



COMPREHENSIVE ANNUAL FINANCIAL REPORT

**For the fiscal year ended
August 31, 2009**

**SAN JACINTO RIVER AUTHORITY
CONROE, TEXAS**

**Prepared by:
Accounting Department**

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INTRODUCTORY SECTION

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San Jacinto River Authority

ADMINISTRATIVE OFFICE
P.O. Box 329 • Conroe, Texas 77305
(T) 936.588.1111 • (F) 936.588.3043

January 25, 2010

Board of Directors
San Jacinto River Authority
Montgomery County, Texas

The Comprehensive Annual Financial Report (CAFR) of the San Jacinto River Authority for the fiscal year ended August 31, 2009, is hereby submitted. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Sandersen Knox & Co, L.L.P., Certified Public Accountants, has issued an unqualified ("clean") opinion on the San Jacinto River Authority's financial statements for the year ended August 31, 2009. The independent auditor's report is located at the front of the financial section of this report. A single audit was required this year because the "Authority" received sufficient federal grant funds. A single audit report is included with this Comprehensive Annual Financial Report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profiles of the Government

SJRA provides a variety of services including water and waste water treatment, municipal, industrial and agricultural raw water supply, water quality management and reservoir operations. These operations are accounted for in the following divisions.

The General & Administrative Division, located in the general business office at Lake Conroe, consists of professional, technical, accounting, administrative and support staff working under the direction of the General Manager.

The Highlands Division located in East Harris County operates a pump station at Lake Houston. Raw water from the lake is diverted into an extensive 38-mile system of canals and a 1400-acre reservoir for delivery to customers. The Highlands system also includes a transfer station to receive raw water from the Trinity River via canal.

The Lake Conroe Division is situated seven miles west of the Interstate 45 at the Lake Conroe Dam. Although the lake is exclusively operated by the SJRA, the City of Houston owns two-thirds of the permitted water rights in the reservoir. In addition to operating the lake, this division handles the licensing, regulation and enforcement functions related to on-site sewage facilities around Lake Conroe. Because Lake Conroe is a major recreational facility, the division also approves licenses, and inspects boat sanitation, piers, boat-slips, boathouses, marinas, etc. as well as collects annual fees and rentals for these facilities.

The Woodlands Division is located in southern Montgomery County and provides water supply and wastewater treatment services from centralized facilities to the 90,000-person community of The Woodlands. To provide these services, the SJRA operates three wastewater treatment plants with associated lift stations, water wells, numerous elevated ground storage tanks, pumping and distribution facilities.

ECONOMIC CONDITION AND OUTLOOK

The Texas Economy: According to the Texas Comptroller of Public Accounts in the latest issue of "Texas Economy in Focus", the Texas economy is faring better than most other states however, the state is feeling the effects of the worldwide recession. Comptroller Susan Combs goes on to note that the "Texas unemployment rate stood at 8.3% in December 2009 compared to the national unemployment rate of 10.3%. The Texas unemployment rate has been at or below the national rate for Federal Reserve Bank of Dallas (FED) similarly stated in the Third Quarter 2009 Southwest Economy in 36 consecutive months." Combs stated that "consumer confidence has rebounded by 50 percent nationwide but still remains pessimistic at a level of 55.9 however, Texas' regional index rose to 71.9".

The Local Economy: SJRA boundaries include the entire watershed of the San Jacinto River and its tributaries excluding Harris County. The SJRA serves many customers in the Houston area and is authorized to operate in Harris County east of the San Jacinto River. The SJRA does not receive money from the state, nor does it collect any type of taxes. Income is primarily derived from the sale and distribution of water and treatment of wastewater. This revenue covers the cost of operation and maintenance as well as outstanding debt. Revenue bonds are sold to finance projects. It is estimated that the SJRA's service area should weather the economic slowdown. With continued population growth in the SJRA's service area, the ability to provide increasing amounts of water is great. With SJRA's service area located between two rapidly growing major metropolitan areas, the need for future water supplies and reliable planning is apparent and as a result, the SJRA's Board of Directors and staff are working diligently to plan for future water supplies in order to better assure the region's future economic vitality.

FINANCIAL INFORMATION

Management of SJRA is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of SJRA are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow the

preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As demonstrated by the statements and schedules included in the financial section of this report as well as the management discussion and analysis also included herein, SJRA continues to meet its responsibility for sound financial management. SJRA recommends each reader to closely read each section of this report including the oversight review provided by the MD &A in order to have a thorough understanding of SJRA, its activities, financial position and results of operations.

MAJOR INITIATIVES

For the Year. SJRA's major initiative for Fiscal Year 2009 included planning for the provision of adequate water resources for the San Jacinto River Basin, including Montgomery County, along with the planning necessary for the development of additional future supplies of water. This initiative was evident in SJRA's work with committees related to instream surface water flows, fresh water flows for bays and estuaries, review for water quality standards, regional water planning, and desired future conditions for groundwater aquifers in Southeast Texas.

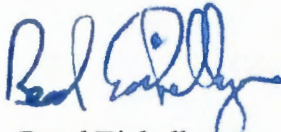
For the Future. The Lone Star Groundwater Conservation District (LSGCD) established a regulatory target in its District Regulatory Plan (DRP) Phase I to reduce groundwater withdrawals from the aquifer in Montgomery County to 64,000 acre-feet per year by January 2015. The LSGCD District Regulatory Plan (DRP) Phase II (A) required large volume groundwater users (LVGU) to submit a Water Resource Assessment Plan (WRAP), which included identification of new water supply sources to meet projected water demands by March of 2009. SJRA prepared and submitted a joint plan on behalf of 201 large volume groundwater users to reduce groundwater withdrawal and encourage the conjunctive use of surface water with ground water supplies to meet the LSGCD regulations. The LSGCD has final regulations that require certain groundwater users prepare and submit a Groundwater Reduction Plan by December 31, 2010, outlining how the user intends to meet a 2016 deadline for conversion to surface water supplies. The SJRA has responded to this need with the development of a long-term countywide approach that will provide a compliance solution for all users in the county who choose to join.

Acknowledgements

Independent Audit. Section 49.191 of the Texas Water Code requires an annual audit of the SJRA's accounting records by a certified public accountant or public accountant holding a permit from the Texas State Board of Public Accountancy and selected by the Board of Directors. The firm Sandersen, Knox & Co., LLP was selected by the Board for the 2009 fiscal year. We appreciate their professionalism, timeliness and assistance in completing this report. Copies of this report will be filed with the TCEQ, State Comptroller, State Auditor, as well as with the county clerk of each county within the SJRA jurisdiction.

Acknowledgments. We congratulate our employees for another successful year of operation. Without their dedication and professionalism, we could not have provided such a high level of service to the residents of the SJRA service area. The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the accounting department.

Sincerely,

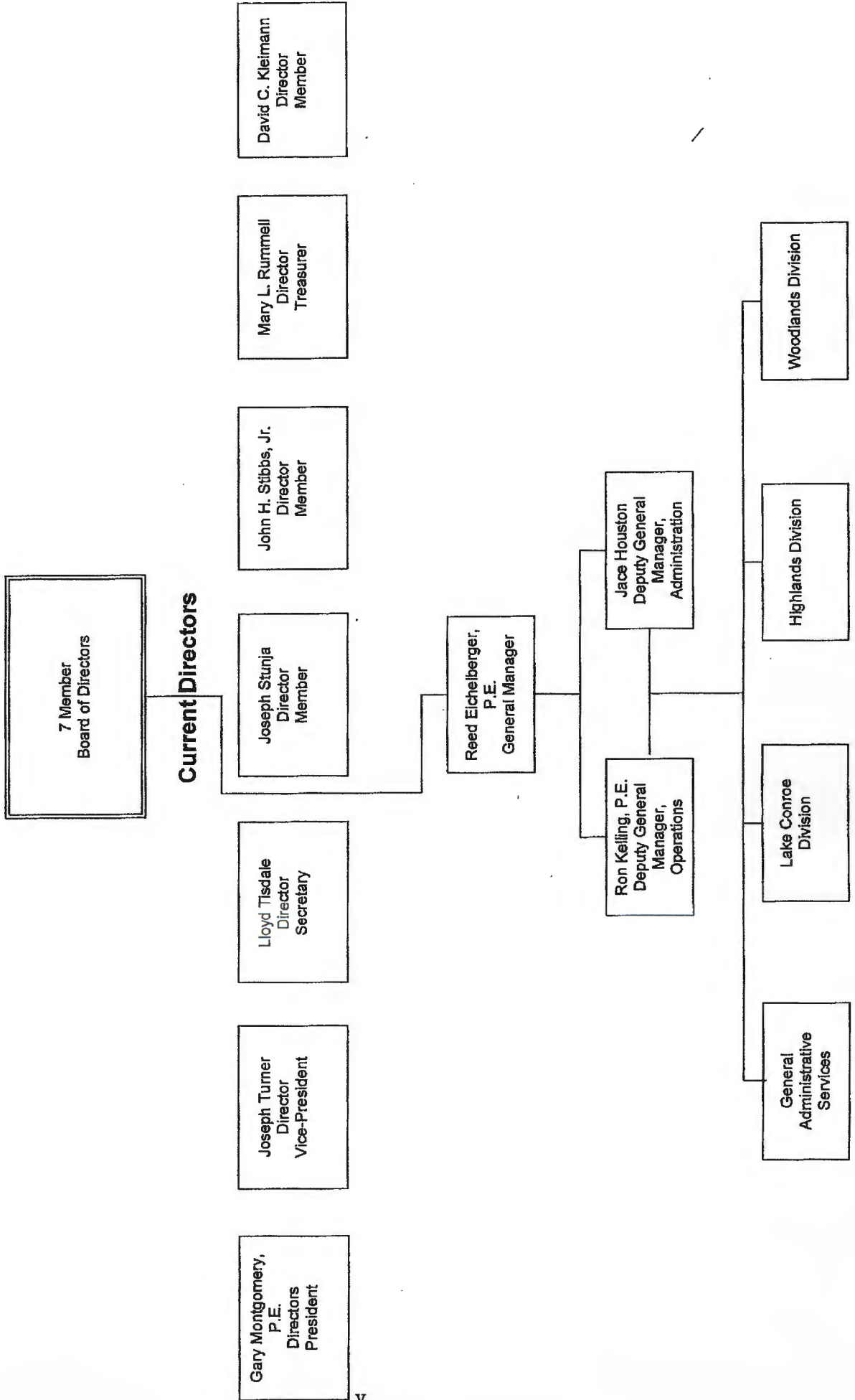


Reed Eichelberger
General Manager



Michael L. Jackson
Controller

San Jacinto River Authority Organizational Chart Management



SAN JACINTO RIVER AUTHORITY

Board of Directors

	Appointed
R. Gary Montgomery, President	2008
Joseph V. Turner, Vice President	2005
Lloyd B. Tisdale, Secretary	2007
Mary L. Rummell, Treasurer	2004
John H. Stibbs, Member	2004
Joesph L. Stunja, Member	2008
David C. Kleimann, Member	2008

SJRA is governed by seven directors, appointed by the Governor of the State of Texas. Each director serves a six-year term.

FINANCIAL SECTION

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Independent Auditors' Report

Board of Directors
San Jacinto River Authority
Montgomery County, Texas

We have audited the financial statements of the business-type activities and each major fund of the San Jacinto River Authority, (the Authority"), as of and for the year ended August 31, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

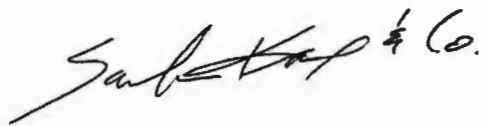
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic 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 Authority as of August 31, 2009, and the respective changes in financial position, and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 2009, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the budgetary information and the schedules of funding progress, on pages 3 through and 38 through 41, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section, other supplementary information section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Authority. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, other supplementary information and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Sugar Land, Texas
November 12, 2009

SAN JACINTO RIVER AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

The management of the San Jacinto River 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, 2009. 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 \$208.8 million; of this amount, approximately \$150.1 million represents net capital assets and \$50.4 million represents cash and cash equivalents under both, current and restricted assets.
- Liabilities for the Authority totaled \$84.6 million of which \$74.7 million accounts for obligations under long-term debt.
- The Authority's total assets exceeded liabilities by approximately \$124.2 million. This amount represents net assets; of this amount, \$72 million is invested in capital assets – net of related debt. An additional \$ 28.7 million is under restricted net assets and the remaining \$23.6 million represents unrestricted net assets.
- Operating revenues for the Authority at year-end were \$31.2 million and exceeded operating expenses by \$5.9 million. The major revenue sources were untreated water sales to industrial and municipal customers of \$8.4 million; capacity charges water and wastewater treatment service fees to Woodlands municipal utility districts of \$21.8 million.
- Operating expenses totaled \$25.3 million. Of this amount, salaries, wages and employee benefits were \$6.3 million, followed by depreciation of \$5.2 million, and operating supplies of \$4.5 million.
- Non-operating expenses exceeded non-operating revenues by approximately \$1.9 million. This was primarily attributable to interest expense paid on bonds that totaled \$3.9 million as of year-end.
- Capital contributions from Woodlands municipal utility districts totaled \$2.1 million.

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 three components: 1) business-type financial statements, 2) notes to the financial statements, and 3) required supplemental information. 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:

- Reservoir and Canal Division
- Lake Conroe Division
- The Woodlands Division

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 ASSETS

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

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

- Invested in Capital Assets – net of related debt
- Restricted
- Unrestricted

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

FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a financial statement position. In the case of the Authority, assets exceeded liabilities by \$ 124.1 million at the close of the most recent fiscal year.

As of August 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current assets	\$ 24,857,358	\$ 18,477,477
Restricted assets	31,643,608	37,843,634
Other assets	2,165,371	2,299,375
Capital assets - net	150,116,976	145,830,246
Total Assets	<u>\$ 208,783,313</u>	<u>\$ 204,450,732</u>
Liabilities		
Current liabilities	\$ 3,405,808	\$ 2,620,375
Liabilities payable from restricted assets	6,458,666	6,032,464
Long-term debt	74,725,704	77,674,814
Total Liabilities	<u>\$ 84,590,178</u>	<u>\$ 86,327,653</u>
Net Assets		
Invested in capital assets - net of related debt	\$ 71,921,272	\$ 65,030,432
Restricted:		
Debt service	5,794,580	5,504,391
Construction	22,860,362	29,431,779
Unrestricted	23,616,921	18,156,477
Total Net Assets	<u>\$ 124,193,135</u>	<u>\$ 118,123,079</u>

- Current assets increased by \$6.4 million which represents a 35% increase from the prior year primarily due to increases in accounts receivable in all Divisions.
- Restricted assets decreased by \$6.2 million which represents a 16% decrease from the prior year. The cash and cash equivalents of The Woodlands Division, restricted to construction, decreased by \$4.6 million primarily due to expenditure of capital funds from the Woodlands Division sources used to construct water facilities.
- Total liabilities decreased by \$1.7 million, a 2% decrease from the prior year. Current liabilities from accounts payable increased by \$ 745,270, a 34% increase due to delays by Divisions in processing vendor invoices and increase in purchases.
- Liabilities payable from Restricted Assets decreased by \$426,202, a 7% decrease from last year.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

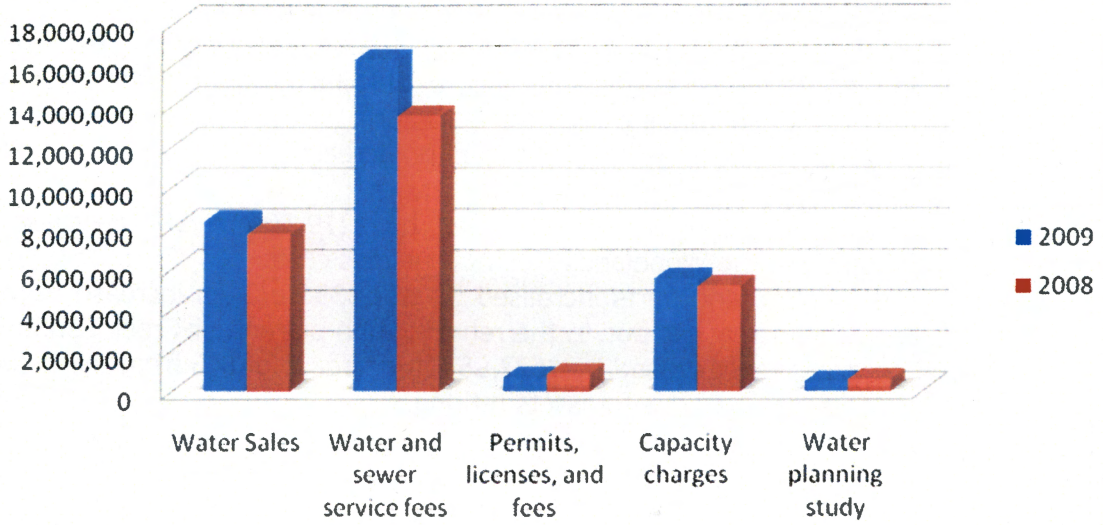
The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for all the Authority's Divisions. The Authority does not seek to earn a profit in the long term. However, the Authority must cover its operations, maintenance and other costs annually from fees and charges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

For the Years Ended August 31, 2009 and 2008

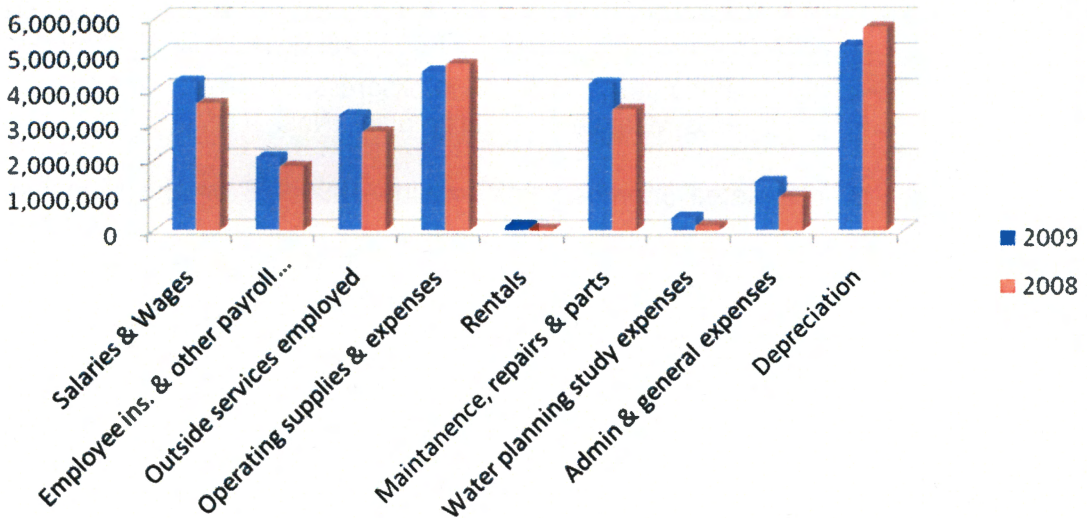
	<u>2009</u>	<u>2008</u>
Operating Revenues:		
Water sales	\$ 8,322,762	\$ 7,700,711
Water and sewer service fees	16,270,637	13,514,338
Permits, licenses and fees	682,043	858,733
Capacity charges	5,522,353	5,149,975
Water planning study	464,449	575,909
Total Operating Revenues	<u>31,262,244</u>	<u>27,799,666</u>
Operating Expenses:		
Salaries and wages	4,213,962	3,609,239
Employee insurance and other payroll benefits	2,057,484	1,802,088
Outside services employed	3,279,261	2,785,842
Operating supplies & expenses	4,499,020	4,718,184
Rentals	111,362	48,714
Maintenance, repairs and parts	4,174,346	3,456,995
Water planning study expenses	356,123	125,700
Admin and general expenses	1,370,683	949,078
Depreciation	5,219,499	5,747,453
Total Operating Expenses	<u>25,281,740</u>	<u>23,243,293</u>
Operating Income	5,980,504	4,556,373
Nonoperating Revenues (Expenses)	(1,999,334)	(2,676,109)
Contributed Capital	<u>2,088,886</u>	<u>16,176,421</u>
Net Income	6,070,056	18,056,685
Net assets at beginning of year	<u>118,123,079</u>	<u>100,066,394</u>
Net Assets at End of Year	<u>\$ 124,193,135</u>	<u>\$ 118,123,079</u>

The following charts illustrate the breakdown of the Authority's Operating Revenues and Operating Expenses, respectively.

Operating Revenues



Operating Expenses



- Operating revenues in Reservoir and Canal Division from industrial water sales increased by \$622,051, a 8% increase from the previous year due to a water rate increase which became effective on January 1, 2009.
- Operating revenues in The Woodlands Division from water and wastewater treatment services increase by \$2.8 million, a 20% increase from the previous year due to increased water usage resulting in increased revenue during a period of below average rainfall.
- Salaries and wages increased by \$604,723, a 17% increase from the prior year which was within the increase budgeted for the year.
- Employee insurance and other payroll benefits increased by \$255,204 a 14% increase from the prior year.
- Operating supplies and expenses decreased by \$219,164, a 5% decrease from the previous year due to the Woodlands electrical utilities costs.
- Maintenance, repairs, and parts increased by \$717,351 a 21% increase from the prior year. Most of the increase is due to the rehabilitation of Panther Creek Sanitary Sewer.
- Depreciation expense decreased by \$527,954, a decrease of 9% from the previous year. Most of this decrease was due to assets retiring.

CAPITAL ASSETS AND LONG-TERM DEBT

The Authority's investment in net capital assets as of August 31, 2009 totaled \$150.1 million. This investment in capital assets includes land; water permits and rights; office furniture, fixtures and equipment; other machinery and equipment; automobiles and trucks; buildings; dams and appurtenances; water systems; wastewater utility systems; capital improvement plans; and construction in progress. The total increase in the Authority's investment in net capital assets for the current fiscal year was 3%.

Major capital asset events during the current fiscal year included the following:

- Construction of Woodlands water wells Nos. 27, 28, 30, 31, 32 and related facilities were completed by the end of the year at a capital costs of \$10,099,017. At the end of the year, \$1,594,361 remained in construction in progress.
- The Authority completed Woodlands Water plant Nos. 4 and 5 at a capital cost of \$8,168,856.
- The Authority completed improvements totaling \$395,988 on the Highlands Wallisville siphon.
- The Authority completed Woodlands Lift Stations Upgrades at a capital cost of \$437,557.

	<u>2009</u>	<u>2008</u>
Capital Assets - at cost		
Land	\$ 9,110,761	\$ 9,068,367
Water permits and rights	30,936,780	30,894,244
Office furniture, fixtures & equip	336,933	185,197
Other machinery and equipment	1,615,800	1,387,976
Automobiles and trucks	1,327,474	1,138,077
Buildings	3,504,209	3,480,276
Dams and appurtenances	8,175,437	8,157,761
Water systems	85,006,310	63,732,248
Wastewater utility systems	80,819,439	80,205,470
Capital improvement plans	376,882	376,882
Construction in progress	1,594,361	15,005,557
Less accumulated depreciation	<u>(72,687,410)</u>	<u>(67,801,809)</u>
Total Capital Assets	<u>\$ 150,116,976</u>	<u>\$ 145,830,246</u>

Additional information on the Authority's capital assets can be found in Note 4 to the financial statements.

LONG-TERM DEBT

At the end of the current fiscal year, the Authority had long-term debt of \$74.7 million. The debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

As of August 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Long-Term Debt		
First Lien Water Revenue Bonds-		
less current maturities	\$ 76,620,000	\$ 80,090,000
Deferred amount of refunding	<u>(1,894,296)</u>	<u>(2,415,186)</u>
Total Capital Assets	<u>\$ 74,725,704</u>	<u>\$ 77,674,814</u>

The Authority's total debt decreased by \$2.9 million from the previous year by making timely debt service payments during the year.

Additional information on the Authority's long-term debt can be found in Notes 5 and 6 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 Controller of the San Jacinto River Authority; P.O. Box 329; Conroe, Texas 77305.

BASIC FINANCIAL STATEMENTS

SAN JACINTO RIVER AUTHORITY

STATEMENT OF NET ASSETS

August 31, 2009

	Business Type Activities - Enterprise Funds			
	Reservoir and Canal Division	Lake Conroe Division	The Woodlands Division	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 13,319,476	\$	\$ 5,499,057	\$ 18,818,533
Accrued income receivable				
Accounts receivable	1,452,657	45,390	3,914,684	5,412,731
Prepaid expenses and deposits	347,121	22,636	256,337	626,094
Total Current Assets	15,119,254	68,026	9,670,078	24,857,358
Restricted Assets				
Cash and cash equivalents				
Debt service	3,093,630		4,307,436	7,401,066
Construction	648,718		23,593,824	24,242,542
Total Restricted Assets	3,742,348		27,901,260	31,643,608
Other Assets				
Debt issuance costs - net	411,302		1,754,069	2,165,371
Total Other Assets	411,302		1,754,069	2,165,371
Capital Assets - at cost				
Land	1,080,986	5,371,175	2,658,600	9,110,761
Water permits and rights	30,936,780			30,936,780
Office furniture, fixtures and equip	111,903	12,773	212,257	336,933
Other machinery and equipment	1,226,144	90,470	299,186	1,615,800
Automobiles and trucks	325,627	78,353	923,494	1,327,474
Buildings	710,374	161,560	2,632,275	3,504,209
Dams and appurtenances		6,646,044	1,529,393	8,175,437
Water systems	8,026,146		76,980,164	85,006,310
Wastewater utility systems			80,819,439	80,819,439
Capital improvement plans			376,882	376,882
Construction in progress	844,844	28,333	721,184	1,594,361
Less accumulated depreciation	(4,688,841)	(2,745,623)	(65,252,946)	(72,687,410)
Total Capital Assets	38,573,963	9,643,085	101,899,928	150,116,976
Total Assets	\$ 57,846,867	\$ 9,711,111	\$ 141,225,335	\$ 208,783,313

See Notes to Financial Statements.

Business Type Activities - Enterprise Funds

	Reservoir and Canal Divison	Lake Conroe Division	The Woodlands Division	Total
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 1,215,907	\$ 185,316	\$ 1,531,070	\$ 2,932,293
Deferred revenue	112,737	130,037	230,741	473,515
Total Current Liabilities	1,328,644	315,353	1,761,811	3,405,808
Liabilities Payable from Restricted Assets				
Debt service:				
Current portion of revenue bonds	815,000		2,655,000	3,470,000
Accrued interest payable on bonds	411,756		1,194,730	1,606,486
Construction:				
Accounts payable			2,100	2,100
Retainage payable	30,107		1,349,973	1,380,080
Total Liabilities Payable from Restricted Assets	1,256,863		5,201,803	6,458,666
Long-Term Debt				
First lien water revenue bonds - less current maturities	18,580,000		58,040,000	76,620,000
Deferred amount of refunding			(1,894,296)	(1,894,296)
Total Long-Term Debt	18,580,000		56,145,704	74,725,704
Total Liabilities	21,165,507	315,353	63,109,318	84,590,178
Fund Equity				
Net Assets				
Invested in capital assets - net of related debt	19,178,963	9,643,085	43,099,224	71,921,272
Restricted:				
Debt service	2,681,874		3,112,706	5,794,580
Construction	618,611		22,241,751	22,860,362
Unrestricted	14,201,912	(247,327)	9,662,336	23,616,921
Total Net Assets	36,681,360	9,395,758	78,116,017	124,193,135
Total Liabilities and Fund Equity	\$ 57,846,867	\$ 9,711,111	\$ 141,225,335	\$ 208,783,313

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SAN JACINTO RIVER AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended August 31, 2009

	<u>Business Type Activities - Enterprise Funds</u>			
	<u>Reservoir and Canal Division</u>	<u>Lake Conroe Division</u>	<u>The Woodlands Division</u>	<u>Total</u>
Operating Revenues:				
Water sales:				
Industrial	\$ 6,879,419	\$ 1,385,052	\$	\$ 8,264,471
Irrigation	35,731	22,560		58,291
Water and sewer service fees			16,270,637	16,270,637
Permits, licenses and fees		682,043		682,043
Capacity charges			5,522,353	5,522,353
Water planning study	464,449			464,449
Total Operating Revenues	<u>7,379,599</u>	<u>2,089,655</u>	<u>21,792,990</u>	<u>31,262,244</u>
Operating Expenses:				
Salaries and wages	692,737	756,248	2,764,977	4,213,962
Employee insurance and other payroll benefits	345,200	425,714	1,286,570	2,057,484
Outside services employed	1,186,168	365,093	1,728,000	3,279,261
Operating supplies and expenses	286,373	206,940	4,005,707	4,499,020
Rentals	9,573	41,907	59,882	111,362
Maintenance, repairs and parts	34,216	1,441,224	2,698,906	4,174,346
Water planning study expenses	356,123			356,123
General and administrative expenses	759,807	219,223	391,653	1,370,683
Depreciation	336,162	131,007	4,752,330	5,219,499
Total Operating Expenses	<u>4,006,359</u>	<u>3,587,356</u>	<u>17,688,025</u>	<u>25,281,740</u>
Operating Income (Loss)	<u>3,373,240</u>	<u>(1,497,701)</u>	<u>4,104,965</u>	<u>5,980,504</u>
Nonoperating Revenues (Expenses)				
Interest income	148,514		334,150	482,664
Gain (Loss) on disposal of assets		34	22,712	22,746
Oil and gas royalty income	32,820			32,820
FEMA disaster claim	12,819	1,241,845	655,419	1,910,083
Other revenues	50,206	10,001	13,809	74,016
Other expenses				
Amortization of debt issuance costs	(27,164)		(619,165)	(646,329)
Interest expense on bonds	(991,219)		(2,884,115)	(3,875,334)
Total Nonoperating Revenues (Expenses)	<u>(774,024)</u>	<u>1,251,880</u>	<u>(2,477,190)</u>	<u>(1,999,334)</u>
Income (Loss) Before Contributions and Transfers	2,599,216	(245,821)	1,627,775	3,981,170
Operating Transfers	273,915	(277,764)	3,849	
Capital Contributions			2,088,886	2,088,886
Change in Net Assets	2,873,131	(523,585)	3,720,510	6,070,056
Net Assets at Beginning of Year	33,808,229	9,919,343	74,395,507	118,123,079
Net Assets at End of Year	<u>\$ 36,681,360</u>	<u>\$ 9,395,758</u>	<u>\$ 78,116,017</u>	<u>\$ 124,193,135</u>

See Notes to Financial Statements.

SAN JACINTO RIVER AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended August 31, 2009

	Business Type Activities - Enterprise Funds			
	Reservoir and Canal Divison	Lake Conroe Division	The Woodlands Division	Total
Cash Flows from Operating Activities				
Cash received from customers	\$ 7,149,988	\$ 2,424,445	\$ 21,242,580	\$ 30,817,013
Cash payments to suppliers for goods and services	(2,028,513)	(2,134,720)	(8,953,845)	(13,117,078)
Cash payments for employee services	(1,037,937)	(1,181,962)	(4,051,547)	(6,271,446)
Net Cash Provided (Used) by Operating Activities	4,083,538	(892,237)	8,237,188	11,428,489
Cash Flows from Noncapital Financing Activities				
Oil and gas royalty income	32,820			32,820
FEMA disaster claim	12,819	1,241,845	655,419	1,910,083
Other revenues and expenses	50,206	10,001	13,809	74,016
Net Cash Provided by Noncapital Financing Activities	95,845	1,251,846	669,228	2,016,919
Cash Flows from Capital and Related Financing Activities				
Principal paid on bonds	(775,000)		(2,350,000)	(3,125,000)
Interest paid on bonds	(976,195)		(2,588,286)	(3,564,481)
Proceeds from the sale of bonds				
Bond issue expenses				
Operating transfers	273,915	(277,764)	3,849	
Acquisition of facilities and equipment	(1,509,712)	(81,879)	(8,141,845)	(9,733,436)
Capital contributions			2,088,886	2,088,886
Proceeds from the sale of assets		34	28,833	28,867
Net Cash (Used) by Capital and Related Financing Activities	(2,986,992)	(359,609)	(10,958,563)	(14,305,164)

See Notes to Financial Statements.

Business Type Activities - Enterprise Funds

	Reservoir and Canal Divison	Lake Conroe Division	The Woodlands Division	Total
Cash Flows from Investing Activities				
Interest earned	148,514		334,150	482,664
Net Cash Provided by Investing Activities	<u>148,514</u>		<u>334,150</u>	<u>482,664</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,340,905		(1,717,997)	(377,092)
Cash and equivalents at beginning of year	<u>15,720,919</u>		<u>35,118,314</u>	<u>50,839,233</u>
Cash and Equivalent at End of Year	<u>\$ 17,061,824</u>	<u>\$</u>	<u>\$ 33,400,317</u>	<u>\$ 50,462,141</u>

**Reconciliation of Operating Income (Loss) to Net
Cash Provided (Used) by Operating Activities**

Operating Income (Loss)	\$ 3,373,240	\$ (1,497,701)	\$ 4,104,965	\$ 5,980,504
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	336,162	131,007	4,752,330	5,219,499
(Increase) decrease in receivables	(275,520)	324,176	(534,050)	(485,394)
(Increase) decrease in prepaid expenses and deposits	(120,300)	(368)	49,115	(71,553)
Increase (decrease) in accounts payable and accrued liabilities	724,047	140,035	(118,812)	745,270
Increase (decrease) in deferred revenue	45,909	10,614	(16,360)	40,163
Total Adjustments	<u>710,298</u>	<u>605,464</u>	<u>4,132,223</u>	<u>5,447,985</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,083,538</u>	<u>\$ (892,237)</u>	<u>\$ 8,237,188</u>	<u>\$ 11,428,489</u>

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SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the San Jacinto River 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 reporting entity refers to the scope of activities, organizations and functions included in the financial statements. The Authority is a separate, self-supporting governmental unit and is administered by a Board of seven members who are appointed by the Governor of the State of Texas. There are no dependent functions or agencies that meet any of the criteria for inclusion in the reporting entity in accordance with the requirements of GASB.

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.

The following is a description of the three Enterprise Funds maintained by the Authority:

Highlands Reservoir and Canal System Fund ("Reservoir and Canal Division")

This fund accounts for the long-term water sale commitments to several industries and municipal customers from its water resources in the Reservoir and Canal System located in Highlands, Texas. As of year end, substantially all of the estimated water available from the Authority from the San Jacinto River through the Reservoir and Canal System is committed to such customers through sales contracts expiring through 2031. Most of the sales contracts contain provisions for the quantities of water, which must be paid for, whether or not the water is used by the customers. Some of the sales contracts

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

contain options for the additional purchases of water by customers. In addition, all water pumped from below the Lake Conroe Dam for water sales is recorded in this fund.

As authorized by the Board of Directors, the Authority is developing a Groundwater Reduction Plan (GRP) on behalf of all large volume groundwater users (LVGU's) within Montgomery County who are interested in joining. Individual LVGU's in Montgomery County would be able to comply with the Lone Star Groundwater Conservation District (LSGCD) regulatory requirements to submit a GRP by participating in the Authority's GRP. The projected water demand of LVGU's would be included in the planning for the Authority's regionalized water supply and distribution system. The specific requirements for this planning are set forth in the LSGCD's proposed District Regulatory Plan. In order to join the Authority's GRP, individual LVGU's permit holders would execute a GRP contract with the Authority obligating them to pay groundwater pumpage fees and/or surface water fees. The revenues from participant fees would cover all costs associated with implementing the program.

Lake Conroe Dam and Reservoir Fund ("Lake Conroe Division")

The Authority contracted with the City of Houston for the joint construction of Lake Conroe. Under the terms of the contract, the City of Houston advanced two-thirds of the financing of such construction and owns two-thirds of the water yield of Lake Conroe. The Authority, in whom the legal title to the physical properties is vested, owns the remaining one-third of the water yield. The Authority operates Lake Conroe for the benefit of itself and the City of Houston. The operating costs of Lake Conroe are borne one-third by the Authority and two-thirds by the City of Houston.

The accompanying financial statements include only the costs of the Authority's ownership interest in Lake Conroe; therefore, the costs of the City of Houston's ownership interest of \$20,606,295 in Lake Conroe are excluded from the capital asset totals presented.

During the useful life of Lake Conroe, the Authority has agreed to operate Lake Conroe for the benefit of the Authority and for the benefit of the City of Houston and its undivided two-thirds ownership interest. For operating Lake Conroe, the Authority is reimbursed for two-thirds of the net annual costs and expenses (after credits for revenues received from recreational facilities and other Lake Conroe sources except the sale of water) incurred by the Authority for maintenance, operation and capital outlays of Lake Conroe. Due to the joint ownership interests in capital assets, the accompanying financial statements present only the Authority's share in capital assets of Lake Conroe. This fund also accounts for the provision of water sales from such water as is pumped directly from Lake Conroe.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Woodlands Division Fund (“The Woodlands Division”)

This fund accounts for the water and wastewater treatment (WWT) plants, major facilities and equipment located in The Woodlands, Texas. The water and wastewater treatment plants, facilities and equipment are provided to this fund as follows: (1) The central WWT plant, facilities and equipment are provided for through the purchases of the costs of the reserve capacity in such plant, facilities and equipment by various municipal utility districts located in The Woodlands, Texas. A portion of such costs of the reserve capacity is reduced by federal grants received by the Authority for the cost of expansion to the WWT plant No. 1. (2) The major trunk lines of the water and WWT facilities and equipment outside the central plant area which are within the jurisdictions of the municipal utility districts are constructed and financed by the Authority, and the debt thereon is paid for by capacity charges billed to the customer districts.

All activities necessary to provide water and sewer services from such assets are accounted for in this fund, including operations, maintenance, financing and related debt service, and billings and collections from the municipal utility districts that have purchased some of the reserve capacity in the central plant, facilities and equipment. The basic agreement with the municipal utility districts for water and WWT services provides for billings of revenue based upon the recovery of the expenses incurred for the operations, maintenance and contingency reserves for the water and sewer plants, facilities and equipment exclusive of depreciation of such assets. As of August 31, 2009, the following municipal utility districts have purchased some of the reserve capacity in such central facilities and have also contributed facilities from within their respective jurisdictions: Montgomery County Municipal Utility District Nos. 6, 7, 36, 39, 40, 46, 47, 60 and 67, The Woodlands Municipal Utility District No. 2, The Woodlands Metro Center Municipal Utility District and Harris Montgomery County Municipal Utility District No. 386. The purchases and contributions are subject to the financing arrangements made with The Woodlands Corporation as explained below.

In the initial 1975 agreement and supplemental agreements thereto between the Authority and The Woodlands Corporation (the “Corporation”), the Corporation agreed to advance monies to The Woodlands Division, to the extent that funds were not available to finance the costs of the expansions to the centralized water supply and waste disposal facilities. Such agreements also stipulate that sums advanced to The Woodlands Division by the Corporation shall be reimbursed to the Corporation. During the construction of the second expansion of the centralized WWT facilities and major waterlines, the Corporation advanced monies to The Woodlands Division to finance such construction. Such advances are reimbursable to the Corporation from the proceeds from the sales of the undivided interests in the reserve capacity of central waste disposal and water supply system facilities to the municipal utility districts in The Woodlands, Texas.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The Authority also owns and operates the Bear Branch Reservoir System (Bear Branch) which provides elements of a storm water management system within the Woodlands, Texas service area. The Authority purchased the assets of Bear Branch from the Woodlands Land Development Company, LP in April 2000. All activities necessary to maintain and improve Bear Branch assets are accounted for in this fund. As of August 31, 2009, contracts have been signed with Montgomery County Municipal Utility Districts Nos. 7,46,47,60 and 67 to purchase the reserve capacity for storm water detention facilities in Bear Branch.

C. Measurement Focus and Basis of Accounting

The Enterprise Funds have a net income or capital measurement focus and are accounted for using the accrual basis of accounting, under which revenues are recognized when they are earned including unbilled water and sewer services which are 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 Assets.

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 Public Funds Investment Pools.

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 collectibility 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.

At August 31, 2009, the allowance for bad debts is \$22,519.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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 depreciation for the Lake Conroe Division is based only on the one-third ownership interest of the Authority in such assets. The Authority's policy is to capitalize assets with initial cost exceeding \$5,000.

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	50 years
Dams and appurtenances	100 years
Water systems	30 years
Wastewater utility systems	30 years

The Authority's management considers its water permits and rights permanent in nature and since these intangible assets have no evident limited life, no amortization is being recognized.

G. Amortization of Other Assets

Included within other assets are debt issuance costs. The debt issuance costs, bond premiums and cost of surety bonds are being amortized over the life of the related obligation on the straight-line method. Results obtained are not materially different from the interest method.

H. Date of Management's Review

Subsequent events have been evaluated through November 12, 2009, which is the date the financial statements were available to be issued.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Net assets 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 assets represent the remaining portion of net assets.

A summary of invested in capital assets – net of related debt at August 31, 2009 follows:

	Reservoir and Canal Division	Lake Conroe Division	The Woodlands Division	Total
Total capital assets - net of depreciation	\$ 38,573,963	\$ 9,643,085	\$ 101,899,928	\$ 150,116,976
Total bonds payable	(19,395,000)		(58,800,704)	(78,195,704)
Investment in Capital Assets - Net of Related Debt	\$ 19,178,963	\$ 9,643,085	\$ 43,099,224	\$ 71,921,272

A summary of net assets restricted for debt service at August 31, 2009 follows:

	Reservoir and Canal Division	Lake Conroe Division	The Woodlands Division	Total
Restricted cash and cash equivalents:				
Debt service	\$ 3,093,630	\$	\$ 4,307,436	\$ 7,401,066
Liabilities payable from restricted assets:				
Debt service	(411,756)		(1,194,730)	(1,606,486)
Net Assets Restricted for Debt Service	\$ 2,681,874	\$	\$ 3,112,706	\$ 5,794,580

A summary of net assets restricted for construction at August 31, 2009 follows:

	Reservoir and Canal Division	Lake Conroe Division	The Woodlands Division	Total
Restricted cash and equivalents:				
Construction	\$ 648,718	\$	\$ 23,593,824	\$ 24,242,542
Liabilities payable from restricted assets:				
Construction	(30,107)		(1,352,073)	(1,382,180)
	\$ 618,611	\$	\$ 22,241,751	\$ 22,860,362

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A summary of net assets - unrestricted at August 31, 2009 follows:

	<u>Reservoir and Canal Division</u>	<u>Lake Conroe Division</u>	<u>The Woodlands Division</u>	<u>Total</u>
Designated:				
Operating reserve	\$ 387,000	\$ 608,900	\$	\$ 995,900
Contingency fund	773,900	1,217,800	1,049,394	3,041,094
Capital repair/replacement	1,955,800	1,371,600		3,327,400
Undesignated	<u>11,085,212</u>	<u>(3,445,627)</u>	<u>8,612,942</u>	<u>16,252,527</u>
	<u>\$ 14,201,912</u>	<u>\$ (247,327)</u>	<u>\$ 9,662,336</u>	<u>\$ 23,616,921</u>

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

All cash, savings, money funds and Public Funds Investment Pools are in various financial institutions and are carried at cost.

	<u>Book Balance</u>	<u>Bank Balance</u>	<u>Insurance & Market Value of Collateral</u>
Petty cash	\$ 1,800	\$ N/A	\$ N/A
Collateral held by pledging banks in the Authority's name	465,315	1,396,188	4,362,412
Cash equivalents, not requiring pledging by banks, money funds & Pools	<u>49,995,026</u>	<u>49,995,026</u>	N/A
Total Cash and Cash Equivalents	<u>\$ 50,462,141</u>	<u>\$ 51,391,214</u>	

The aforementioned cash equivalents are secured by U.S. Government obligations and do not require collateral to be held by the financial institution.

Investments

River authorities in Texas are authorized to make investments as follows:

- Obligations of the U.S. or its agencies
- Obligations of the state of Texas or its agencies
- Obligations guaranteed by the U.S. or the state of Texas
- Certificates of deposit of federally insured banks and savings and loans domiciled in Texas
- Various others meeting specific requirements

There are no such investments at August 31, 2009.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The Authority's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one that is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Investments in pools are deemed to have a weighted average maturity of one day.

Interest Rate Risk

In accordance with its investment policy, the Authority manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than two years to meet cash requirements for ongoing operation.

Credit Risk – Investments

In accordance with its investment policy, the Authority minimized credit risk losses due to default of a security issuer or backer, by limiting investments to the safest types of securities. As all of the Authority's investments are in investment pools, the Authority is not exposed to custodial credit risk.

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES

The individual interfund receivables/payables at August 31, 2009 follow:

	<u>Receivables</u>	<u>Payables</u>
Enterprise Funds:		
Reservoir and Canal Division - current	\$ 54,544	\$
The Woodlands Division - current		25,393
Bear Branch Reservoir		29,151
	<u>\$ 54,544</u>	<u>\$ 54,544</u>

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS

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

	<u>Balance at Sept. 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at Aug. 31, 2009</u>
Reservoir and Canal Division				
Land	\$ 1,080,986	\$	\$	\$ 1,080,986
Water permits and rights	30,894,244	42,536		30,936,780
Construction in progress	31,790	1,240,832	427,778	844,844
Furniture, fixtures & equip	52,023	59,880		111,903
Other machinery & equip	1,063,675	162,469		1,226,144
Automobiles and trucks	289,782	35,845		325,627
Buildings	710,374			710,374
Water systems	7,630,159	395,987		8,026,146
Less accumulated depreciation	(4,352,679)	(336,162)		(4,688,841)
Total Reservoir and Canal Division	<u>37,400,354</u>	<u>1,601,387</u>	<u>427,778</u>	<u>38,573,963</u>
Lake Conroe Division				
Land	5,371,175			5,371,175
Construction in progress	10,360	69,895	51,922	28,333
Furniture, fixtures & equip	8,922	3,851		12,773
Other machinery & equip	72,024	18,446		90,470
Automobiles and trucks	78,353			78,353
Buildings	137,627	23,933		161,560
Dams and appurtenances	6,628,368	17,676		6,646,044
Less accumulated depreciation	(2,614,616)	(131,007)		(2,745,623)
Total Lake Conroe Division	<u>9,692,213</u>	<u>2,794</u>	<u>51,922</u>	<u>9,643,085</u>
The Woodlands Division				
Land	2,616,206	42,394		2,658,600
Construction in progress	14,963,407	7,348,205	21,590,428	721,184
Furniture, fixtures & equip	124,252	88,005		212,257
Other machinery & equip	252,277	46,909		299,186
Automobiles and trucks	769,942	287,450	133,898	923,494
Buildings	2,632,275			2,632,275
Dams and appurtenances	1,529,393			1,529,393
Water systems	56,102,089	21,084,196	206,121	76,980,164
Wastewater utility systems	80,205,470	613,969		80,819,439
Capital improvement plans	376,882			376,882
Less accumulated depreciation	(60,834,514)	(4,752,330)	(333,898)	(65,252,946)
Total Woodlands Division	<u>98,737,679</u>	<u>24,758,798</u>	<u>21,596,549</u>	<u>101,899,928</u>
Total Capital Assets - net	<u>\$ 145,830,246</u>	<u>\$ 26,362,979</u>	<u>\$ 22,076,249</u>	<u>\$ 150,116,976</u>

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – DEBT ISSUANCE COSTS – NET

A summary of changes in debt issuance costs – net follows:

	<u>Bond Issue Cost</u>	<u>Balance at Sept. 1, 2008</u>	<u>Current Year Amortization</u>	<u>Balance at Aug. 31, 2009</u>
Reservoir and Canal Division				
Water Revenue Bonds:				
Series 2003	\$ 171,646	\$ 129,915	\$ 8,077	\$ 121,838
Water Revenue Refunding Bonds:				
Series 2000	456,465	308,551	19,087	289,464
Total Reservoir and Canal Division	<u>628,111</u>	<u>438,466</u>	<u>27,164</u>	<u>411,302</u>
The Woodlands Division				
Special Project Revenue Bonds:				
Series 1998	364,287	183,954	15,221	168,733
Series 1999	300,166	74,534	9,722	64,812
Series 1999	364,752	29,541	11,816	17,725
Surety Bond Series 1997	50,427	20,764	2,966	17,798
Series 2004	436,669	372,082	16,850	355,232
Series 2004	680,739	580,051	26,266	553,785
Series 2007	617,961	599,983	23,999	575,984
Total Woodlands Division	<u>2,815,001</u>	<u>1,860,909</u>	<u>106,840</u>	<u>1,754,069</u>
Total Debt Issuance Costs	<u>\$ 3,443,112</u>	<u>\$ 2,299,375</u>	<u>\$ 134,004</u>	<u>\$ 2,165,371</u>

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – LONG-TERM DEBT

A summary of changes in bonds payable follows:

	<u>Interest Rates</u>	<u>Original Issuance</u>	<u>Balance at Sept. 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at Aug. 31, 2009</u>
Reservoir and Canal Division						
Water Revenue Bonds:						
Series 2003	3.77%	\$ 4,950,000	\$ 4,620,000	\$	\$ 180,000	4,440,000
Water Revenue Refunding Bonds:						
Series 2000	4.55%	17,175,000	<u>15,550,000</u>	<u> </u>	<u>595,000</u>	<u>14,955,000</u>
Total Reservoir and Canal Division			<u>20,170,000</u>	<u> </u>	<u>775,000</u>	<u>19,395,000</u>
The Woodlands Division						
Special Project Revenue Bonds:						
Series 1999	4.60%	14,730,000	3,220,000		280,000	2,940,000
Series 1999	4.60%	19,905,000	1,655,000		380,000	1,275,000
Series 2007	5.25-5.5%	14,435,000	14,435,000		330,000	14,105,000
Special Project Refunding Bonds:						
Series 1998	4.40%	6,520,000	5,550,000		320,000	5,230,000
Water Revenue Refunding Bonds:						
Series 2004	2-5%	21,310,000	19,675,000		900,000	18,775,000
Series 2004	2-5%	18,970,000	<u>18,510,000</u>	<u> </u>	<u>140,000</u>	<u>18,370,000</u>
Total Woodlands Division			<u>63,045,000</u>	<u> </u>	<u>2,350,000</u>	<u>60,695,000</u>
Total Bonds Payable			<u>\$ 83,215,000</u>	<u>\$</u>	<u>\$ 3,125,000</u>	<u>\$ 80,090,000</u>

The Water Revenue Bonds resolution requires that the gross revenues of the Authority, after deducting maintenance and operating expenses, shall be transferred in the following order:

- Debt Service Fund – No later than the fifth day preceding each maturity date, an amount sufficient to pay principal and interest on the outstanding Water Revenue Bonds.
- Debt Service Reserve Fund – On or before the fifth day of each month, such amounts in equal monthly installments, not less than one-sixtieth of the average annual sum payable in respect of the principal and interest scheduled to become due on the outstanding Water Revenue Bonds at the time of such computation. In 1998, the Authority purchased surety bonds, which eliminated the requirement for a debt service reserve fund for these bonds.

The Woodlands Division Special Project Revenue Bond resolutions require that capacity charges be assessed, levied and made to and collected from the customers pursuant to the agreement in an amount not less than one-twelfth of the scheduled amount of principal and interest to become due on the bonds in such fiscal year.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Management believes the Authority is in compliance with the covenants of all bond issues.

Maturities of bonds payable for the next five fiscal years and thereafter follow:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Reservoir and Canal Division			
2010	\$ 815,000	\$ 969,101	\$ 1,784,101
2011	855,000	929,754	1,784,754
2012	900,000	888,063	1,788,063
2013	945,000	834,946	1,779,946
2014	995,000	800,271	1,795,271
2015-2019	5,845,000	3,208,192	9,053,192
2020-2024	7,720,000	1,411,949	9,131,949
2025	1,320,000	34,151	1,354,151
	<u>\$ 19,395,000</u>	<u>\$ 9,076,427</u>	<u>\$ 28,471,427</u>
The Woodlands Division			
2010	\$ 2,655,000	\$ 2,807,120	\$ 5,462,120
2011	2,525,000	2,688,449	5,213,449
2012	2,890,000	2,566,384	5,456,384
2013	2,790,000	2,440,274	5,230,274
2014	2,925,000	2,311,960	5,236,960
2015-2019	13,035,000	9,593,884	22,628,884
2020-2024	11,635,000	6,838,697	18,473,697
2025-2029	13,240,000	3,935,180	17,175,180
2030-2034	9,000,000	822,838	9,822,838
	<u>\$ 60,695,000</u>	<u>\$ 34,004,786</u>	<u>\$ 94,699,786</u>

NOTE 7 – ADMINISTRATIVE AND GENERAL EXPENSES

The administrative and general expenses, presented below, represent the direct and related expenses incurred by and paid for the services of the administrative personnel and the expenses of the usage of the administrative plant and equipment of the Authority. Since the Authority is involved in different types of activities, and some of such activities are governed by contractual agreements, these types of expenses are accounted for separately from the different types of activities accounted for in the funds maintained by the Authority so that the Authority may comply with the contractual allocation of such expenses to the different activities of the funds maintained by the Authority for the year ended August 31, 2009.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Salaries and wages	\$	285,924
Employee insurance and related payroll benefits		176,154
Outside services employed		535,420
Operating supplies and expenses		256,303
Maintenance, repairs and parts		36,144
Miscellaneous		80,738
		<u>\$ 1,370,683</u>

Total allocations to:

Reservoir and Canal Division:		
Balance of unallocated expenses	\$	759,807
Lake Conroe Division		219,223
The Woodlands Division		391,653
		<u>\$ 1,370,683</u>

NOTE 8 – PENSION PLAN

Plan Description

The Authority contributes to the San Jacinto River Authority Pension Plan (the "Plan"). The Plan is a single employer, noncontributory defined benefit plan. The Plan's benefit provisions were established and may be amended by the Authority's Board. The Plan is administered by a trustee for the benefit of the Authority's employees. The Authority does not have access to, nor can it utilize the assets of the Plan. The Trustee is responsible for making payments to the Authority's retired employees.

The Plan is available to all active employees who have completed one year of service and attained age 21. Normal retirement age is 65. The Plan also provides benefits for early and late retirement. The retirement benefit at normal retirement is equal to 1.00% of average monthly compensation up to a participant's covered compensation level plus 0.55% of average monthly compensation in excess of the covered compensation level multiplied by the number of years of credited service not to exceed 40 years. The retirement benefit is payable monthly during the life of the retired participant. The Plan also provides death and disability benefits. A member is 100% vested in the accrued benefit upon completion of 5 years of service.

Lincoln National Life is the trustee of the Plan. There is no stand alone pension plan report available, but a copy of the actuarial report is available from Milliman, 333 Clay Street, Suite 4330, Houston, Texas 77002.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Funding Policy

Employees of the Authority are not required to contribute to the Plan. The Authority makes annual contributions to the Plan equal to the amount accrued for pension expense.

Annual Pension Cost and Net Pension Obligation

For 2009, the Authority's annual pension cost of \$509,144 for the Plan was equal to the Authority's required and actual contribution plus a portion of the unfunded past service liability. The annual required contribution for the current year was determined as a part of the November 1, 2007 actuarial valuation using the projected benefit method with aggregate level normal cost and frozen supplemental liability. Gains and losses are spread over the current year and future years in accordance with the funding method. Significant actuarial assumptions used in the valuation include (a) an assumed rate of return used in determining the actuarial present value of the accumulated benefits of 6.5%, (b) separations before normal retirement in accordance with T-1 of the Actuary's *Pension Handbook*, as modified for females, (c) mortality rates in accordance with the RP2000 Mortality Table with Projection Scale AA, (d) salary increases at an assumed 0% increase for the plan year due to an additional pay period and irregular overtime pay, (e) cost of living increases [IRC Section 401(a)(17) compensation limit and IRC Section 415 benefit limit] at an assumed 4.0% increase per annum, (f) normal retirement at the later of age 65 or 5 years of participation, or attained age if later, (g) no loading for expenses and (h) 80.0% of participants are assumed married with the husband 3 years older than the wife. The valuation is based on participants in the Plan as of the valuation date and does not take future participants into account. No provision has been made for contingent liabilities with respect to nonvested terminated participants who may be reemployed. The valuation assumptions anticipate a modest rate of future inflation. The actuarial value of the assets was the market value.

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The Authority provides other postemployment benefits (OPEB) for supplemental medical insurance coverage for certain retired employees and their dependents and grandfathered active employees. The OPEB plan is a single-employer defined benefit supplemental healthcare plan administered by the Authority. Section 49.069 of the Texas Water Code assigns the authority to establish and amend OPEB plan provisions to the Authority's Board of Directors. The Authority's Board of Directors also has the option to adopt the provisions of Subtitle F, Title 10, of the Texas Government Code, Chapter 2264 which allows modified reporting of the OPEB plan liability for the Authority's unfunded actuarial accrued liability. The OPEB plan was adopted by the Board of Directors on October 28, 1986. The policy was amended on October 25, 1989 to exclude employees hired after November 1, 1989.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

As of August 31, 2009, eight former employees and their dependents are receiving OPEB healthcare benefits. Seven active employees and their dependents will receive this benefit if the employees' continue working for the Authority until reaching the normal retirement age of 65.

The Authority issues this publicly available financial report that includes financial statements and required supplementary information for the OPEB plan.

Funding Policy

The contribution required from OPEB plan members may be amended by the Authority's Board of Director's. As of the date of this report, The OPEB healthcare plan is 100% funded by the Authority on a pay-as-you-go-basis. The Authority paid \$44,444 for OPEB medical insurance coverage for retired employees covered under the OPEB plan during the year.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The Authority has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation to pay-as-you-go financing.

Annual required contribution	\$ 316,787
Interest on net OPEB obligation	
Annual OPEB cost (expense)	<u>316,787</u>
Contributions made	<u>(44,444)</u>
Increase in net OPEB obligation	272,343
Net OPEB obligation - beginning of year	
Net OPEB obligation - end of year	<u><u>\$ 272,343</u></u>

Funded Status and Funding Progress

As of August 31, 2009, the initial actuarial valuation date, the plan was 0% percent funded. The actuarial accrued liability for benefits was \$3,009,073 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$455,791 and the ratio of the UAAL to the covered payroll was 660.2%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the August 31, 2009 actuarial valuation, the entry age actuarial cost method was used. The retirement age for an active employee was assumed to be 65, which is the first year an eligible employee would qualify for OPEB plan benefits. The probability for employees eligible for the OPEB plan remaining employed by the Authority until normal retirement age was based on GASB 45, Alternative Measurement Method Calculations, Table 1. The marital status of eligible active employees was assumed to continue throughout retirement. Life expectancies were based on the Social Security Administration Period Life Table 2005. The actuarial assumptions included a 1.0% investment rate of return (net of administrative expenses) for fiscal year 2010 and 4.0% for fiscal years 2011 and later.

The present value of OPEB plan benefits was calculated based on the rates in effect for retired employees under the health insurance policy in force with United American Insurance. The annual healthcare cost trend rate was a 10.0% increase for fiscal year 2010 based on the Authority's 2010 budget. The annual healthcare cost trend rate was reduced to a rate increase of 6.0% annually beginning in fiscal year 2011 based on the average for years 2011 through 2018 based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services, National Health Expenditure Amounts, and Annual Percent Change by Type of Expenditure: Calendar Years 2003 - 2018, Table 2.

The discount rate used is 4.0%. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at August 31, 2009, was 29 years.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – MAJOR CUSTOMERS

Industrial water sales totaling \$6,494,965 were invoiced to two primary customers. This accounts for 94% of the Reservoir and Canal Division's water sales revenues for the year ended August 31, 2009.

Water revenues totaling \$1,770,913 accrued from two primary customers. This accounts for 85% of the Lake Conroe Division's operating revenues for the year ended August 31, 2009.

Water and sewer service fees and capacity charges totaling \$11,544,002 accrued from two primary customers. This accounts for 53% of The Woodlands Division's operating revenues for the year ended August 31, 2009.

NOTE 11 – 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 12 – FUNDING FOR WATER PLANNING STUDY

Under an agreement with the Texas Water Development Board ("TWDB"), the Authority is the contracting agency and designated representative of the Region H Water Planning Group. Under the contract, the TWDB provides financial assistance to develop a regional water plan for Region H, a 15 county area, which includes most of the San Jacinto River watershed. The TWDB, fulfilling the requirements set forth in Senate Bills 1, 2 and 3, defines the scope of work to be included in the plan and the time frame for completion of the various tasks in the plan. Senate Bill 1 was enacted by the 75th Texas Legislature in 1997, Senate Bill 2 was enacted by the 77th Texas Legislature in 2001 and Senate Bill 3 was enacted by the 80th Texas Legislature in 2007. The TWDB rules provide that State funds will be used to pay 100% of the direct regional water plan costs, while the Authority and Harris-Galveston Subsidence District share 100% of the administrative costs. The Authority has received contributions from governments and other parties interested in the development of the plan that partially fund miscellaneous other costs.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 13 – TRANSFER TO LAKE CONROE DIVISION FROM RESERVOIR AND CANAL DIVISION

The Lake Conroe Division has a net loss before contributions and transfers. This loss has been funded primarily by transfers from the Reservoir and Canal Division. However, revenues generated by the water flow from Lake Conroe into the reservoir and canal system through Lake Houston has not been calculated nor allocated to the Lake Conroe Division.

NOTE 14 – SUBSEQUENT EVENT

Special Project Revenue Bonds (GRP), Series 2009

On November 24, 2009, the Authority issued \$21,500,000 Special Project Revenue Bonds (GRP), Series 2009 for the Groundwater Reduction Program. All the bonds will be purchased by the Texas Water Development Board (TWDB) through the Water Infrastructure Fund (WIF) Program. These funds will facilitate the plan, design, permit and construction of a surface water treatment and transmission system for Montgomery County groundwater reduction plan participants. This project is necessary to meet the regulatory requirements of the Lone Star Groundwater Conservation District.

Water Supply Contract with City of Houston

On October 16, 2009, the Water Supply Contract with City of Houston was signed by the Mayor of the City of Houston. The agreement allows the Authority to purchase surface water out of the City's two-thirds share in Lake Conroe. The Authority will pay a reservation fee for water that is reserved but not actually used in a given year. The reservation fee will be a prorated amount based on one-half of the City's share of the annual O&M expenses for Lake Conroe. The term of the agreement is for 80 years, with a continuation of service under similar terms.

REQUIRED SUPPLEMENTARY INFORMATION

SAN JACINTO RIVER AUTHORITY

SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL CANAL AND LAKE CONROE DIVISIONS

For the Year Ended August 31, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Operating Revenues</u>				
Water revenues	\$ 9,326,272	\$ 9,551,620	\$ 8,363,721	\$ (1,187,899)
Permits, licenses and fees	694,424	694,424	682,043	(12,381)
Water planning study	1,070,285	1,070,285	464,449	(605,836)
Total Revenues	<u>11,090,981</u>	<u>11,316,329</u>	<u>9,510,213</u>	<u>(1,806,116)</u>
<u>Operating Expenses</u>				
Current:				
Salaries and wages	1,445,700	1,408,600	1,456,943	(48,343)
Employee insurance and other payroll benefits	749,100	749,100	776,974	(27,874)
Outside services employed	1,685,450	1,659,550	1,582,155	77,395
Operating supplies and expenses	635,640	635,640	496,866	138,774
Rentals	41,000	41,000	44,628	(3,628)
Maintenance, repairs and parts	3,302,000	4,200,000	1,572,731	2,627,269
Water planning study expenses	1,051,038	1,051,038	356,123	694,915
General and administrative	660,551	528,515	988,877	(460,362)
Depreciation	445,900	445,900	486,311	(40,411)
Total Expenditures	<u>10,016,379</u>	<u>10,719,343</u>	<u>7,761,608</u>	<u>2,957,735</u>
Operating Net Income	1,074,602	596,986	1,748,605	1,151,619
<u>Nonoperating Revenues (Expenses)</u>				
Interest income	336,485	206,877	150,757	(56,120)
FEMA Grant		42,000	1,254,664	1,212,664
Interest expense on bonds	(991,300)	(991,300)	(991,219)	81
Other	11,700	44,700	126,622	81,922
Total Nonoperating Revenues (Expenses)	<u>(643,115)</u>	<u>(697,723)</u>	<u>540,824</u>	<u>1,238,547</u>
Change in Net Assets	<u>\$ 431,487</u>	<u>\$ (100,737)</u>	<u>\$ 2,289,429</u>	<u>\$ 2,390,166</u>

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

This statement also includes the Bear Branch Reservoir System revenues and expenses.

SAN JACINTO RIVER AUTHORITY

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

For the Year Ended August 31, 2009

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis) *</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Operating Revenues</u>				
Water and sewer service fees	\$ 15,741,429	\$ 15,741,429	\$ 16,270,637	\$ 529,208
Total Revenues	<u>15,741,429</u>	<u>15,741,429</u>	<u>16,270,637</u>	<u>529,208</u>
<u>Operating Expenses</u>				
Current:				
Salaries and wages	2,871,706	2,871,706	2,757,019	114,687
Employee insurance and other payroll benefits	1,463,265	1,463,265	1,280,510	182,755
Outside services employed	1,905,662	1,905,662	1,697,106	208,556
Operating supplies and expenses	4,310,644	4,310,644	4,001,155	309,489
Rentals	12,500	12,500	66,734	(54,234)
Maintenance, repairs and parts	4,874,816	4,874,816	2,601,616	2,273,200
General and administrative	436,669	436,669	381,807	54,862
Depreciation	1,545,800	1,545,800	1,472,053	73,747
Total Expenditures	<u>17,421,062</u>	<u>17,421,062</u>	<u>14,258,000</u>	<u>3,163,062</u>
Operating Net Income (Loss)	(1,679,633)	(1,679,633)	2,012,637	3,692,270
<u>Nonoperating Revenues</u>				
Interest income	45,364	45,364	331,907	286,543
FEMA Grant			655,419	655,419
Other	300	300	34,930	34,630
Total Nonoperating Revenues	<u>45,664</u>	<u>45,664</u>	<u>1,022,256</u>	<u>976,592</u>
Change in Net Assets	<u>\$ (1,633,969)</u>	<u>\$ (1,633,969)</u>	<u>\$ 3,034,893</u>	<u>\$ 4,668,862</u>

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

The Woodlands Division budget is prepared using a modified cash basis by the Woodlands Division management. The basic goal is to establish water/sewer rates for the Woodlands customers at a level that will provide funds to cover projected annual maintenance and operations expenses plus relatively minor capital asset purchases such as vehicles and office equipment. Since major infrastructure assets are acquired from other capital funds within the Woodlands Division, depreciation is excluded from the Woodlands Operating Division rate calculation and budget. Depreciation is included in the budget approved by the Authority's Board of Directors. The Bear Branch Reservoir System budget is not included in this statement.

SAN JACINTO RIVER AUTHORITY

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 27, DEFINED BENEFIT PENSION PLAN, SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER AND FUNDING PROGRESS

Year Ended August 31, 2009

Six Year Trend Information

Schedule of Contributions From the Employer

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
10/31/2003	\$ 249,055	\$ 265,011	106.4 %
10/31/2004	262,139	286,380	109.2
10/31/2005	267,348	328,222	122.8
10/31/2006	325,357	362,278	111.3
10/31/2007	337,523	372,478	110.4
10/31/2008	397,109	437,482	110.2

Schedule of Funding Progress - Frozen Initial Liability Actuarial Cost Method

<u>Actuarial Valuation Date</u>	<u>(1) Actuarial Value of Plan Assets</u>	<u>(2) Frozen Initial Liability</u>	<u>(3) Unfunded Frozen Initial Liab (UFIL) (2) - (1)</u>	<u>(4) Funded Ratio (1) / (2)</u>	<u>(5) Covered Payroll</u>	<u>(6) UFIL as a % of Covered Payroll (3) / (5)</u>
11/1/2003	\$ 4,230,382	\$ 4,403,691	\$ 173,309	96.1 %	\$ 2,575,900	6.7 %
11/1/2004	4,514,638	4,652,160	137,522	97.0	2,579,200	5.3
11/1/2005	4,844,697	5,145,507	300,810	94.2	2,826,100	10.6
11/1/2006	5,222,959	5,460,671	237,712	95.6	2,890,174	8.2
11/1/2007	5,600,313	5,776,428	176,115	97.0	3,254,963	5.4
11/1/2008	6,042,141	6,375,231	333,090	94.8	4,013,370	8.3

SAN JACINTO RIVER AUTHORITY

SCHEDULE OF EMPLOYER CONTRIBUTIONS AND FUNDING PROGRESS FOR THE RETIREE HEALTHCARE (OPEB) PLAN

Year Ended August 31, 2009

One Year Trend Information

Schedule of Contributions From the Employer

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Percentage Contributed</u>
8/31/2009	\$ 316,787	14.0%	0.0 %

Schedule of Funding Progress for the Retiree Healthcare (OPEB) Plan

<u>Actuarial Valuation Date</u>	<u>(1) Actuarial Value of Assets</u>	<u>(2) AAL Actuarial Accrued Liability</u>	<u>(3) UAAL Unfunded AAL (2) - (1)</u>	<u>(4) Funded Ratio (1) / (2)</u>	<u>(5) Covered Payroll</u>	<u>(6) UAAL as a % of Covered Payroll (3) / (5)</u>
8/31/2009	\$ 0	\$ 3,009,073	\$ 3,009,073	0.0 %	\$ 455,791	660.2 %

The Authority has implemented GASB Statement No. 45 for the year ended August 31, 2009. The Authority has elected to implement GASB Statement No. 45 prospectively therefore prior year comparative data is not available. In future years, trend information will be presented.

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OTHER SUPPLEMENTARY INFORMATION

SAN JACINTO RIVER AUTHORITY

LAKE CONROE DAM, RESERVOIR AND RELATED EQUIPMENT

August 31, 2009

(Unaudited)

Dam and Appurtenances:

Dam and appurtenances - joint	\$ 16,381,042
Dam and appurtenances - San Jacinto River Authority	<u>1,169,194</u>
Total Dam and Appurtenances	<u>17,550,236</u>

Buildings and Residences:

Office building - joint	75,715
Warehouse building - joint	21,724
Residences - joint	223,583
Boat house - joint	93,444
Storage building - San Jacinto River Authority	<u>23,404</u>
Total Buildings and Residences	<u>437,870</u>

Equipment - Joint:

Construction and maintenance equipment	145,772
Transportation equipment	235,058
Office furniture and fixtures	27,957
Computer software	62,484
Computer hardware	7,879
Laboratory equipment	62,034
Miscellaneous equipment	<u>88,604</u>
Total Equipment - Joint	<u>629,788</u>

Land:

Land easements and improvements - joint	7,570,870
Land acquisition and administration - joint	5,863,771
Ayer Island improvements - joint	49,508
Land easements - park (Newton)	312,928
Land acquisition and administration - San Jacinto River Authority	<u>580,032</u>
Total Land	<u>14,377,109</u>

Total Lake Conroe Dam, Reservoir and Related Equipment	32,995,003
Less City of Houston Contribution	<u>(20,606,295)</u>
San Jacinto River Authority's Interest in Lake Conroe Dam, Reservoir and Related Equipment	12,388,708
Less Accumulated Depreciation on San Jacinto River Authority's Interest in Assets	<u>(2,745,623)</u>
Net Interest in Lake Conroe Dam, Reservoir and Related Equipment	<u>\$ 9,643,085</u>

SAN JACINTO RIVER AUTHORITY

INSURANCE COVERAGE

August 31, 2009

(Unaudited)

<u>Types of Coverages</u>	<u>Amount of Coverage</u>	<u>Insurer</u>	<u>Coverage to</u>
Property Coverages			
Buildings	\$ 104,717,913	TWCA Risk Management Fund	7/1/2010
Contents	\$ 4,204,228	TWCA Risk Management Fund	7/1/2010
Mobile			
Equipment/Contractors Equip	\$ 1,430,976	TWCA Risk Management Fund	7/1/2010
Miscellaneous Property & Equipment	\$ 163,006	TWCA Risk Management Fund	7/1/2010
Rented Equipment	\$ 200,000	TWCA Risk Management Fund	7/1/2010
Total Property Coverages;	<u>\$ 110,716,123</u>		
Boiler and Machinery:	\$ 1,923,364	TWCA Risk Management Fund	7/1/2010
Automobile:			
Bodily injury and property damage	Combined limit \$ 1,000,000	TWCA Risk Management Fund	7/1/2010
Excess auto liability	\$ 5,000,000	TWCA Risk Management Fund	7/1/2010
Physical damage	Actual cash value	TWCA Risk Management Fund	7/1/2010
General Liability	\$ 1,000,000	TWCA Risk Management Fund	7/1/2010
	per occurrence		
Excess General Liability	\$ 5,000,000	TWCA Risk Management Fund	7/1/2010
Public Officials:			
Errors and omissions	\$ 1,000,000	TWCA Risk Management Fund	7/1/2010
Excess errors and omissions	\$ 4,000,000	TWCA Risk Management Fund	7/1/2010
Workers' Compensation	Statutory	TWCA Risk Management Fund	7/1/2010

SAN JACINTO RIVER AUTHORITY

PRINCIPAL OFFICIALS

August 31, 2009

(Unaudited)

Directors

R. Gary Montgomery, President
P.O. Box 329
Conroe, Texas 77305-0329

Joseph V. Turner, Vice President
P.O. Box 329
Conroe, Texas 77305-0329

Lloyd B. Tisdale, Secretary
P.O. Box 329
Conroe, Texas 77305-0329

Mary L. Rummell, Treasurer
P.O. Box 329
Conroe, Texas 77305-0329

John H. Stibbs, Member
P.O. Box 329
Conroe, Texas 77305-0329

Joseph L. Stunja, Member
P.O. Box 329
Conroe, Texas 77305-0329

David C. Kleimann, Member
P.O. Box 329
Conroe, Texas 77305-0329

Staff

Reed Eichelberger, General Manager
P.O. Box 329
Conroe, Texas 77305-0329

Michael Jackson, Controller
P.O. Box 329
Conroe, Texas 77305-0329

Ron Kelling, Deputy General Manager, Operations
P.O. Box 329
Conroe, Texas 77305-0329

Jace Houston, Deputy General Manager, Administration
P.O. Box 329
Conroe, Texas 77305-0329

Consultants

General Counsel
Michael G. Page
Schwartz, Page & Harding, LLP
1300 Post Oak Boulevard, Suite 1400
Houston, Texas 77056

Financial Advisor
Jan Bartholomew
RBC Capital Markets
1001 Fannin, Suite 400
Houston, Texas 77002

STATISTICAL SECTION

This section of the San Jacinto River Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the authority's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	47-48
These schedules contain trend information to help the reader understand how the authority's financial performance and well-being have changed over time.	
Revenue Capacity	49-51
These schedules contain information to help the reader assess the authority's most significant local revenue source, the water and sewer service.	
Debt Capacity	52-54
These schedules present information to help the reader assess the affordability of the authority's current levels of outstanding debt and the authority's ability to issue additional debt in the future.	
Demographic and Economic Information	55-58
These schedules offer demographic and economic indicators to help the reader understand the environment within which the authority's financial activities take place.	
Operating Information	59-61
These schedules contain service and infrastructure data to help the reader understand how the information in the authority's financial report relates to the services the authority provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the annual financial reports for the relevant year.

**San Jacinto River Authority
Net Assets by Component
Last Seven Fiscal Years
(accrual basis of accounting)**

	Fiscal Year						
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Business-type activities							
Invested in capital assets-net of related debt	\$ 65,310,123	\$ 48,547,804	\$ 50,362,973	\$ 60,374,586	\$ 65,772,745	\$ 65,030,432	\$ 71,921,272
Restricted	4,019,668	19,894,387	31,273,497	22,324,988	18,254,369	34,936,170	28,654,942
Unrestricted	15,112,280	14,332,693	15,446,458	17,451,681	16,039,280	18,156,477	23,616,921
Total business-type activities net assets	\$ 84,442,071	\$ 82,774,884	\$ 97,082,928	\$ 100,151,255	\$ 100,066,394	\$ 118,123,079	\$ 124,193,135
Primary government							
Invested in capital assets-net of related debt	\$ 65,310,123	\$ 48,547,804	\$ 50,362,973	\$ 60,374,586	\$ 65,772,745	\$ 65,030,432	\$ 71,921,272
Restricted	4,019,668	19,894,387	31,273,497	22,324,988	18,254,369	34,936,170	28,654,942
Unrestricted	15,112,280	14,332,693	15,446,458	17,451,681	16,039,280	18,156,477	23,616,921
Total primary government net assets	\$ 84,442,071	\$ 82,774,884	\$ 97,082,928	\$ 100,151,255	\$ 100,066,394	\$ 118,123,079	\$ 124,193,135

Notes: The requirement for statistical data is ten years; only seven years are available at this time.
The authority does not currently have any governmental-type activities

San Jacinto River Authority
Changes in Net Assets
Last Seven Years
(accrual basis of accounting)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Expenses							
Business-type activities:							
Salarie and wages	\$ 2,280,689	\$ 2,276,993	\$ 2,365,528	\$ 2,537,539	\$ 2,974,694	\$ 3,609,239	\$ 4,213,962
Employee insurance and other payroll benefits	1,039,212	1,056,883	1,166,323	1,352,771	1,777,904	1,802,280	2,057,484
Outside services employed	1,322,733	1,438,566	1,410,829	1,318,626	1,981,899	2,785,842	3,279,261
Operating supplies and expenses	2,489,217	2,923,444	3,355,259	4,238,291	3,871,080	4,717,992	4,499,020
Rentals	24,074	42,515	18,895	18,677	32,509	48,714	111,362
Maintenance, repairs and parts	2,223,585	2,069,226	1,867,411	2,966,070	2,495,369	3,456,995	4,174,346
Water planning study expenses	340,232	419,037	505,656	389,211	75,104	125,700	356,123
General and administrative expenses	717,041	712,106	677,448	643,248	830,749	949,078	1,370,683
Depreciation	3,691,444	3,971,573	4,241,197	4,501,769	4,619,949	5,747,453	5,219,499
Total business-type activities expenses	14,128,227	14,910,343	15,608,546	17,966,202	18,659,257	23,243,293	25,281,740
Total primary government expenses	\$ 14,128,227	\$ 14,910,343	\$ 15,608,546	\$ 17,966,202	\$ 18,659,257	\$ 23,243,293	\$ 25,281,740
Program Revenues:							
Business-type activities							
Water sales:							
Industrial	\$ 3,950,633	\$ 3,997,431	\$ 4,061,681	\$ 3,973,539	\$ 6,020,521	\$ 7,660,698	\$ 8,264,471
Irrigation	13,200	14,800	18,249	25,752	28,147	40,013	58,291
Water and sewer service fees	8,524,518	7,880,999	9,574,736	11,488,378	8,558,969	13,514,338	16,270,637
Permits, licenses, and fees	169,136	252,942	140,832	157,742	791,295	858,733	682,043
Capacity charges	4,011,418	4,252,382	4,171,424	4,202,855	4,212,228	5,149,975	5,522,353
Water planning study	340,232	420,802	505,656	389,211	82,726	575,909	464,449
Total business-type activities revenues	17,009,137	16,819,356	18,472,578	20,237,477	19,693,886	27,799,666	31,262,244
Total primary government revenues	\$ 17,009,137	\$ 16,819,356	\$ 18,472,578	\$ 20,237,477	\$ 19,693,886	\$ 27,799,666	\$ 31,262,244
Net (Expenses) Revenue							
Business-type activities							
Interest income	\$ 638,911	\$ 367,633	\$ 924,941	\$ 1,666,911	\$ 1,874,487	\$ 1,549,570	\$ 482,664
Gain (Loss) on disposal of assets	(434,576)	(109,568)	6,500	10,826	7,716	11,706	22,746
Oil and gas royalty income	67,231	52,551	57,689	82,420	35,714	51,268	32,820
Other revenues	5,502	4,699	3,584	57,313	43,313	185,648	74,016
FEMA Grant				1,262,964	408,965		1,910,083
Other expenses						(17,800)	
Amortization of debt issuance costs	(106,704)	(486,268)	(736,681)	(663,089)	(631,922)	(641,709)	(646,329)
Interest expense on bonds	(4,298,316)	(3,990,520)	(3,445,937)	(3,445,006)	(3,344,542)	(3,814,792)	(3,875,334)
Total business-type activities	(4,127,952)	(4,161,473)	(3,189,904)	(1,027,661)	(1,606,269)	(2,676,109)	(1,999,334)
Total primary government	\$ (4,127,952)	\$ (4,161,473)	\$ (3,189,904)	\$ (1,027,661)	\$ (1,606,269)	\$ (2,676,109)	\$ (1,999,334)
General Revenues and Other Change in Net Assets							
Business-type activities:							
Operating Transfers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Contributions	1,403,036	585,273	14,633,916	1,824,713	486,779	16,176,421	2,088,886
Total business-type activities	1,403,036	585,273	14,633,916	1,824,713	486,779	16,176,421	2,088,886
Total primary government	\$ 1,403,036	\$ 585,273	\$ 14,633,916	\$ 1,824,713	\$ 486,779	\$ 16,176,421	\$ 2,088,886
Change in Net Assets							
Business-type activities							
Total business-type activities	155,994	(1,667,187)	14,308,044	3,068,327	(84,861)	18,056,685	6,070,056
Total primary government	\$ 155,994	\$ (1,667,187)	\$ 14,308,044	\$ 3,068,327	\$ (84,861)	\$ 18,056,685	\$ 6,070,056

Note: The requirement for statistical data is ten years; only seven years are available at this time.
San Jacinto River Authority does not currently have any governmental-type activities

**San Jacinto River Authority
Water and Sewer Service Fees by Source
Last Seven Years**

<u>Water and Sewer Fees</u>					
Fiscal Year	Water	Sewer	Total	Total Water Direct Rate	Total WasteWater Direct Rate (1)
2003	\$ 3,485,909	\$ 5,038,609	\$ 8,524,518	\$0.76	\$1.25
2004	3,219,745	4,661,254	7,880,999	0.76	1.25
2005	3,932,639	5,642,097	9,574,736	0.76	1.25
2006	4,746,910	6,741,468	11,488,378	0.76	1.25
2007	3,665,615	4,893,355	8,558,969	0.85	1.32
2008	5,945,121	7,569,217	13,514,338	1.01	1.50
2009	7,798,389	8,472,248	16,270,637	1.21	1.57

(1) Direct Rate based on per thousand gallon

Note: The requirement for statistical data is ten years; only seven years are available at this time.

**San Jacinto River Authority
Principal Water and Sewer Fees Payers
August 31, 2009**

Customer	2009			2004		
	<u>Revenue Base Attributable</u>	<u>Rank</u>	<u>% Base of The total Revenue Base</u>	<u>Revenue Base Attributable</u>	<u>Rank</u>	<u>% Base of The total Revenue Base</u>
MUD 6	\$848,329	8	5%	\$573,356	8	7%
MUD 7	1,206,356	6	7%	916,643	4	12%
MUD 36	700,278	9	4%	524,871	9	7%
MUD 39	569,905	10	4%	275,116	10	3%
MUD 40	1,040,369	7	6%	739,882	7	9%
MUD 46	3,528,386	1	22%	922,735	3	12%
MUD 47	3,088,989	2	19%	2,119,350	1	27%
MUD 60	1,905,802	3	12%	1,113,070	2	14%
MUD 67	1,288,858	4	8%	819,927	5	10%
Metro MUD	1,312,736	5	8%	786,167	6	10%

Note: The requirement for statistical data is ten years; only six years are available at this time.

San Jacinto River Authority List of Principal Customers

Highlands Division

ExxonMobil
Chevron Chemical Company
Amoco Chemical Corporation
Grassland Operating Co
Murff Turf Farms
Venon Walton
Ineos USA LLC
Occidental Chemical Corp
Advanced Aromatics
LCY Elastomers, LP
Rhodia Inc.

Woodlands Dividson

MUD 2
MUD 6
MUD 7
MUD 36
MUD 39
MUD 40
MUD 46
MUD 47
MUD 60
MUD 67
Metro MUD

Lake Conroe Division

Entergy
Brentwater Yacht & Country
Walden
La Torretta Del Lago

Note: The above customers represent SJRA's principal customers. Because of the long term of SJRA's contracts, the majority of these customers have been customers of SJRA for ten years or more.

**San Jacinto River Authority
Ratio of Outstanding Debt by Type
Last Six Fiscal Years**

Business-Type Activities

Fiscal Year	Water Revenue Bonds	Special Project Revenue Bond	Total Primary Government	Debt as a Percentage of Water and Service Revenues (2)	Debt per population (3)
(1) 2003					
2004	\$1,570,325	\$4,238,994	\$5,809,319	73.71%	\$13
2005	1,630,469	3,921,016	5,551,485	57.98%	12
2006	1,790,481	3,939,895	5,730,376	49.88%	12
2007	1,774,456	4,167,541	5,941,997	69.42%	10
2008	1,781,351	4,176,712	5,958,063	44.09%	17
2009	1,781,242	5,521,380	7,302,622	44.88%	16

(1) Information not available change reporting due to GASB 34

(2) Water and service revenues found on Principal Revenue by Source

(3) Based on estimated population that is served by water and wastewater services population includes all of Montgomery county

Note: The requirement for statistical data is ten years; only six years are available at this time.

**San Jacinto River Authority
Pledge-Revenue Coverage
Last Six Fiscal Years
(amounts expressed in thousands)**

Water Revenue Bonds							
Fiscal Year	Revenue	less		Net Available for Debt Service	Debt Service		Coverage Ratio
		Operating Expenses	Operating Expenses		Principal	Interest	
2004	\$4,685,975	\$2,169,820	\$2,516,155	\$455,000	\$1,115,325	1.60	
2005	4,726,418	2,202,848	2,523,570	480,000	1,134,457	1.56	
2006	4,546,244	3,642,025	904,219	510,000	1,105,475	0.56	
2007	6,922,689	3,803,567	3,119,122	700,000	1,074,456	1.76	
2008	9,135,353	5,163,482	3,971,871	740,000	1,041,351	2.23	
2009	9,469,254	7,126,546	2,342,708	775,000	1,006,243	1.32	

Note: The requirement for statistical data is ten years; only six years are available at this time.

Special Revenue Bond

Special Revenue Bond	less Operating Expenses	Net Available for Debt Service	Debt Service		Coverage Ratio
			Principal	Interest	
\$4,252,382	\$4,882	\$4,247,500	\$1,375,000	\$2,863,994	1.00
4,171,424	31,751	4,139,673	1,440,000	2,795,138	0.98
4,202,855	13,697	4,189,158	1,565,000	2,374,895	1.06
4,212,228	5,738	4,206,491	1,860,000	2,307,542	1.01
5,149,975	8,468	5,141,507	1,940,000	2,236,712	1.23
5,522,353	3,725	5,518,629	2,350,000	3,171,379	1.00

San Jacinto River Authority District Demographics

SJRA's boundaries include the entire watershed of the San Jacinto River and its tributaries excluding Harris County, Texas. It stretches from Montgomery County through the eastern part of Harris County. SJRA's service area includes ten counties and more than 30 cities and communities. This geographic diversity in turn provides economic diversity with a great combination of agriculture, oil and gas, high tech and industry.

SJRA provides a variety of services to municipal utility districts, industries, and individuals within this ten-county district. The array of services includes water sales and distribution, water treatment, wastewater treatment, laboratory analysis, and recreation opportunities. This diversity allows the local economy to be among the State's growth leaders, outpace the national economy and create opportunities to foster employment for the population growth in each county. The graphs below and on the following page portray the population and economic base with SJRA's ten-counties.

COUNTY/CITY POPULATION

Barrett	2,872
Baytown	66,430
Crosby	7,072
Grimes	23,552
Highlands	7,089
Liberty	75,141
Montgomery	358,964
San Jacinto	24,801
Waller	34,821
Walker	62,735

Source US Census Bureau, Census 2000

SJRA serves parts of Walker County but for the demographic and statistical section reports as a whole county

EDUCATIONAL ATTAINMENT

COUNTY/ CITY	HIGH SCHOOL GRADUATE OR EQUIV.	BACHELOR DEGREE OR HIGHER
Barrett	69%	7%
Baytown	72%	14%
Crosby	62%	11%
Grimes	67%	10%
Highlands	77%	7%
Liberty	71%	9%
Montgomery	85%	28%
San Jacinto	73%	10%
Waller	74%	17%
Walker	73%	18%

Source US Census Bureau, Census 2000

SJRA serves parts of Walker County but for the demographic and statistical section reports as a whole county

COUNTY/ CITY MEDIAN AGE

Barrett	34
Baytown	31
Crosby	34
Grimes	38
Highlands	36
Liberty	34
Montgomery	31
San Jacinto	40
Waller	30
Walker	31

Source US Census Bureau, Census 2000

SJRA serves parts of Walker County but for the demographic and statistical section reports as a whole county

COUNTY/CITY PER CAPITA INCOME

Barrett	31,343
Baytown	40,559
Crosby	25,769
Grimes	14,368
Highlands	41,288
Liberty	16,564
Montgomery	50,864
San Jacinto	16,144
Waller	16,338
Walker	62,735

Source US Census Bureau, Census 2000

SJRA serves parts of Walker County but for the demographic and statistical section reports as a whole county

**COUNTY/CITY UNEMPLOYMENT
RATE**

Barrett	8.3%
Baytown	7.9%
Crosby	6.3%
Grimes	6.2%
Highlands	6.4%
Liberty	9%
Montgomery	5.1%
San Jacinto	6.6%
Waller	6.4%
Walker	5.7%

Source US Census Bureau, Census 2000

SJRA serves parts of Walker County but for the demographic and statistical section reports as a whole county

**San Jacinto River Authority
Number of Employees by Division
Last Ten Fiscal Years**

Division	Number of Authorized Positions Full Time Equivalent Fiscal Year Ended August 31				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Highlands	9	9	8	9	7
Lake Conroe	5	6	6	6	7
Woodlands	37	39	41	40	37
General & Administrative	4	7	6	7	8
Total	55	61	61	62	59

Note: Full time employees

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
7	6	7	6	6	6
7	7	7	8	9	9
35	37	38	40	43	44
8	8	9	11	13	17
57	58	61	65	71	76

**San Jacinto River Authority
Operating Statistics
Last Ten Calendar Years**

<u>Operating Statistics</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Reservoir and Canal Division				
Water Delivered (per thousand gallons)	34,601,213	30,961,792	33,921,089	27,735,785
Water Permits	3	3	3	3
The Woodlands Division				
Water Pumpage (per thousand gallons)	5,075,182	4,535,007	4,948,191	5,075,982
Wastewater Average Daily Flow (Million gallons per day)	5.582	6.304	6.630	6.689
Water Permits	1	1	1	1
Wastewater Permits	3	3	3	3
Storm Water Multi-Sector General Permits				2

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
24,874,814	29,486,257	22,379,447	24,192,482	24,583,503	23,474,958
4	5	5	5	5	7
4,663,533	5,578,435	6,238,117	5,083,736	6,333,984	6,832,883
6.852	7.107	7.253	7.682	7.624	7.756
1	1	1	1	1	1
3	3	3	3	3	3
2	2	2	2	2	2

**San Jacinto River Authority
Schedule of Capital Asset Additions
Last Seven Fiscal Years**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Reservoir and Canal Division							
Land							
Water permits and rights	\$ 8,109,069	\$ 316,439	\$ 79,824	\$ 85,669	\$ 35,235	\$ 50,330	\$ 42,536
Construction in progress	449,473			87,918	879,998	35,412	1,240,832
Furniture, fixtures & equip		7,843		23,805			59,880
Other machinery & equip	22,290	80,067	11,515	11,369	46,316	5,034	162,469
Automobiles and trucks	25,926		51,519	93,107	52,373	49,568	35,845
Buildings		39,279	25,822		22,535	11,971	
Water systems		586,269			913,252		395,987
Lake Conroe Division							
Land							
Construction in progress	28,130	208,903	29,146		11,966	15,397	69,895
Furniture, fixtures & equip				2,785	4,470		3,851
Other machinery & equip		7,330		2,388	11,133	17,447	18,446
Automobiles and trucks	19,683	8,285	8,100	6,457		8,741	
Buildings					2,320		23,933
Dams and appurtenances	15,901	21,497	270,070	2,199	2,613		17,676
The Woodlands Division							
Land	34,520	265,004	43,085	5,000	29,840		42,394
Construction in progress	6,428,763	5,204,917	1,294,339	3,097,327	6,626,492	16,958,077	7,348,205
Furniture, fixtures & equip		25,136	10,065	24,797		7,313	88,005
Other machinery & equip	5,979		16,549	8,850	36,657	12,043	46,909
Automobiles and trucks	53,128	79,389	19,115	118,370	42,131	129,846	287,450
Buildings	622,320	388,186	755,422	5,000			
Dams and appurtenances				36,384			
Water systems	1,608,171	672,843	3,363,979	1,381,511	3,457,408	787,524	21,084,196
Wastewater utility systems	2,836,980	21,098	10,369,113	8,248,477	446,691	8,586,424	613,969
Capital		49,505					
Total Capital Assets	\$20,260,333	\$7,981,990	\$16,347,663	\$13,241,413	\$12,621,430	\$ 26,675,127	\$31,582,478

Note: SJRA restated capital assets information when GASB Statement 34 was implemented in fiscal year 2003.

Note: The requirement for statistical data is ten years; only seven years are available at this time.

SINGLE AUDIT SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To Board of Directors
San Jacinto River Authority
Montgomery County, Texas

We have audited the financial statements of the business-type activities and each major fund of the San Jacinto River Authority, (the "Authority") as of and for the year ended August 31, 2009, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sam Karp & Co." The signature is written in a cursive, flowing style.

Sugar Land, Texas
November 12, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To Board of Directors
San Jacinto River Authority
Montgomery County, Texas

Compliance

We have audited the compliance of the San Jacinto River Authority, (the "Authority"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular *A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2009. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2009.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned

functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Sugar Land, Texas
November 12, 2009

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

San Jacinto River Authority
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2009

	<u>CFDA NUMBER</u>	<u>PASS-THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURE</u>
Federal Emergency Management Agency			
Passed through Texas Department of Public Safety's Division of Emergency Management:			
Disaster Grants- Public Assistance	97.036	Various	\$ <u>1,943,134</u>
Total Federal Emergency Management Agency			<u>1,943,134</u>
		Total Federal Awards	\$ <u><u>1,943,134</u></u>

San Jacinto River Authority

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2009

NOTE 1 – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the San Jacinto River Authority, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

The expenditures of federal awards are reported in the San Jacinto River Authority's Comprehensive Annual Financial Report, within the statement of activities. Expenditures are recorded when the liability is incurred.

San Jacinto River Authority

SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended August 31, 2009

No prior year federal award findings were noted.