systems; and construction in progress.

	<u>2013</u>	<u>2012</u>
Capital Assets - at cost		
Industrial Division	\$ 18,011,522	\$ 14,809,030
League City Southeast Plant	29,478,282	29,459,632
Water Treatment Plant	33,069,619	30,872,124
Canal Division	27,260,394	24,007,000
1998 A-B South Projects	28,933,640	28,933,640
1998 C Series Texas City Projects	11,998,420	11,998,420
2002 Galveston Projects	14,777,829	13,561,408
Chocolate Bayou	27,754,226	26,771,632
Pearland Southeast Plant	26,811,032	26,809,282
Other Enterprise Funds	16,080,333	16,035,603
Less accumulated depreciation	<u>(108,935,376)</u>	<u>(99,462,314)</u>
Total Capital Assets	<u>\$ 125,239,921</u>	<u>\$ 123,795,457</u>

Additional information on the Authority's capital assets can be found in Note 3 to the financial statements.

LONG-TERM DEBT

At the end of the current fiscal year, the Authority had long-term debt of \$38,699,646. The debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

As of August 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Long-Term Debt		
First Lien Water Revenue Bonds-		
less current maturities	\$ 36,750,000	\$ 45,970,000
Unamortized bond premiums	<u>1,949,646</u>	<u>(197,356)</u>
Total Long-Term Debt	<u>\$ 38,699,646</u>	<u>\$ 45,772,644</u>

Additional information on the Authority's long-term debt can be found in Notes 4 to the financial statements.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Administrator, 3630 Highway 1765, Texas City, Texas 77591.

BASIC FINANCIAL STATEMENTS

GULF COAST WATER AUTHORITY

STATEMENT OF NET POSITION

August 31, 2013

	Business - Type Activities				
	Industrial Division	League City Southeast Division	Water Treatment Plant	Canal Division	1998 A-B South Projects
<u>Assets</u>					
Current Assets					
Unrestricted cash and cash equivalents	\$ 13,863,628	\$ 284,361	\$ 8,158,651	\$ 9,384,660	\$ 33,642
Restricted cash and equivalents:					
Debt service		226,747			2,262,107
Construction					
Accounts receivable	751,380	316,529	892,035	947,202	335,250
Interest receivable	5,291	821	2,285	6,571	7,891
Prepaid expenses	229		1,478	1,808,317	
Total Current Assets	14,620,528	828,458	9,054,449	12,146,750	2,638,890
Capital Assets - at cost	18,011,522	29,478,282	33,069,619	27,260,394	28,933,640
Accumulated depreciation	(12,903,761)	(10,967,388)	(29,239,264)	(19,361,114)	(10,426,097)
Total Capital Assets	5,107,761	18,510,894	3,830,355	7,899,280	18,507,543
Total Assets	\$ 19,728,289	\$ 19,339,352	\$ 12,884,804	\$ 20,046,030	\$ 21,146,433
<u>Liabilities</u>					
Current Liabilities					
Accounts payable and accrued liabilities - unrestricted	\$ 816,370	\$ 222,707	\$ 817,444	\$ 826,614	\$
Restricted for Debt service:					
Current portion of bonds		210,000			1,170,000
Accrued interest payable		2,512			32,128
Total Current Liabilities	816,370	435,219	817,444	826,614	1,202,128
Long-Term Debt					
Revenue bonds payable less current maturities		1,640,000			17,270,000
Unamortized bond premium or discount		68,281			1,095,203
Total Long-Term Debt		1,708,281			18,365,203
Total Liabilities	816,370	2,143,500	817,444	826,614	19,567,331
<u>Fund Equity</u>					
Net Position					
Investment in capital assets	5,107,761	16,592,613	3,830,355	7,899,280	(1,027,660)
Restricted for debt service		224,235			2,229,979
Restricted for construction					
Unrestricted	13,804,158	379,004	8,237,005	11,320,136	376,783
Total Net Position	18,911,919	17,195,852	12,067,360	19,219,416	1,579,102
Total Liabilities and Fund Equity	\$ 19,728,289	\$ 19,339,352	\$ 12,884,804	\$ 20,046,030	\$ 21,146,433

- Enterprise Funds

1998 C Series Texas City Projects	2002 Galveston Projects	Chocolate Bayou	Pearland Southeast Plant	Other Enterprise Funds	Total
\$	\$	\$ 7,649,511	\$	\$ 1,880,088	\$ 41,254,541
629,344	143,545	5,404		716,128	3,983,275
	706,888				706,888
51,209		1,799,010	69,860	263,172	5,425,647
2,140	354	5,774		2,864	33,991
		703		24	1,810,751
<u>682,693</u>	<u>850,787</u>	<u>9,460,402</u>	<u>69,860</u>	<u>2,862,276</u>	<u>53,215,093</u>
11,998,420	14,777,829	27,754,226	26,811,032	16,080,333	234,175,297
(2,768,544)	(2,105,578)	(10,958,183)	(383,366)	(9,822,081)	(108,935,376)
<u>9,229,876</u>	<u>12,672,251</u>	<u>16,796,043</u>	<u>26,427,666</u>	<u>6,258,252</u>	<u>125,239,921</u>
<u>\$ 9,912,569</u>	<u>\$ 13,523,038</u>	<u>\$ 26,256,445</u>	<u>\$ 26,497,526</u>	<u>\$ 9,120,528</u>	<u>\$ 178,455,014</u>
\$	\$ 97,930	\$ 547,889	\$ 73,641	\$ 42,981	\$ 3,445,576
385,000	700,000	990,000		875,000	4,330,000
9,790	6,531	17,877		7,886	76,724
<u>394,790</u>	<u>804,461</u>	<u>1,555,766</u>	<u>73,641</u>	<u>925,867</u>	<u>7,852,300</u>
4,630,000	6,205,000	3,085,000		3,920,000	36,750,000
471,147				315,015	1,949,646
<u>5,101,147</u>	<u>6,205,000</u>	<u>3,085,000</u>		<u>4,235,015</u>	<u>38,699,646</u>
<u>5,495,937</u>	<u>7,009,461</u>	<u>4,640,766</u>	<u>73,641</u>	<u>5,160,882</u>	<u>46,551,946</u>
3,743,729	5,767,251	12,721,043	26,427,666	1,148,237	82,210,275
619,554	137,014	(12,473)		708,242	3,906,551
	706,888				706,888
53,349	(97,576)	8,907,109	(3,781)	2,103,167	45,079,354
<u>4,416,632</u>	<u>6,513,577</u>	<u>21,615,679</u>	<u>26,423,885</u>	<u>3,959,646</u>	<u>131,903,068</u>
<u>\$ 9,912,569</u>	<u>\$ 13,523,038</u>	<u>\$ 26,256,445</u>	<u>\$ 26,497,526</u>	<u>\$ 9,120,528</u>	<u>\$ 178,455,014</u>

GULF COAST WATER AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended August 31, 2013

	Business - Type Activities				
	Industrial Division	League City Southeast Division	Water Treatment Plant	Canal Division	1998 A-B South Projects
Operating Revenues:					
Metered water sales	\$ 9,853,719	\$ 2,405,751	\$ 9,531,078	\$ 7,834,227	\$
Bond payment revenue		270,479			1,940,587
Irrigation sales				731,969	
Total Operating Revenues	<u>9,853,719</u>	<u>2,676,230</u>	<u>9,531,078</u>	<u>8,566,196</u>	<u>1,940,587</u>
Operating Expenses:					
Personnel services	407,389	5,657	1,781,555	1,919,180	
Supplies and materials	5,349,067	2,395,491	5,347,525	4,069,759	
Contracted services	144,143	3,902	1,512,106	1,223,459	
Other charges	67,711	22	1,151	44,258	
Depreciation	200,841	351,629	1,186,568	1,091,499	1,485,517
Total Operating Expenses	<u>6,169,151</u>	<u>2,756,701</u>	<u>9,828,905</u>	<u>8,348,155</u>	<u>1,485,517</u>
Operating Income (Loss)	<u>3,684,568</u>	<u>(80,471)</u>	<u>(297,827)</u>	<u>218,041</u>	<u>455,070</u>
Nonoperating Revenues (Expenses)					
Interest income	34,288	1,816	20,392	31,252	12,876
Other revenues and (expenses)	15,216	1,068	3,328	739,799	
Amortization of bond premium or discount		8,535			121,686
Bond issuance costs					
Interest expense		(69,667)			(806,262)
Intergovernmental transfers					
Total Nonoperating Revenues (Expenses)	<u>49,504</u>	<u>(58,248)</u>	<u>23,720</u>	<u>771,051</u>	<u>(671,700)</u>
Change in Net Position	3,734,072	(138,719)	(274,107)	989,092	(216,630)
Net Position at Beginning of Year	15,177,847	17,334,571	12,341,467	18,230,324	1,795,732
Net Position at End of Year	<u>\$ 18,911,919</u>	<u>\$ 17,195,852</u>	<u>\$ 12,067,360</u>	<u>\$ 19,219,416</u>	<u>\$ 1,579,102</u>

- Enterprise Funds

1998 C Series Texas City Projects	2002 Galveston Projects	Chocolate Bayou	Pearland Southeast Plant	Other Enterprise Funds	Total
\$ 614,510	\$ 857,005	\$ 1,481,439	\$ 844,890	\$ (56,704)	\$ 31,894,400
		2,155,255		1,063,839	6,901,675
		2,123,566			2,855,535
<u>614,510</u>	<u>857,005</u>	<u>5,760,260</u>	<u>844,890</u>	<u>1,007,135</u>	<u>41,651,610</u>
		725,997	6,319	54,446	4,900,543
		880,694	833,987	783	18,877,306
		485,622	2,449	10,373	3,382,054
		1,357	21	84	114,604
<u>591,433</u>	<u>516,911</u>	<u>2,915,255</u>	<u>255,647</u>	<u>911,066</u>	<u>9,506,366</u>
<u>591,433</u>	<u>516,911</u>	<u>5,008,925</u>	<u>1,098,423</u>	<u>976,752</u>	<u>36,780,873</u>
<u>23,077</u>	<u>340,094</u>	<u>751,335</u>	<u>(253,533)</u>	<u>30,383</u>	<u>4,870,737</u>
3,590	1,175	17,414		9,274	132,077
		5,328,141	15	45	6,087,612
52,350				57,453	240,024
	(176,378)				(176,378)
(248,731)		(163,265)		(219,713)	(1,507,638)
<u>(192,791)</u>	<u>(175,203)</u>	<u>5,182,290</u>	<u>15</u>	<u>(152,941)</u>	<u>4,775,697</u>
(169,714)	164,891	5,933,625	(253,518)	(122,558)	9,646,434
<u>4,586,346</u>	<u>6,348,686</u>	<u>15,682,054</u>	<u>26,677,403</u>	<u>4,082,204</u>	<u>122,256,634</u>
<u>\$ 4,416,632</u>	<u>\$ 6,513,577</u>	<u>\$ 21,615,679</u>	<u>\$ 26,423,885</u>	<u>\$ 3,959,646</u>	<u>\$ 131,903,068</u>

GULF COAST WATER AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended August 31, 2013

	Business - Type Activities				
	Industrial Division	League City Southeast Division	Water Treatment Plant	Canal Division	1998 A-B South Projects
Cash Flows from Operating Activities					
Cash received from customers	\$ 9,496,073	\$ 2,477,648	\$ 9,505,194	\$ 8,520,190	\$ 1,934,178
Cash payments to suppliers for goods and services	(5,094,479)	(2,416,754)	(6,856,912)	(7,047,488)	(3,400)
Cash paid for employee services	(407,389)	(5,657)	(1,781,555)	(1,919,180)	
Other revenues and (expenses)	15,216	1,068	3,328	739,799	
Net Cash Provided (Used) by Operating Activities	<u>4,009,421</u>	<u>56,305</u>	<u>870,055</u>	<u>293,321</u>	<u>1,930,778</u>
Cash Flows from Capital and Related Financing Activities					
Acquisition of facilities and equipment	(3,202,493)	(18,650)	(2,230,802)	(3,253,393)	
Proceeds from the sale of bonds					
Principal paid on bonds		(205,000)			(1,140,000)
Interest paid		(69,838)			(807,575)
Bond issuance costs					
Intergovernmental transfers					
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,202,493)</u>	<u>(293,488)</u>	<u>(2,230,802)</u>	<u>(3,253,393)</u>	<u>(1,947,575)</u>
Cash Flows from Investing Activities					
Interest earned	36,863	1,206	23,075	31,528	5,408
Net Cash Provided by Investing Activities	<u>36,863</u>	<u>1,206</u>	<u>23,075</u>	<u>31,528</u>	<u>5,408</u>
Net Increase (Decrease) in Cash and Cash Equivalents	843,791	(235,977)	(1,337,672)	(2,928,544)	(11,389)
Cash and equivalents at beginning of year	<u>13,019,837</u>	<u>747,085</u>	<u>9,496,323</u>	<u>12,313,204</u>	<u>2,307,138</u>
Cash and Equivalents at End of Year	<u>\$ 13,863,628</u>	<u>\$ 511,108</u>	<u>\$ 8,158,651</u>	<u>\$ 9,384,660</u>	<u>\$ 2,295,749</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ 3,684,568	\$ (80,471)	\$ (297,827)	\$ 218,041	\$ 455,070
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Other revenue and expenses	15,216	1,068	3,328	739,799	
Depreciation	200,841	351,629	1,186,568	1,091,499	1,485,517
(Increase) decrease in receivables	(357,646)	(198,582)	(25,884)	(46,006)	(6,409)
(Increase) decrease in prepaid expenses	8		20	(1,806,741)	
Increase (decrease) in vouchers payable and accrued liabilities	466,434	(17,339)	3,850	96,729	(3,400)
Total Adjustments	<u>324,853</u>	<u>136,776</u>	<u>1,167,882</u>	<u>75,280</u>	<u>1,475,708</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,009,421</u>	<u>\$ 56,305</u>	<u>\$ 870,055</u>	<u>\$ 293,321</u>	<u>\$ 1,930,778</u>

See Notes to Financial Statements.

- Enterprise Funds

1998 C Series Texas City Projects	2002 Galveston Projects	Chocolate Bayou	Pearland Southeast Plant	Other Enterprise Funds	Total
\$ 663,706	\$ 936,990	\$ 6,776,336	\$ 846,940	\$ 1,035,289	\$ 42,192,544
(1,700)	90,694	(1,064,357)	(839,905)	(11,459)	(23,245,760)
		(725,997)	(6,319)	(54,446)	(4,900,543)
		5,328,141	15	45	6,087,612
<u>662,006</u>	<u>1,027,684</u>	<u>10,314,123</u>	<u>731</u>	<u>969,429</u>	<u>20,133,853</u>
	(1,216,420)	(982,592)	(1,749)	(44,731)	(10,950,830)
	7,645,000				7,645,000
(375,000)	(8,130,000)	(7,025,000)		(850,000)	(17,725,000)
(249,199)	(8,633)	(187,638)		(220,776)	(1,543,659)
	(176,378)				(176,378)
<u>(624,199)</u>	<u>(1,886,431)</u>	<u>(8,195,230)</u>	<u>(1,749)</u>	<u>(1,115,507)</u>	<u>(22,750,867)</u>
<u>1,566</u>	<u>2,178</u>	<u>16,157</u>		<u>8,093</u>	<u>126,074</u>
<u>1,566</u>	<u>2,178</u>	<u>16,157</u>		<u>8,093</u>	<u>126,074</u>
39,373	(856,569)	2,135,050	(1,018)	(137,985)	(2,490,940)
<u>589,971</u>	<u>1,707,002</u>	<u>5,519,865</u>	<u>1,018</u>	<u>2,734,201</u>	<u>48,435,644</u>
<u>\$ 629,344</u>	<u>\$ 850,433</u>	<u>\$ 7,654,915</u>	<u>\$</u>	<u>\$ 2,596,216</u>	<u>\$ 45,944,704</u>
\$ 23,077	\$ 340,094	\$ 751,335	\$ (253,533)	\$ 30,383	\$ 4,870,737
		5,328,141	15	45	6,087,612
591,433	516,911	2,915,255	255,647	911,066	9,506,366
49,196	79,985	1,016,076	2,050	28,154	540,934
		60	1	8	(1,806,644)
<u>(1,700)</u>	<u>90,694</u>	<u>303,256</u>	<u>(3,449)</u>	<u>(227)</u>	<u>934,848</u>
<u>638,929</u>	<u>687,590</u>	<u>9,562,788</u>	<u>254,264</u>	<u>939,046</u>	<u>15,263,116</u>
<u>\$ 662,006</u>	<u>\$ 1,027,684</u>	<u>\$ 10,314,123</u>	<u>\$ 731</u>	<u>\$ 969,429</u>	<u>\$ 20,133,853</u>

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GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Gulf Coast Water Authority (the "Authority"), a governmental agency and political subdivision of the State of Texas, conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The following is a summary of the more significant policies consistently applied in the preparation of the accompanying financial statements:

A. Reporting Entity

The Gulf Coast Water Authority (the "Authority") is a Conservation and Reclamation District and political subdivision of the State of Texas (the State), created and functioning under Article XVI, Section 59, of the Texas Constitution, pursuant to Chapter 712, Acts of the 59th Legislature, Regular Session, 1965, as amended (the Act). The Act created the Authority to conserve, store, transport, treat and purify, distribute, well and deliver water, both surface and underground, to persons, corporations, both public and private, political subdivisions of the State and others, and to purchase, construct or lease all property, works and facilities, both within and without the Authority, necessary or useful for such purposes. It is also authorized to acquire water supplies from sources within or without its boundaries and to sell, transport and deliver water to customers situated within or without its boundaries and to acquire all properties and facilities necessary or useful for such purposes. The Act conferred no water rights on the Authority and it is not authorized to make any regulation of the withdrawal of underground water. The Authority may make, construct, or otherwise acquire improvements either within or without its boundaries necessary to carry out its powers and authority and to exercise the power of eminent domain for such purposes, except the Authority does not have the power of eminent domain as to all or any part of the water supply, property, works or facilities of any private person or persons, or of any private or public corporation or association engaged in the business of supplying water in Galveston County, Texas, to any class of consumers for any use as of the effective date of enabling legislation. However, the Authority may acquire necessary crossing easements and rights of way. The powers, rights, privileges, and functions conferred upon the Authority are subject to the continuing rights of supervision by the State, which is exercised by the Texas Department of Water Resources including approval of its projects. The Act granted the Authority none of the powers conferred by General Law for the purposes of the collection, transportation, processing, disposal and control of domestic, industrial or communal wastes, and the gathering, conducting, directing and controlling of local storm waters, or other local harmful excesses of water. Furthermore, the Authority has no power to levy taxes but is authorized to issue revenue bonds to provide funds for any and all of the purpose set forth in the Act and to collect related rates and costs.

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The Authority is comprised of all of the territory contained within Galveston County, Texas, and its boundaries are the same as and coextensive with the boundaries of Galveston County, Texas. However, its operations are not necessarily limited to the confines of these boundaries.

The Authority is a separate self-supporting governmental unit and is administered by a board of nine directors. Seven directors are appointed by the Commissioners Court of Galveston County to represent the geographic and ethnic diversity of the county. Of these one director is appointed upon the recommendation of the City Council of the City of Galveston, two more directors are appointed at-large, and four directors are appointed on the written recommendation of advisory committees appointed by the Board of Directors of the Gulf Coast Water Authority. Two of those four directors are recommended by the Mainland Municipal Advisory Committee and two of those directors are recommended by the Industrial Advisory Committee. The Industrial Advisory Committee is composed of one representative of each industrial customer of the Gulf Coast Water Authority. The Mainland Municipal Advisory Committee is composed of one representative of each municipal or water district customer of the Gulf Coast Water Authority that contracts for not less than 2 million gallons of water a day. The Commissioners Court of Galveston County is entitled to accept or reject the recommendations made to the court by the advisory committees. If a recommendation made by an advisory committee is rejected, the advisory committee submits additional recommendations to the court. Additionally, three of the members appointed by the Commissioners Court of Galveston County are required to be registered professional engineers under the laws of Texas. The final two directors are appointed by the Commissioners Courts of Brazoria County and Fort Bend County respectively to represent District customers in their individual county. Each of these two directors must be recommended by one or more of those customers and reside in that county. Vacancies on the Board of Directors, whether by death, resignation or termination of the term of office, are filled by appointment by the Commissioners Court that appointed the director. All terms of office are for a period of two years and are staggered.

B. Business-Type Activities

The business-type activities and the related accounts of the Authority are organized on the basis of Enterprise Funds, each of which is considered a separate accounting entity. The operations of each Enterprise Fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses, as appropriate. These Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to customers on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The Enterprise Funds maintained by the Authority are described below:

Major Proprietary Funds:

Industrial Division
League City Southeast Plant
Water Treatment Plant
Canal Division
1998 A-B South Projects
1998 C Texas City Projects
2002 Galveston Projects
Chocolate Bayou
Pearland Southeast Plant

Non-Major Proprietary Funds:

Administrative Special Projects
1991 Kemah Projects
1987 Galveston Projects
1998D Series La Marque Projects
Industrial Pipeline
Water Treatment Plant Expansion 2011

C. Measurement Focus and Basis of Accounting

The Enterprise Funds have a net income or economic resources measurement focus and are accounted for using the accrual basis of accounting, under which revenues are recognized when they are earned including unbilled water which is accrued. Expenses are recognized at the time the liability is incurred. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the Statement of Net Position.

The Authority applies all GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Cash Equivalents

Cash and cash equivalents include amounts in checking, savings, money market accounts and certificates of deposits.

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

E. Accounts Receivable

The allowance for doubtful accounts is established to provide an estimate of bad debts charged to revenues. Losses are charged against the allowance when management believes the collectability of a receivable is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. As of August 31, 2013, no allowance for bad debts was necessary.

F. Depreciation

Depreciation is provided for in amounts sufficient to relate the cost of the depreciable property to operations on a straight-line basis over their estimated useful lives in the Enterprise Funds. The Authority's policy is to capitalize assets with an initial cost exceeding \$5,000 and useful life of three years or greater.

The useful lives by the type of assets are as follows:

<u>Asset Class</u>	<u>Useful Life</u>
Office furniture, fixtures and equipment	5 years
Other machinery and equipment	5-10 years
Automobiles and trucks	5-10 years
Buildings	20-50 years
Water systems	30 years

G. Date of Management's Review

Subsequent events have been evaluated through November 8, 2013, which is the date the financial statements were available to be issued.

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

H. Net Position

Net position represent the difference between assets and liabilities. Net position investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent bond proceeds.

Net position are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net position represent the remaining portion of net position.

A summary of investment in capital assets as of August 31, 2013 follows:

	Capital Assets - Net of Depreciation	Bonds Payable	Total
Industrial Division	\$ 5,107,761	\$	\$ 5,107,761
League City Southeast Division	18,510,894	(1,918,281)	16,592,613
Water Treatment Plant	3,830,355		3,830,355
Canal Division	7,899,280		7,899,280
1998 A-B South Projects	18,507,543	(19,535,203)	(1,027,660)
1998 C Series Texas City Projects	9,229,876	(5,486,147)	3,743,729
2002 Galveston Projects	12,672,251	(6,905,000)	5,767,251
Chocolate Bayou	16,796,043	(4,075,000)	12,721,043
Pearland Southeast Plant	26,427,666		26,427,666
Other Enterprise Funds	6,258,252	(5,110,015)	1,148,237
Total	\$ 125,239,921	\$ (43,029,646)	\$ 82,210,275

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A summary of net position restricted for debt service as of August 31, 2013 follows:

	Restricted Cash for Debt Service	Liabilities Payable from Restricted Cash for Debt Service	Total
Industrial Division	\$	\$	\$
League City Southeast Division	226,747	(2,512)	224,235
Water Treatment Plant			
Canal Division			
1998 A-B South Projects	2,262,107	(32,128)	2,229,979
1998 C Series Texas City Projects	629,344	(9,790)	619,554
2002 Galveston Projects	143,545	(6,531)	137,014
Chocolate Bayou	5,404	(17,877)	(12,473)
Pearland Southeast Plant			
Other Enterprise Funds	716,128	(7,886)	708,242
Total	\$ 3,983,275	\$ (76,724)	\$ 3,906,551

A summary of net position restricted for construction as of August 31, 2013 follows:

	Restricted Cash for Construction	Bonds Payable	Liabilities Payable from Restricted Cash for Construction	Total
Industrial Division	\$	\$	\$	\$
League City Southeast Division				
Water Treatment Plant				
Canal Division				
1998 A-B South Projects				
1998 C Series Texas City Projects				
2002 Galveston Projects	706,888			706,888
Chocolate Bayou				
Pearland Southeast Plant				
Other Enterprise Funds				
Total	\$ 706,888	\$	\$	\$ 706,888

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Authority's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the Authority's agent bank approved pledged securities in an amount sufficient to protect Authority funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The Public Funds Investment Act requires an annual audit of investment practices. Audit procedures in this area conducted as part of the general-purpose financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the Authority adhered to the requirements of the Act. Additionally, investment practices of the Authority were in accordance with bond provisions.

In accordance with GASB -31, certificates of deposit are reported at cost. Participating interest-earning investment contracts (repurchase agreements) that mature within one year of acquisition date are reported at fair value; those that mature within one year or less at date of acquisition are reported at amortized cost. Debt securities (U.S. Treasury securities, U.S. government agency securities) are reported at fair value, except those maturing in less than one year, which are recorded at amortized cost. Fair value is determined using quoted market prices. Unrealized gains and losses are included as a component of investment income.

Deposits

As authorized in bond provisions, deposits of the Gulf Coast Water Authority are in short term certificates of deposit, demand accounts and interest bearing money market accounts. All deposits are secured at balance sheet date by FDIC coverage and by pledged U.S. Government securities held by an agent of the bank in the name of the depository bank. The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

Category 1: Deposits and investments, which are insured or collateralized with securities, held by the Authority or by its agent in the Authority's name.

Category 2: Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

Category 3: Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the Authority's cash deposits are classified as Category 2. At August 31, 2013, cash and certificates of deposit of \$48,073,306 were secured by collateral with a market value of \$60,213,300.

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Investments

Statutes authorize the Authority to invest in obligations of the U.S. Treasury, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, and common trust funds. Similar to cash deposits, investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

Category 1: Investments that are insured, registered, or held by the Authority or by its agent in the Authority's name.

Category 2: Investments that are uninsured and unregistered held by the counter party's trust department or agent in the Authority's name.

Category 3: Uninsured and unregistered investments held by the counter party, its trust department, or its agent, but not in the Authority's name.

Investments that are not represented by specific identifiable investment securities such as mutual fund investment pools are not classified as to credit risk.

The Authority's investments at August 31, 2013 was a U.S. Treasury Portfolio Fund with a carrying and market amount of \$2,144,673 and was not categorized.

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – CAPITAL ASSETS

The following table summarizes the changes in the components of capital assets:

	<u>Balance at Sept. 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at Aug. 31, 2013</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Industrial Division:				
Land	\$ 843,764	\$	\$	\$ 843,764
Construction in progress	766,976	2,283,909	(229,381)	2,821,504
League City Southeast Plant:				
Construction in progress		16,935		16,935
Water Treatment Plant:				
Land	647,759			647,759
Construction in progress	275,309	6,395	(44,521)	237,183
1998 C Series Texas City Projects:				
Construction in progress				
Canal Division:				
Land	447,090			447,090
Construction in progress	375,602	477,715	(279,068)	574,249
2002 Galveston Projects:				
Construction in progress	4,441,500	1,216,421		5,657,921
Chocolate Bayou:				
Land	20,975			20,975
Construction in progress	122,441	516,494	(27,080)	611,855
Pearland Southeast Plant:				
Construction in progress				
Other Enterprise Funds:				
Construction in progress	670,167	37,360		707,527
Total Capital Assets Not Depreciated	<u>8,611,583</u>	<u>4,555,229</u>	<u>(580,050)</u>	<u>12,586,762</u>
Capital Assets Being Depreciated:				
Industrial Division	13,198,290	1,147,964		14,346,254
League City Southeast Plant	29,459,632	1,715		29,461,347
Water Treatment Plant	29,949,056	2,268,928	(33,307)	32,184,677
Canal Division	23,184,308	3,054,747		26,239,055
1998 A-B South Projects	28,933,640			28,933,640
1998 C Series Texas City Projects	11,998,420			11,998,420
2002 Galveston Projects	9,119,908			9,119,908
Chocolate Bayou	26,628,246	493,150		27,121,396
Pearland Southeast Plant	26,809,282	1,750		26,811,032
Other Enterprise Funds	15,365,436	7,370		15,372,806
Total Capital Assets Depreciated	<u>214,646,218</u>	<u>6,975,624</u>	<u>(33,307)</u>	<u>221,588,535</u>
Less Accumulated Depreciation	99,462,317	9,506,366	(33,307)	108,935,376
Business-Type Activities, Net	<u>\$ 123,795,484</u>	<u>\$ 2,024,487</u>	<u>\$ (580,050)</u>	<u>\$ 125,239,921</u>

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – LONG-TERM DEBT

A summary of changes in bonds payable follows:

	<u>Balance at Sept. 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at Aug. 31, 2013</u>	<u>Due Within One Year</u>
League City Southeast Division					
Contract Revenue Bonds:					
Series 2011F	\$ 2,055,000	\$	\$ 205,000	\$ 1,850,000	\$ 210,000
Total League City Southeast Division	<u>2,055,000</u>		<u>205,000</u>	<u>1,850,000</u>	<u>210,000</u>
1998 A-B South Projects					
Contract Revenue Bonds:					
Series 2011A	16,475,000		870,000	15,605,000	895,000
Series 2011B	3,105,000		270,000	2,835,000	275,000
Total 1998 A-B South Projects	<u>19,580,000</u>		<u>1,140,000</u>	<u>18,440,000</u>	<u>1,170,000</u>
1998 C Series Texas City Projects					
Contract Revenue Bonds:					
Series 2011C	5,390,000		375,000	5,015,000	385,000
Total 1998 C Series Texas City Projects	<u>5,390,000</u>		<u>375,000</u>	<u>5,015,000</u>	<u>385,000</u>
2002 Galveston Projects					
Contract Revenue Bonds:					
Series 2002	7,390,000		7,390,000		
Series 2012		7,645,000	740,000	6,905,000	700,000
Total 2002 Galveston Projects	<u>7,390,000</u>	<u>7,645,000</u>	<u>8,130,000</u>	<u>6,905,000</u>	<u>700,000</u>
Chocolate Bayou					
Contract Revenue Bonds:					
Series 2006	11,100,000		7,025,000	4,075,000	990,000
Total Chocolate Bayou	<u>11,100,000</u>		<u>7,025,000</u>	<u>4,075,000</u>	<u>990,000</u>
Other Enterprise Funds					
Contract Revenue Bonds:					
Series 2011E	3,655,000		680,000	2,975,000	700,000
Refunding Bonds:					
Series 2011D	1,990,000		170,000	1,820,000	175,000
Total Other Enterprise Funds	<u>5,645,000</u>		<u>850,000</u>	<u>4,795,000</u>	<u>875,000</u>
Total Bonds Payable	<u>\$ 51,160,000</u>	<u>\$ 7,645,000</u>	<u>\$ 17,725,000</u>	<u>\$ 41,080,000</u>	<u>\$ 4,330,000</u>

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Maturities of bonds payable follow:

	Principal	Interest	Total
2014	\$ 4,330,000	\$ 1,475,005	\$ 5,805,005
2015	4,450,000	1,355,765	5,805,765
2016	4,590,000	1,212,011	5,802,011
2017	5,705,000	1,074,970	6,779,970
2018	3,945,000	921,990	4,866,990
2019	4,085,000	774,773	4,859,773
2020	4,265,000	598,804	4,863,804
2021	4,425,000	430,569	4,855,569
2022	5,285,000	237,803	5,522,803
	<u>\$ 41,080,000</u>	<u>\$ 8,081,690</u>	<u>\$ 49,161,690</u>

NOTE 5 - COMPENSATED ABSENCES

All full time employees begin accruing paid sick leave eight (8) hours per month from the date of employment. Employees cannot use sick leave until completing ninety (90) day of service. Full time employees who have completed five (5) years of service and are separated for non-disciplinary reasons shall be paid for one half of their accrued sick leave up to a maximum of 360 hours. Employees who have completed ten (10) years of service and separate due to death or retirement shall be paid the balance of accumulated sick leave up to a maximum of nine hundred and sixty (960) hours.

Full time employees will accrue vacation hours each pay period beginning on their hire date. Employees will be able to take vacation upon completion of ninety (90) day of service. The maximum accrued balance an employee may carry is two times their annual accrual limit. At August 31, 2013, accrued compensated absences are \$246,336.

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 -EMPLOYEES' RETIREMENT PLAN

Plan Description - Gulf Coast Water Authority provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 575 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more.

Members are vested after 10 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy - The employer has chosen a variable rate plan under the provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the regular 8.67% contribution rate of the employer is greater than the 7.00% contribution rate payable by the employee members as adopted by the governing body of the employer. This regular contribution rate of the employer is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act. However, the plan of benefits adopted by the employer at the time of plan inception or when benefit increases were adopted was limited by the TCDRS Act to what the actuary determined could be adequately financed by the commitment of the employer to contribute the same amount as the employees. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost – The required contribution was determined as part of the December 31, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2012 included (a) 8.0 percent investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.4 percent. Both (a) and (b) included an inflation component of 3.5 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at December 31, 2012 was 20 years.

Funded Status and Funding Progress – As of December 31, 2012, the most recent actuarial valuation date, the plan was 93.76 percent funded. The actuarial accrued liability for benefits was \$14,305,771, and the actuarial value of assets was \$13,413,297, resulting in an unfunded actuarial accrued liability (UAAL) of \$892,474. The covered payroll (annual payroll of active employees covered by the plan) was \$2,998,584, and the ratio of the UAAL to the covered payroll was 29.76 percent.

Actuarial Valuation Information

Actuarial valuation date	12/31/12	12/31/11	12/31/10
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period in years	20	20	20
Asset valuation method	SAF: 10 yr Smoothed value ESF: Fund value	SAF: 10 yr Smoothed value ESF: Fund value	SAF: 10 yr Smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment return	8.0%	8.0%	8.0%
Projected salary increases	5.4%	5.4%	5.4%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Schedule of Funding Progress for the Retirement Plan for the Employees of Gulf Coast Water Authority

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liab. (AAL) (b)	Unfunded or (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2012	\$ 13,413,297	\$ 14,305,771	\$ 892,474	93.76%	\$ 2,998,584	29.76%
12/31/2011	\$ 12,583,932	\$ 13,392,000	\$ 808,068	93.97%	\$ 2,731,189	29.59%
12/31/2010	12,035,647	12,540,257	504,610	95.98%	2,581,145	19.55%

NOTE 7 – CONTINGENT LIABILITY

In the ordinary course of conducting its operations, the Authority is involved in various legal matters. These matters are in various stages of the process of resolution and the impact, if any, is not currently determinable. The Authority's management does not believe that any unfavorable decisions would have a material impact on the financial statements.

NOTE 8 - LONG-TERM CONTRACTS

Customer Contracts

The Gulf Coast Water Authority (GCWA) has contracted with its customers to sell and deliver water on demand, and the customers have agreed to buy from the GCWA or to pay for whether taken or not, minimum quantities of water as set forth in the contracts.

Long-Term Contract for Cost Sharing Water Project With City of Houston

The Gulf Coast Water Authority entered into a long-term cost sharing water project contract with the City of Houston, Texas to jointly finance and operate the Southeast Water Purification Plant (SEWPP) to supply existing and future treated water needs of the City of League City and the City of Pearland, Texas. Terms of the contract provide that the GCWA shall directly reimburse the City of Houston on a periodic basis for the expenses incurred in producing and pumping the water actually delivered to GCWA.

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - EMPLOYEE 401(K) PLAN TRUST

The Authority adopted the Gulf Coast Water Authority Employee 401(K) Plan (the "Plan") for the benefit of its employees. The Plan is exempt from tax under section 501(a) of the Internal Revenue Code of 1986, by reason of qualifying under section 401 (a) of the Code. The Plan is self-directed, as each participant directs the Trustees as to the investment of the assets for each participant's account. Employer contributions are 4% of gross income for employees hired prior to January 1, 1999, the effective date of the Plan. For employees employed after the effective date of the Supplemental Plan, the Authority will match on a dollar-for-dollar basis up to a maximum of 4% of employee's gross income from the Authority to the Supplemental Plan; any employee would be vested in 100% of the Authority's contributions to the Supplemental Plan who has been employed with the Authority for three (3) years of continuous service, including service prior to the effective date of the Supplemental Plan. Employees may contribute to the plan up to the maximum amount permitted under the Internal Revenue Code. Total employer contributions for the year ended August 31, 2013 were \$119,930.

NOTE 10 - INSURANCE

The Authority participates in the Texas Municipal League Intergovernmental Risk Pool, which was formed in 1974 for the purpose of offering a workers' compensation plan for unincorporated associations of political subdivisions of Texas. Pooling proved to be so beneficial to Texas local governments that, also at the Members' request, the Joint Self-Insurance Fund for Liability and property was created in 1982 under the authority of the Interlocal Cooperation Act, Article 4413 (32a). This Fund provides protection for Texas cities and other qualifying local governments for General Liability, Automobile Liability, Public Officials Errors and Omissions Liability, Law Enforcement Liability, Aviation Liability and damage to or destruction of Real and Personal Property. Currently the pool has over 1,670 members who purchase worker's compensation and business risk insurance.

Risk of loss retained by the Authority is the annual premium plus the related deductibles. No uninsured losses for the year exceeded these amounts.

The pool purchases reinsurance from commercial insurance carriers for claims in excess of \$1,000,000. The Authority pays an annual premium to the plan for the administration of claims, purchase of insurance and loss control services. The Authority retains no risk of loss for each claim other than the annual premium and deductibles.

GULF COAST WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 11 – IMPLEMENTATION OF NEW STANDARDS

In the current fiscal year, the Authority implemented the following new standards: GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position ("GASB 63"), amended the net asset reporting requirements in GASB Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as "net position" rather than "net assets."

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities ("GASB 65"), clarifies which financial statement items should continue to be presented as assets and liabilities and which should be reclassified as deferred outflows or inflows, and which items should be treated as current period expenditures (outflows) or current period inflows. Beginning equity has been restated and reduced by \$1,150,528 due to bond issuance costs that were previously capitalized.

OTHER SUPPLEMENTARY INFORMATION

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GULF COAST WATER AUTHORITY

SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL (BUDGETARY BASIS)

Year Ended August 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues:				
Metered water sales	\$ 31,191,438	\$ 31,191,438	\$ 31,894,400	\$ 702,962
Bond payment revenue	7,275,087	7,275,087	6,901,675	(373,412)
Irrigation sales	2,136,633	2,136,633	2,855,535	718,902
Total Operating Revenues	<u>40,603,158</u>	<u>40,603,158</u>	<u>41,651,610</u>	<u>1,048,452</u>
Operating Expenses:				
Personnel services	5,657,826	5,657,826	4,900,543	(757,283)
Supplies and materials	18,307,043	18,307,043	18,877,306	570,263
Contracted services	3,741,729	3,741,729	3,382,054	(359,675)
Other charges	182,567	182,567	114,604	(67,963)
Capital	21,804,908	21,804,908	10,265,035	(11,539,873)
Depreciation	10,488,888	10,488,888	9,506,366	(982,522)
Total Operating Expenses	<u>60,182,961</u>	<u>60,182,961</u>	<u>47,045,908</u>	<u>(13,137,053)</u>
Operating Income (Loss)	<u>(19,579,803)</u>	<u>(19,579,803)</u>	<u>(5,394,298)</u>	<u>14,185,505</u>
Nonoperating Revenues (Expenses)				
Interest income	124,623	124,623	134,988	10,365
Other revenues & (expenses)	78,000	78,000	6,087,612	6,009,612
Amortization of bond premium			240,024	240,024
Bond issuance expenses	102,699	102,699	(176,378)	(279,077)
Interest expense	(1,972,741)	(1,972,741)	(1,715,275)	257,466
Total Nonoperating Revenues (Expenses)	<u>(1,667,419)</u>	<u>(1,667,419)</u>	<u>4,570,971</u>	<u>6,238,390</u>
Change in Net Position	(21,247,222)	(21,247,222)	(823,327)	20,423,895
Net Position at Beginning of Year	122,256,634	122,256,634	122,256,634	
Net Position at End of Year	<u>\$ 101,009,412</u>	<u>\$ 101,009,412</u>	<u>\$ 121,433,307</u>	<u>\$ 20,423,895</u>

GULF COAST WATER AUTHORITY

COMBINING STATEMENT OF NET POSITION-NON-MAJOR ENTERPRISE FUNDS

August 31, 2013

	Business - Type Activities				
	Administrative Special Projects	Industrial Pipeline	1991 Kemah Projects	1997 Galveston Projects	1998D Series La Marque Projects
<u>Assets</u>					
Current Assets					
Unrestricted cash and cash equivalents	\$ 1,563,213	\$	\$	\$ 119,970	\$ 20,356
Restricted cash and equivalents:					
Debt service				502,001	214,127
Construction					
Accounts receivable				242,816	20,356
Interest receivable	566			1,477	708
Prepaid expenses				24	
Total Current Assets	<u>1,563,779</u>			<u>866,288</u>	<u>255,547</u>
Capital Assets - at cost	643,040	1,065,272	1,858,142	9,115,635	2,822,787
Accumulated depreciation	<u>(643,040)</u>	<u>(1,065,272)</u>	<u>(1,858,142)</u>	<u>(5,328,591)</u>	<u>(927,036)</u>
Total Capital Assets				<u>3,787,044</u>	<u>1,895,751</u>
Total Assets	<u>\$ 1,563,779</u>	<u>\$</u>	<u>\$</u>	<u>\$ 4,653,332</u>	<u>\$ 2,151,298</u>
<u>Liabilities</u>					
Current Liabilities					
Accounts payable and accrued liabilities - unrestricted	\$ 32,393	\$	\$	\$ 10,588	\$
Restricted for Debt service:					
Current portion of bonds				700,000	175,000
Accrued interest payable				4,776	3,110
Total Current Liabilities	<u>32,393</u>			<u>715,364</u>	<u>178,110</u>
Long-Term Debt					
Revenue bonds payable less current maturities				2,275,000	1,645,000
Deferred refunding				161,651	153,364
Total Long-Term Debt				<u>2,436,651</u>	<u>1,798,364</u>
Total Liabilities	<u>32,393</u>			<u>3,152,015</u>	<u>1,976,474</u>
<u>Fund Equity</u>					
Net Position					
Investment in capital assets				650,393	(77,613)
Restricted for debt service				497,225	211,017
Restricted for construction					
Unrestricted	1,531,386			353,699	41,420
Total Net Position	<u>1,531,386</u>			<u>1,501,317</u>	<u>174,824</u>
Total Liabilities and Fund Equity	<u>\$ 1,563,779</u>	<u>\$</u>	<u>\$</u>	<u>\$ 4,653,332</u>	<u>\$ 2,151,298</u>

- Enterprise Funds	
Water Treatment	
Plant Expansion	
2011	Total
\$ 176,549	\$ 1,880,088
	716,128
	263,172
113	2,864
	24
<u>176,662</u>	<u>2,862,276</u>
575,457	16,080,333
	(9,822,081)
<u>575,457</u>	<u>6,258,252</u>
<u>\$ 752,119</u>	<u>\$ 9,120,528</u>
\$	\$ 42,981
	875,000
	7,886
	<u>925,867</u>
	3,920,000
	315,015
	<u>4,235,015</u>
	<u>5,160,882</u>
575,457	1,148,237
	708,242
176,662	2,103,167
<u>752,119</u>	<u>3,959,646</u>
<u>\$ 752,119</u>	<u>\$ 9,120,528</u>

GULF COAST WATER AUTHORITY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION NON-MAJOR ENTERPRISE FUNDS

Year Ended August 31, 2013

	Business - Type Activities				
	Administrative Special Projects	Industrial Pipeline	1991 Kemah Projects	1997 Galveston Projects	1998D Series La Marque Projects
Operating Revenues:					
Metered water sales	\$	\$	\$	\$ (56,704)	\$
Bond payment revenue				819,567	244,272
Other					
Total Operating Revenues				<u>762,863</u>	<u>244,272</u>
Operating Expenses:					
Personnel services				54,446	
Supplies and materials				783	
Contracted services				10,373	
Other charges				84	
Depreciation				764,483	146,583
Total Operating Expenses				<u>830,169</u>	<u>146,583</u>
Operating Income (Loss)				<u>(67,306)</u>	<u>97,689</u>
Nonoperating Revenues (Expenses)					
Interest income	3,849			3,688	1,257
Other revenues and (expenses)				45	
Amortization of bond premium or discount				40,413	17,040
Bond issuance costs					
Interest expense				(136,675)	(83,038)
Intergovernmental transfers					
Total Nonoperating Revenues (Expenses)	<u>3,849</u>			<u>(92,529)</u>	<u>(64,741)</u>
Change in Net Position	3,849			(159,835)	32,948
Net Position at Beginning of Year	1,527,537			1,661,152	141,876
Net Position at End of Year	<u>\$ 1,531,386</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,501,317</u>	<u>\$ 174,824</u>

- Enterprise Funds

Water Treatment Plant Expansion	
2011	Total
\$	\$ (56,704)
	1,063,839
	<u>1,007,135</u>
	54,446
	783
	10,373
	84
	<u>911,066</u>
	<u>976,752</u>
	<u>30,383</u>
480	9,274
	45
	57,453
	(219,713)
<u>480</u>	<u>(152,941)</u>
480	(122,558)
<u>751,639</u>	<u>4,082,204</u>
<u>\$ 752,119</u>	<u>\$ 3,959,646</u>

GULF COAST WATER AUTHORITY

COMBINING STATEMENT OF CASH FLOWS-NON-MAJOR ENTERPRISE FUNDS

Year Ended August 31, 2013

	Business - Type Activities				
	Administrative Special Projects	Industrial Pipeline	1991 Kemah Projects	1997 Galveston Projects	1998D Series La Marque Projects
Cash Flows from Operating Activities					
Cash received from customers	\$	\$	\$	\$ 770,053	\$ 265,236
Cash payments to suppliers for goods and services	(2,672)			(7,087)	(1,700)
Cash paid for employee services				(54,446)	
Other revenues and (expenses)				45	
Net Cash Provided (Used) by Operating Activities	<u>(2,672)</u>			<u>708,565</u>	<u>263,536</u>
Cash Flows from Capital and Related Financing Activities					
Acquisition of facilities and equipment				(44,731)	
Principal paid on bonds				(680,000)	(170,000)
Interest paid				(137,525)	(83,251)
Intergovernmental transfers					
Net Cash Provided (Used) by Capital and Related Financing Activities				<u>(862,256)</u>	<u>(253,251)</u>
Cash Flows from Investing Activities					
Interest earned	4,511			2,509	592
Net Cash Provided by Investing Activities	<u>4,511</u>			<u>2,509</u>	<u>592</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,839			(151,182)	10,877
Cash and equivalents at beginning of year	<u>1,561,374</u>			<u>773,153</u>	<u>223,606</u>
Cash and Equivalents at End of Year	<u>\$ 1,563,213</u>	<u>\$</u>	<u>\$</u>	<u>\$ 621,971</u>	<u>\$ 234,483</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$	\$	\$	\$ (67,306)	\$ 97,689
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Other revenue and expenses				45	
Depreciation				764,483	146,583
(Increase) decrease in receivables				7,190	20,964
(Increase) decrease in prepaid expenses				8	
Increase (decrease) in vouchers payable and accrued liabilities	(2,672)			4,145	(1,700)
Total Adjustments	<u>(2,672)</u>			<u>775,871</u>	<u>165,847</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (2,672)</u>	<u>\$</u>	<u>\$</u>	<u>\$ 708,565</u>	<u>\$ 263,536</u>

- Enterprise Funds

Water Treatment Plant Expansion	
2011	Total
\$	\$ 1,035,289
	(11,459)
	(54,446)
	45
	<u>969,429</u>
	(44,731)
	(850,000)
	(220,776)
	<u>(1,115,507)</u>
481	8,093
481	8,093
481	(137,985)
176,068	2,734,201
<u>\$ 176,549</u>	<u>\$ 2,596,216</u>
\$	\$ 30,383
	45
	911,066
	28,154
	8
	<u>(227)</u>
	<u>939,046</u>
<u>\$</u>	<u>\$ 969,429</u>

GULF COAST WATER AUTHORITY

PRINCIPAL OFFICIALS

August 31, 2013

Directors

James McWhorter, President

Eric Wilson, Vice-President

Sue Edrozo, Secretary/Treasurer

Russell C. Jones, Assistant Secretary/Treasurer

James Cesarini, Director

Gary Potter, Director

Bill Eisen, Director

Shane Hamilton, Director

Ray Holbrook, Director

Staff

Ivan Langford, General Manager

Bob M. Webb, Business Administrator/Investment Officer

David Sauer, Assistant General Manager