

San Jacinto River Authority

Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2011

San Jacinto River Authority
1577 Dam Site Road
Conroe, Texas 77304

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INTRODUCTORY SECTION

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San Jacinto River Authority

ADMINISTRATIVE OFFICE
P.O. Box 329 • Conroe, Texas 77305
(T) 936.588.3111 • (F) 936.588.3043

January 4, 2012

Board of Directors
San Jacinto River Authority
Montgomery County, Texas

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the San Jacinto River Authority (SJRA or Authority) for the fiscal year ended August 31, 2011. The purpose of the report is to provide the Board of Directors, our customers, stakeholders, and other interested parties with reliable financial information about the "Authority". The San Jacinto River Authority's Accounting Department has prepared the CAFR in accordance with generally accepted accounting principles (GAAP). 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.

Our auditor 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, 2011. The independent auditor's report is located at the front of the financial section of this report. A single audit was not required this year since SJRA did not receive sufficient federal grant funds to require such an audit. Accordingly, a single audit report is not included with this CAFR.

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. The MD&A complement this letter of transmittal and should be read in conjunction with it.

Profiles of the Government

The San Jacinto River Authority is a conservation and reclamation district, body politic and corporate, and a governmental agency of the State of Texas created and operating under the provisions of a series of acts compiled as Vernon's Annotated Texas Civil Statutes, Article 8280-121, enacted pursuant to the provisions of Section 59 of Article XVI of the Texas Constitution, whose area comprises all of the territory within the watershed of the San Jacinto River and its tributaries, except that portion of the watershed lying within the boundaries of Harris County. Such area consists of all of

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LAKE CONROE DIVISION
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Conroe, Texas 77305
(T) 936.588.1111
(F) 936.588.1114

GRP DIVISION
P.O. Box 329
Conroe, Texas 77305
(T) 936.588.1662
(F) 936.588.7182

WOODLANDS DIVISION
P.O. Box 7537
The Woodlands, Texas 77387
(T) 281.367.9511
(F) 281.362.4385

HIGHLANDS DIVISION
P.O. Box 861
Highlands, Texas 77562
(T) 281.843.3300
(F) 281.426.2877

Montgomery County and parts of Waller, Grimes, Walker, San Jacinto, Liberty, and Fort Bend counties.

The SJRA is governed by a board of seven directors appointed to six-year terms by the Governor of the State of Texas. The SJRA has statutory power and responsibility for developing, conserving, and protecting the water resources of the San Jacinto River watershed. The 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 and Administration 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 General & Administration Division provides management and support services to the SJRA's four operating divisions and Region H.

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 35-mile system of canals and a 1400-acre reservoir for delivery to industrial, municipal, and agricultural 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 Interstate 45 at the Lake Conroe Dam. In addition to operating and maintaining the dam, this division handles the licensing, regulation and enforcement functions related to onsite sewage facilities around Lake Conroe. This division also approves permits and licenses related to boat sanitation, piers, boat slips, boathouses, marinas, and other facilities operated or constructed on Lake Conroe as well as collects annual fees and rentals for these facilities. The SJRA also supplies raw water from Lake Conroe, which was built as a water supply reservoir. Although the lake is exclusively operated by the SJRA, the City of Houston owns two-thirds of the permitted water rights in the reservoir.

The Woodlands Division is located in southern Montgomery County and provides wholesale 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 wastewater treatment plants, lift stations, water wells, elevated and ground storage tanks, and miles of collection and distribution facilities.

The Groundwater Reduction Plan Division, with its office located at the Lake Conroe Dam, is responsible for implementing a countywide surface water program that will meet the groundwater reduction requirements of the Lone Star Groundwater Conservation District and ensure reliable, long-term water supplies for all public utilities in Montgomery County that choose to join the program. The GRP Division will design, construct, operate, maintain, and administer a water treatment plant and transmission lines that will withdraw raw surface water from Lake Conroe, treat it to meet or exceed

drinking water standards, and then transmit it to customer cities and utilities within Montgomery County.

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 state’s economy has been comparatively healthy indicated by Texas adding more people (nearly 4.3 million) than any other state report by the U. S. Bureau of the Census. “By early summer of 2011, 80 percent of the jobs shed by employers during Texas’ shorter recession have already been recovered as our economy recovers more quickly than the U.S. as a whole. Nationally, only 20.5 percent of recession-hit jobs had been recovered by the end of 2010”. Reports show that from the time the recession began in December 2007 through the subsequent recovery, Texas has outperformed the nation according to the Federal Reserve Bank of Dallas (FED) in its Southwest Economy third quarter report.

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. SJRA has weathered through the effects of the recession and will continue to fare well in 2012 and beyond. In fact, SJRA had a need to increase its staff by 30%, bringing job opportunities to its surrounding areas. With continued population growth in the SJRA’s service area, the ability to provide increasing amounts of water is critical. 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 the SJRA is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the 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, the SJRA continues to meet its responsibility for sound financial management. The SJRA recommends that each reader closely read each section of this report including the oversight review provided by the MD&A in order to have a thorough understanding of the SJRA, its activities, financial position and results of operations.

MAJOR INITIATIVES

For the Year. One of the SJRA's major initiatives for Fiscal Year 2011 included planning for the 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 the work of SJRA staff with committees related to instream surface water flows, fresh water inflows for bays and estuaries, review of water quality standards, regional water planning, and desired future conditions for groundwater aquifers in Southeast Texas.

Another major initiative in Fiscal Year 2011 was planning and implementation of critical facility repairs to the SJRA's raw water delivery system in the Highlands. This project will increase the productivity and reliability of the delivery system. A major milestone of this project was the sale of approximately \$25,380,000 of revenue bonds to finance various parts of this multi-year project. The project includes repair and replacement of numerous siphons, repairs to the Highlands Reservoir dam, improvements to the Highlands Division office, and installation of additional measuring equipment and SCADA controls.

Another major initiative that was completed during Fiscal Year 2011 was building a new General and Administration Building. A campus planning study in 2009 showed that the General and Administration office space was not sufficient for the current and future needs of the SJRA. The new G&A building provides enough space to achieve an optimal level of service for the SJRA's four operating divisions and outside commitments. Final completion and move-in occurred in December of 2010.

For the Future. In November 2009, the Lone Star Groundwater Conservation District (LSGCD) adopted final regulations that require certain groundwater users to prepare and submit a Groundwater Reduction Plan by April 1, 2010, outlining how the user intends to meet a 2016 deadline for conversion to surface water supplies. The SJRA responded to this regulatory requirement 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. The SJRA plan was designed so that any large volume groundwater user in the county could join the SJRA's Joint Groundwater Reduction Plan (GRP) by executing a GRP Contract and paying the required monthly GRP Pumpage Fee. The GRP Pumpage Fee was set at \$0.50 per thousand gallons of groundwater pumped by the participating entity and is billed monthly. It is anticipated that this fee will increase each year as costs are incurred for design and construction of the necessary infrastructure to

deliver surface water by the 2016 deadline. Current studies suggest that the GRP Pumpage Fee could be close to \$2.45 per thousand gallons by 2016. The estimated cost of the entire surface water system that must be constructed to meet the 2016 deadline is \$480 million. To date, the cities and water utilities that have joined the SJRA GRP represent approximately 80 percent of the water use in Montgomery County. The GRP Division will be responsible for implementing the surface water program and constructing all the necessary infrastructure to deliver water beginning in 2016.

Acknowledgements

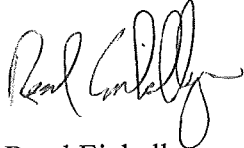
Independent Audit. Section 49.191 of the Texas Water Code requires an annual audit of the SJRA's accounting records by a certified public accountant or public accountant holding a permit from the Texas State Board of Public Accountancy and selected by the Board of Directors. The firm Sandersen, Knox & Co., LLP was selected by the Board for the 2010 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.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the SJRA for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended August 31, 2010. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

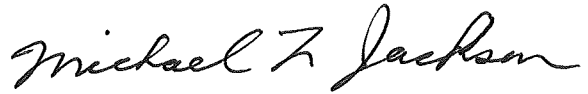
In order to be awarded a Certificate, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements.

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 dedicated staff of the SJRA's Accounting Department.

Sincerely,



Reed Eichelberger, PE
General Manager



Michael L. Jackson, CPA
Controller

SAN JACINTO RIVER AUTHORITY

Certificate of Achievement for Excellence in Financial Reporting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jacinto River Authority
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danison

President

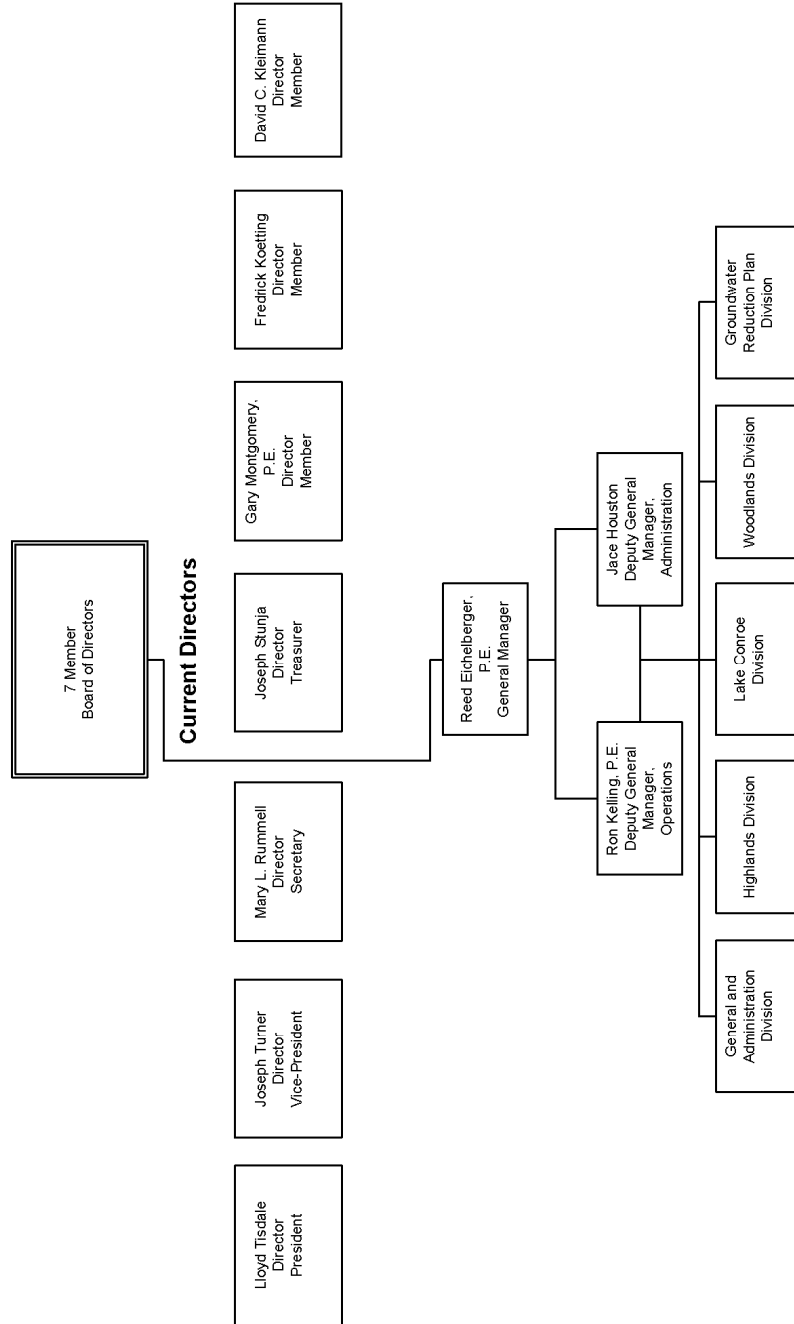
Jeffrey R. Egan

Executive Director

SAN JACINTO RIVER AUTHORITY

Organizational Chart

San Jacinto River Authority Organizational Chart Management



SAN JACINTO RIVER AUTHORITY

Board of Directors

	<u>Appointed</u>
Lloyd B. Tisdale, President	2008
Joseph V. Turner, Vice President	2005
Mary L. Rummell, Secretary	2011
Joseph L. Stunja, Treasurer	2008
R. Gary Montgomery, Member	2008
Fredrick Koetting, Member	2011
David C. Kleimann, Member	2008

The San Jacinto River Authority is governed by seven directors, appointed by the Governor of the State of Texas. Each director serves a six-year term.

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FINANCIAL SECTION

Independent Auditors' Report

Board of Directors
San Jacinto River Authority
Montgomery County, Texas

We have audited the accompanying financial statements of the business-type activities and each major fund of the San Jacinto River Authority, as of and for the year ended August 31, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the San Jacinto River 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 San Jacinto River Authority as of August 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-12 and required supplementary information on pages 48-49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the San Jacinto River Authority's financial statements as a whole. 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 financial statements. The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

Sugar Land, Texas
November 15, 2011

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, 2011. 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 \$355.1 million; of this amount, approximately \$179.1 million represents net capital assets and \$162.0 million represents cash and cash equivalents under both, current and restricted assets.
- Liabilities for the Authority totaled \$217.4 million of which \$200.9 million accounts for obligations under long-term debt.
- The Authority's total assets exceeded liabilities by approximately \$137.6 million. This amount represents net assets; of this amount, \$93.5 million is invested in capital assets – net of related debt. An additional \$7.8 million is under restricted net assets and the remaining \$36.4 million represents unrestricted net assets.
- Operating revenues for the Authority at year-end were \$48.8 million and exceeded operating expenses by \$15.9 million. The major revenue sources were capacity charges, water and wastewater treatment service fees to Woodlands' municipal utility districts of \$31.5 million; untreated water sales to industrial and municipal customers of \$9.2 million; and Groundwater Reduction Plan fees of \$7 million. Severe drought conditions contributed to a substantial increase in revenues related to treated water deliveries for the Woodlands Division and pumpage fee revenue for the GRP Division.
- Operating expenses totaled \$32.9 million. Highlights within operating expenses were salaries, wages and employee benefits of \$9.5 million, operating supplies of \$7.6 million and depreciation of \$6.3 million.
- Non-operating expenses exceeded non-operating revenues by approximately \$5.9 million. This was primarily attributable to interest expense paid on bonds that totaled \$5.4 million as of year-end.
- Capital contributions from Woodlands municipal utility districts totaled \$1.8 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:

- General and Administration Division
- Highlands Division
- Region H
- Lake Conroe Division
- Woodlands Division
- Groundwater Reduction Plan 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 Net Assets.

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 \$137.6 million at the close of the most recent fiscal year.

As of August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current assets	\$ 171,914,889	\$ 94,327,687
Noncurrent assets	4,126,983	2,327,990
Capital assets	179,081,389	161,979,583
Total Assets	<u>\$ 355,123,261</u>	<u>\$ 258,635,260</u>
Liabilities		
Current liabilities	\$ 15,845,393	\$ 13,798,702
Noncurrent liabilities	201,635,418	119,093,448
Total Liabilities	<u>\$ 217,480,811</u>	<u>\$ 132,892,150</u>
Net Assets		
Invested in capital assets - net of related debt	\$ 93,493,165	\$ 39,210,018
Restricted:		
Debt service	7,587,810	4,604,287
Construction	191,005	60,860,370
Unrestricted	36,370,470	21,068,435
Total Net Assets	<u>\$ 137,642,450</u>	<u>\$ 125,743,110</u>

- Current assets increased by \$77.6 million which represents a 82% increase from the prior year primarily due to an increase in cash and cash equivalents from bond proceeds for the Groundwater Reduction Plan Division, restricted to construction.
- Noncurrent assets increased by \$1.8 million, a 77% increase due to bond issue costs from new bond issues.
- Total liabilities increased by \$84.6 million, a 64% increase from the prior year.
- Current liabilities from accounts payable increased by \$2.2 million, a 45% increase due to increased purchases.
- Long term debt increased by \$82.4 million, primarily due to new bond issues for the Groundwater Reduction Plan Division.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

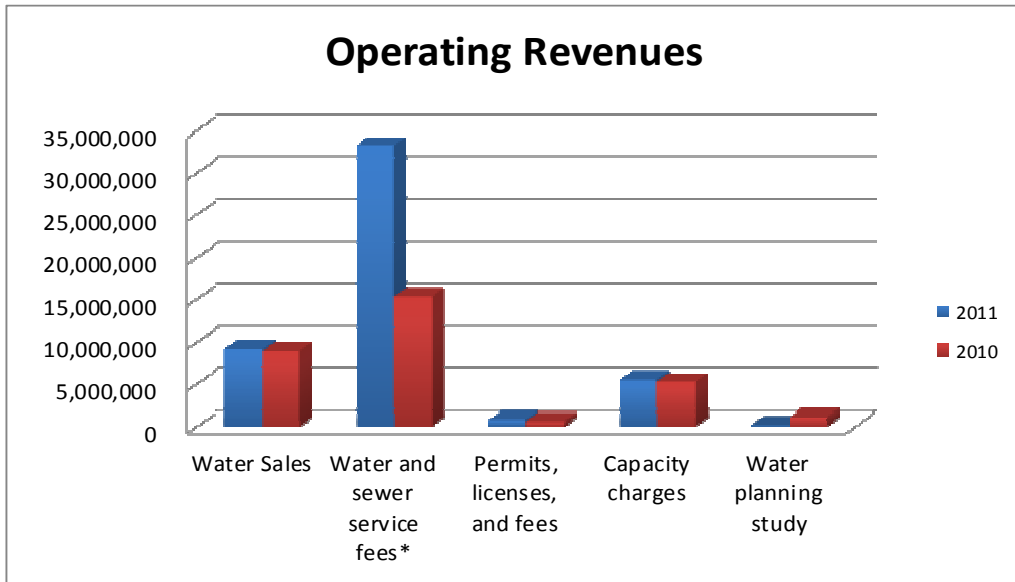
The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for all the Authority's Divisions. The Authority does not seek to earn a profit in the long term. However, the Authority must cover its operations, maintenance and other costs, and provide sufficient reserves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

For the Years Ended August 31, 2011 and 2010

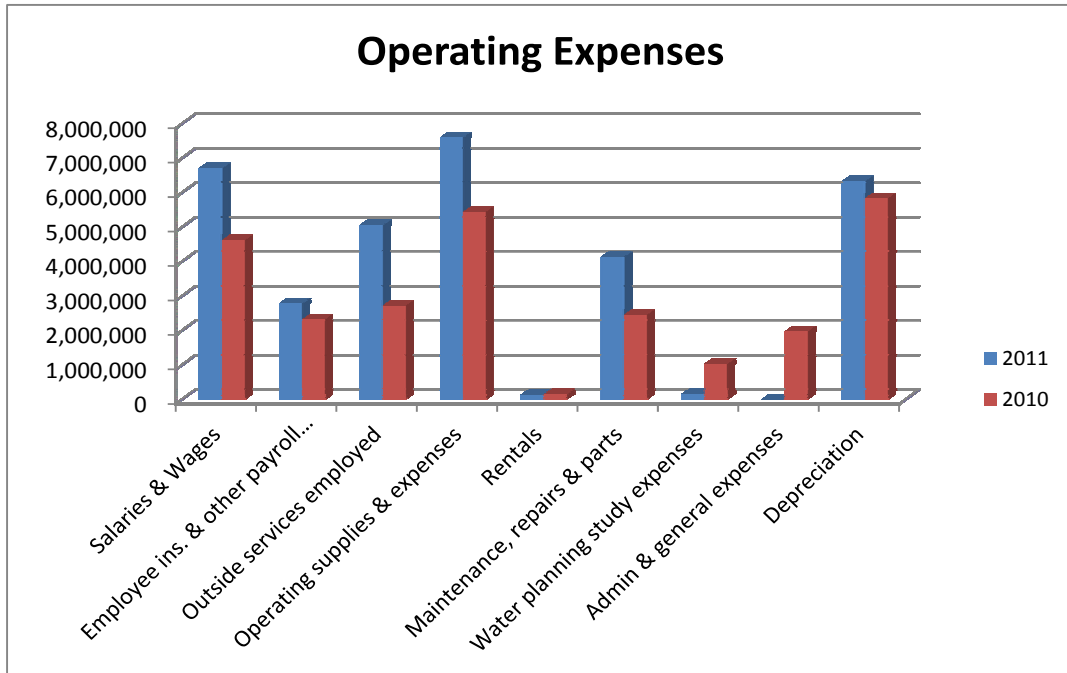
	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Water sales	\$ 9,172,135	\$ 8,938,663
Water and sewer service fees*	33,257,666	15,253,398
Permits, licenses and fees	763,503	578,560
Capacity charges	5,466,830	5,205,756
Water planning study	141,878	1,088,622
Total Operating Revenues	<u>48,802,012</u>	<u>31,064,999</u>
Operating Expenses:		
Salaries and wages	6,702,971	4,610,165
Employee insurance and other payroll benefits	2,783,051	2,316,454
Outside services employed	5,053,638	2,718,636
Operating supplies & expenses	7,595,490	5,437,305
Rentals	124,643	147,150
Maintenance, repairs and parts	4,133,285	2,446,618
Water planning study expenses	157,071	1,026,692
Admin and general expenses		1,971,681
Depreciation	6,330,205	5,823,940
Total Operating Expenses	<u>32,880,354</u>	<u>26,498,641</u>
Operating Income	15,921,658	4,566,358
Nonoperating Revenues (Expenses)	(5,865,950)	(3,805,508)
Contributed Capital	<u>1,843,632</u>	<u>789,125</u>
Net Income	11,899,340	1,549,975
Net assets at beginning of year	<u>125,743,110</u>	<u>124,193,135</u>
Net Assets at End of Year	<u>\$ 137,642,450</u>	<u>\$ 125,743,110</u>

*Increase due to drought and initiation of Groundwater Reduction Plan fees in 2011.

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



*Increase due to drought and initiation of Groundwater Reduction Plan fees in 2011.



- Operating revenues in the Woodlands Division from water and wastewater treatment services increased by \$11.4 million, a 78% increase from the previous year due to increased water usage resulting in increased revenue during a period of drought. Groundwater Reduction Plan fees first full year of implementation.
- Salaries and wages increased by \$2.1 million, a 45% increase from the prior year which was primarily due to additional employees.
- Employee insurance and other payroll benefits increased by \$.5 million, a 20% increase from the prior year due to the additional employees.
- Operating supplies and expenses increased by \$2.2 million, a 40% increase from the previous year. Most of the increase was attributable to the expenses of the Woodlands Division.
- Maintenance, repairs, and parts increased by \$1.7 million, a 69% increase from the prior year.
- Depreciation expense increased by \$.5 million, an increase of 9% from the previous year. Most of this increase was due to the purchase of capital assets.

CAPITAL ASSETS AND LONG-TERM DEBT

The Authority's investment in net capital assets as of August 31, 2011 totaled \$179 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 11%.

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

- The Authority added \$7.6 million to the construction in progress for the water treatment design and implementation of the Groundwater Reduction Plan Division, numerous rehabilitations and a water well.
- The Authority completed the General and Administration Building at a capital cost of \$5.1 million.
- The Authority completed Siphons 10 and 19 at capital costs of \$2.1 million.
- The Authority completed upgrades to Lake Houston Pump Station at capital costs of \$1.2 million.
- The Authority completed the 16 inch well collection line from elevated storage tank No. 5 to Water Plant No. 4 at capital costs of \$1.1 million.
- The Authority completed the Woodlands Water Wells Nos. 35 and 36 at a capital cost of \$2.9 million.

	<u>2011</u>	<u>2010</u>
Capital Assets - at cost		
Land	\$ 10,413,707	\$ 10,353,889
Water permits and rights	30,946,712	30,941,517
Office furniture, fixtures & equip	1,642,977	521,767
Other machinery and equipment	1,709,443	1,504,746
Automobiles and trucks	1,735,586	1,607,564
Buildings	9,042,538	3,510,969
Dams and appurtenances	8,188,676	8,182,965
Water systems	96,561,810	88,388,478
Wastewater utility systems	84,078,249	83,535,554
Capital improvement plans	376,882	376,882
Construction in progress	18,973,969	11,324,009
Less accumulated depreciation	<u>(84,589,160)</u>	<u>(78,268,757)</u>
Total Capital Assets	<u>\$ 179,081,389</u>	<u>\$ 161,979,583</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 \$197.2 million. The debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

As of August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Long-Term Debt		
First Lien Water Revenue Bonds-		
less current maturities	\$ 198,940,000	\$ 119,550,000
Deferred amount of refunding	<u>(1,679,438)</u>	<u>(2,278,202)</u>
Total Long-Term Debt	<u>\$ 197,260,562</u>	<u>\$ 117,271,798</u>

The Authority's total long-term debt increased by \$80 million from the previous year, due to the sale of the Special Project Revenue Bonds (GRP), Series 2011.

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, 2011

<u>Assets</u>	Business Type Activities - Enterprise Funds				
	General and Administration Division	Highlands Division	Region H	Lake Conroe Division	Woodlands Division
	Current Assets				
Cash and cash equivalents					
Unrestricted	\$ 2,617,807	\$ 7,721,141	\$	\$	\$ 9,283,451
Restricted:					
Debt service		4,720,393			4,400,004
Construction		21,468,905	191,005		13,849,183
Accounts receivable	3,954,308	79,634	1,653	663,542	6,327,248
Prepaid expenses	517,430	28,562		30,703	446,341
Total Current Assets	7,089,545	34,018,635	192,658	694,245	34,306,227
Noncurrent Assets					
Debt issuance costs - net	(51,257)	568,878			1,262,887
Total Noncurrent Assets	(51,257)	568,878			1,262,887
Capital Assets - at cost					
Land		1,112,401		5,477,370	2,683,995
Water permits and rights	8,850,033	22,096,679			
Furniture, fixtures and equipment	983,366	104,676		89,873	371,599
Other machinery and equipment		1,145,118		153,000	411,325
Automobiles and trucks	285,798	152,521		109,611	1,161,081
Buildings	5,750,051	179,161		198,373	2,725,396
Dams and appurtenances				6,659,283	1,529,393
Water systems	178,675	11,873,000		6,747	84,495,710
Wastewater utility systems					84,078,249
Capital improvement plans					376,882
Construction in progress	93,114	3,943,507		37,443	4,642,263
Accumulated depreciation	(827,887)	(4,731,419)		(3,044,200)	(75,956,774)
Total Capital Assets	15,313,150	35,875,644		9,687,500	106,519,119
Total Assets	\$ 22,351,438	\$ 70,463,157	\$ 192,658	\$ 10,381,745	\$ 142,088,233

See Notes to Financial Statements.

Groundwater Reduction		
Plan Division	Eliminations	Total
\$ 11,759,872	\$	\$ 31,382,271
		9,120,397
86,014,381		121,523,474
1,536,147	(3,702,289)	8,860,243
5,468		1,028,504
<u>99,315,868</u>	<u>(3,702,289)</u>	<u>171,914,889</u>
<u>2,346,475</u>		<u>4,126,983</u>
<u>2,346,475</u>		<u>4,126,983</u>
1,139,941		10,413,707
		30,946,712
93,463		1,642,977
		1,709,443
26,575		1,735,586
189,557		9,042,538
		8,188,676
7,678		96,561,810
		84,078,249
		376,882
10,257,642		18,973,969
<u>(28,880)</u>		<u>(84,589,160)</u>
<u>11,685,976</u>		<u>179,081,389</u>
<u>\$ 113,348,319</u>	<u>\$ (3,702,289)</u>	<u>\$ 355,123,261</u>

SAN JACINTO RIVER AUTHORITY

STATEMENT OF NET ASSETS

August 31, 2011

	Business Type Activities - Enterprise Funds				
	General and Administration Division	Highlands Division	Region H	Lake Conroe Division	Woodlands Division
<u>Liabilities</u>					
Current Liabilities					
Accounts payable and accrued liabilities - unrestricted	\$ 486,495	\$ 687,306	\$ 12,770	\$ 318,842	\$ 2,394,428
Restricted for Debt service:					
Current portion of bonds	1,035,000	635,000			2,925,000
Current portion of notes	258,282				
Accrued interest payable	210,073	473,491			1,059,096
Restricted for Construction:					
Accounts payable					868,755
Retainage payable		34,870			233,930
Deferred revenue	1,833		37,299	117,714	78,149
Total Current Liabilities	1,991,683	1,830,667	50,069	436,556	7,559,358
Noncurrent Liabilities					
Net OPEB obligation	51,251	134,835		252,759	267,483
Total Noncurrent Liabs	51,251	134,835		252,759	267,483
Long-Term Debt					
First lien water revenue bonds -					
less current maturities	17,020,000	24,745,000			52,520,000
Notes payable less current	3,668,528				
Deferred refunding	(608,868)				(1,070,570)
Total Long-Term Debt	20,079,660	24,745,000			51,449,430
Total Liabilities	22,122,594	26,710,502	50,069	689,315	59,276,271
<u>Fund Equity</u>					
Net Assets					
Invested in capital assets - net of related debt	(6,059,792)	31,929,679		9,687,500	64,891,187
Restricted:					
Debt service		4,246,902			3,340,908
Construction			191,005		
Unrestricted	6,288,636	7,576,074	(48,416)	4,930	14,579,867
Total Net Assets	228,844	43,752,655	142,589	9,692,430	82,811,962
Total Liabilities and Fund Equity	\$ 22,351,438	\$ 70,463,157	\$ 192,658	\$ 10,381,745	\$ 142,088,233

See Notes to Financial Statements.

Groundwater Reduction		
Plan Division	Eliminations	Total
\$ 6,717,402	\$ (3,702,289)	\$ 6,914,954
		4,595,000
		258,282
961,181		2,703,841
		868,755
766		269,566
		234,995
<u>7,679,349</u>	<u>(3,702,289)</u>	<u>15,845,393</u>
		<u>706,328</u>
		<u>706,328</u>
104,655,000		198,940,000
		3,668,528
		(1,679,438)
<u>104,655,000</u>		<u>200,929,090</u>
<u>112,334,349</u>	<u>(3,702,289)</u>	<u>217,480,811</u>
(6,955,409)		93,493,165
		7,587,810
		191,005
<u>7,969,379</u>		<u>36,370,470</u>
<u>1,013,970</u>		<u>137,642,450</u>
<u>\$ 113,348,319</u>	<u>\$ (3,702,289)</u>	<u>\$ 355,123,261</u>

SAN JACINTO RIVER AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended August 31, 2011

	Business Type Activities - Enterprise Funds				
	General and Administration Division	Highlands Division	Region H	Lake Conroe Division	Woodlands Division
Operating Revenues:					
Water sales:					
Industrial	\$ 8,027,787	\$	\$	\$ 1,010,007	\$
Irrigation	134,341				
Water and sewer service fees	286,774				25,988,716
Permits, licenses and fees				763,503	
Capacity charges					5,466,830
Water planning study			141,878		
Total Operating Revenues	<u>8,448,902</u>		<u>141,878</u>	<u>1,773,510</u>	<u>31,455,546</u>
Operating Expenses:					
Salaries and wages	857,710	690,595		833,219	3,316,767
Employee insurance and other payroll benefits	325,335	310,141		404,803	1,438,644
Outside services employed	681,460	163,234		346,019	1,449,615
Operating supplies and expenses	830,172	148,198		262,966	8,495,931
Rentals	20,548	372		29,006	69,027
Maintenance, repairs & parts	61,621	37,850		215,158	3,798,306
Water planning study expenses			157,071		
General and admin. expenses allocated	(1,316,435)	(1,312)		301,646	467,087
Depreciation	348,043	368,967		141,975	5,443,921
Total Operating Expenses	<u>1,808,454</u>	<u>1,718,045</u>	<u>157,071</u>	<u>2,534,792</u>	<u>24,479,298</u>
Operating Income (Loss)	<u>6,640,448</u>	<u>(1,718,045)</u>	<u>(15,193)</u>	<u>(761,282)</u>	<u>6,976,248</u>
Nonoperating Revenues (Expenses)					
Interest income	129,508	30,649			37,711
Gain (Loss) on disposal of assets	3,778			33,864	9,900
Oil and gas royalty income	7,920				
Other revenues	2,877				3,262
Bad debts	(119,476)				
Amortization of debt issuance costs	(52,274)	(19,146)			(612,188)
Interest expense	(830,922)	(987,306)			(2,560,135)
Total Nonoperating Revenues (Expenses)	<u>(858,589)</u>	<u>(975,803)</u>		<u>33,864</u>	<u>(3,121,450)</u>
Income (Loss) Before Contributions and Transfers	5,781,859	(2,693,848)	(15,193)	(727,418)	3,854,798
Transfers	(5,553,015)	4,679,033	157,782	688,014	12,612
Capital Contributions					1,843,632
Change in Net Assets	228,844	1,985,185	142,589	(39,404)	5,711,042
Net Assets at Beginning of Year		41,767,470		9,731,834	77,100,920
Net Assets at End of Year	<u>\$ 228,844</u>	<u>\$ 43,752,655</u>	<u>\$ 142,589</u>	<u>\$ 9,692,430</u>	<u>\$ 82,811,962</u>

See Notes to Financial Statements.

Groundwater Reduction		
Plan Division	Eliminations	Total
\$	\$	\$ 9,037,794
		134,341
10,826,665	(3,844,489)	33,257,666
		763,503
		5,466,830
		141,878
<u>10,826,665</u>	<u>(3,844,489)</u>	<u>48,802,012</u>
1,004,680		6,702,971
304,128		2,783,051
2,413,310		5,053,638
1,702,712	(3,844,489)	7,595,490
5,690		124,643
20,350		4,133,285
		157,071
549,014		
27,299		6,330,205
<u>6,027,183</u>	<u>(3,844,489)</u>	<u>32,880,354</u>
<u>4,799,482</u>		<u>15,921,658</u>
197,355	(107,363)	287,860
		47,542
		7,920
166		6,305
		(119,476)
(44,940)		(728,548)
<u>(1,096,553)</u>	<u>107,363</u>	<u>(5,367,553)</u>
<u>(943,972)</u>		<u>(5,865,950)</u>
3,855,510		10,055,708
15,574		
		1,843,632
3,871,084		11,899,340
<u>(2,857,114)</u>		<u>125,743,110</u>
<u>\$ 1,013,970</u>	<u>\$</u>	<u>\$ 137,642,450</u>

SAN JACINTO RIVER AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended August 31, 2011

	Business Type Activities - Enterprise Funds				
	General and Administration Division	Highlands Division	Region H	Lake Conroe Division	Woodlands Division
Cash Flows from Operating Activities					
Cash received from customers	\$ 4,376,951	\$ 4,399,411	\$ 177,524	\$ 1,520,468	\$ 29,165,470
Cash payments to suppliers for goods and services	(257,050)	(686,298)	(144,301)	(653,943)	(14,358,337)
Cash paid for employee services	(1,183,045)	(1,147,822)		(1,437,781)	(4,975,196)
Other revenues & expenses	2,877				3,262
Net Cash Provided (Used) by Operating Activities	<u>2,939,733</u>	<u>2,565,291</u>	<u>33,223</u>	<u>(571,256)</u>	<u>9,835,199</u>
Cash Flows from Noncapital Financing Activities					
Oil and gas royalty income	7,920				
Net Cash Provided by Noncapital Finance Activities	<u>7,920</u>				
Cash Flows from Capital and Related Financing Activities					
Principal paid on bonds		(195,000)			(2,525,000)
Principal paid on notes	(1,073,190)				
Interest paid	(1,040,995)	(1,229,113)			(2,533,476)
Proceeds from bond sales	4,055,000	(4,055,000)			
Proceeds from notes	4,000,000				
Bond issue expenses		(19,146)			(546,254)
Operating transfers	(5,553,015)	4,679,033	157,782	688,014	12,612
Acquisition of facilities and equipment	(850,932)	(6,854,652)		(150,622)	(8,102,635)
Capital contributions					1,843,632
Proceeds from asset sales	3,778			33,864	9,900
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(459,354)</u>	<u>(7,673,878)</u>	<u>157,782</u>	<u>571,256</u>	<u>(11,841,221)</u>

See Notes to Financial Statements.

Groundwater Reduction		
Plan Division	Eliminations	Total
\$ 10,379,994	\$ (3,844,489)	\$ 46,175,329
(1,896,702)	3,844,489	(14,152,142)
(1,308,808)		(10,052,652)
166		6,305
<u>7,174,650</u>		<u>21,976,840</u>
		7,920
		<u>7,920</u>
		(2,720,000)
(947,767)		(2,020,957)
(2,057,734)	107,363	(6,753,955)
83,155,000		83,155,000
		4,000,000
(1,934,269)		(2,499,669)
15,574		
(6,372,349)		(22,331,190)
		1,843,632
		<u>47,542</u>
<u>71,858,455</u>	<u>107,363</u>	<u>52,720,403</u>

SAN JACINTO RIVER AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended August 31, 2011

	Business Type Activities - Enterprise Funds				
	General and Administration Division	Highlands Division	Region H	Lake Conroe Division	Woodlands Division
Cash Flows from Investing Activities					
Interest earned	129,508	30,649			37,711
Net Cash Provided by Investing Activities	<u>129,508</u>	<u>30,649</u>			<u>37,711</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,617,807	(5,077,938)	191,005		(1,968,311)
Cash and equivalents at beginning of year		<u>38,988,377</u>			<u>29,500,949</u>
Cash and Equivalents at End of Year	<u>\$ 2,617,807</u>	<u>\$ 33,910,439</u>	<u>\$ 191,005</u>	<u>\$</u>	<u>\$ 27,532,638</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ 6,640,448	\$ (1,718,045)	\$ (15,193)	\$ (761,282)	\$ 6,976,248
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Other revenues and expenses	2,877				3,262
Depreciation	348,043	368,967		141,975	5,443,921
(Increase) decrease in receivables	(4,073,784)	4,466,028	(1,653)	(261,768)	(2,323,247)
(Increase) decrease in prepaid expenses and deposits	(517,430)	326,011		(3,609)	(12,991)
Increase (decrease) in accounts payable and accrued liabilities	537,746	(811,053)	12,770	304,702	(285,165)
Increase (decrease) in deferred revenue	1,833	(66,617)	37,299	8,726	33,171
Total Adjustments	<u>(3,700,715)</u>	<u>4,283,336</u>	<u>48,416</u>	<u>190,026</u>	<u>2,858,951</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,939,733</u>	<u>\$ 2,565,291</u>	<u>\$ 33,223</u>	<u>\$ (571,256)</u>	<u>\$ 9,835,199</u>

Groundwater Reduction		
Plan Division	Eliminations	Total
197,355	(107,363)	287,860
197,355	(107,363)	287,860
79,230,460		74,993,023
18,543,793		87,033,119
<u>\$ 97,774,253</u>	<u>\$</u>	<u>\$ 162,026,142</u>
\$ 4,799,482	\$	\$ 15,921,658
166		6,305
27,299		6,330,205
(446,671)	3,702,289	1,061,194
(5,468)		(213,487)
2,799,842	(3,702,289)	(1,143,447)
		14,412
<u>2,375,168</u>	<u></u>	<u>6,055,182</u>
<u>\$ 7,174,650</u>	<u>\$</u>	<u>\$ 21,976,840</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 the 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 Enterprise Funds maintained by the Authority are described below:

General and Administration Fund ("General and Administration Division")

The General and Administration 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 General and Administration Division provides management and support services to the SJRA's four operating divisions and Region H.

Highlands Fund ("Highlands 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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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 contain options for the additional purchases of water by customers.

Region H Fund (“Region H”)

Under an agreement with the Texas Water Development Board, the Authority is the contracting agency and designated representative of the Region H Water Planning Group.

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 \$20,908,812 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.

Woodlands Division Fund (“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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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, 2011, 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 Counties 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.

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, 2011, 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.

Groundwater Reduction Plan Fund ("Groundwater Reduction Plan Division")

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 choose to join. Individual LVGU's in Montgomery County will be able to comply with the Lone Star Groundwater Conservation District (LSGCD)

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

regulatory requirements to submit a GRP by participating in the Authority's GRP. The projected water demand of all participating LVGU's is 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 District Regulatory Plan. In order to join the Authority's GRP, individual LVGU's 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 cover all costs associated with implementing the program.

On October 16, 2009, a 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.

C. Measurement Focus and Basis of Accounting

The Enterprise Funds have a net income or economic resources measurement focus and are accounted for using the accrual basis of accounting, under which revenues are recognized when they are earned including unbilled water 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. As of August 31, 2011, the allowance for bad debts is \$141,995.

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 an initial cost exceeding \$5,000 and useful life of three years or greater.

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

<u>Asset Class</u>	<u>Useful Life</u>
Office furniture, fixtures and equipment	5 years
Other machinery and equipment	5-10 years
Automobiles and trucks	5-10 years
Buildings	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.

H. Date of Management's Review

Subsequent events have been evaluated through November 15, 2011, 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.

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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A summary of invested in capital assets – net of related debt as of August 31, 2011 follows:

	Capital Assets - Net of Depreciation	Notes and Bonds Payable	Total
General and Administration Division	\$ 15,313,150	\$ (21,372,942)	\$ (6,059,792)
Highlands Division	35,875,644	(3,945,965)	31,929,679
Region H			
Lake Conroe Division	9,687,500		9,687,500
Woodlands Division	106,519,119	(41,627,932)	64,891,187
Groundwater Reduction Plan Division	11,685,976	(18,641,385)	(6,955,409)
Total	\$ 179,081,389	\$ (85,588,224)	\$ 93,493,165

A summary of net assets restricted for debt service as of August 31, 2011 follows:

	Restricted Cash for Debt Service	Liabilities Payable from Restricted Cash for Debt Service	Total
General and Administration Division	\$	\$	\$
Highlands Division	4,720,393	(473,491)	4,246,902
Region H			
Lake Conroe Division			
Woodlands Division	4,400,004	(1,059,096)	3,340,908
Groundwater Reduction Plan Division			
Total	\$ 9,120,397	\$ (1,532,587)	\$ 7,587,810

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A summary of net assets restricted for construction as of August 31, 2011 follows:

	Restricted Cash for Construction	Bonds Payable	Liabilities Payable from Restricted Cash for Construction	Total
General and Administration Division	\$	\$	\$	\$
Highlands Division	21,468,905	(21,434,035)	(34,870)	
Region H	191,005			191,005
Lake Conroe Division				
Woodlands Division	13,849,183	(12,746,498)	(1,102,685)	
Groundwater Reduction Plan Division	86,014,381	(86,013,615)	(766)	
Total	\$ 121,523,474	\$ (120,194,148)	\$ (1,138,321)	\$ 191,005

A summary of net assets – unrestricted as of August 31, 2011 follows:

	Designated			Undesignated	Total
	Operating Reserve	Contingency	Capital Repair/ Replace		
General & Administration Div.	\$	\$	\$	\$ 6,288,636	\$ 6,288,636
Highlands Division	790,812	1,581,624	2,285,491	2,918,147	7,576,074
Region H				(48,416)	(48,416)
Lake Conroe Division	597,148	1,194,296	1,386,993	(3,173,507)	4,930
Woodlands Division		1,229,881		13,349,986	14,579,867
Groundwater Reduct. Plan Div.				7,969,379	7,969,379
Total	\$ 1,387,960	\$ 4,005,801	\$ 3,672,484	\$ 27,304,225	\$ 36,370,470

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

All cash, savings, money market accounts 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	\$ 1,500	\$ N/A	\$ N/A
Collateral held by pledging banks in the Authority's name	1,363,829	5,217,036	7,670,166
Cash equivalents, not requiring pledging by banks, money funds & Pools	<u>160,660,813</u>	<u>160,660,813</u>	N/A
Total Cash and Cash Equivalents	<u>\$ 162,026,142</u>	<u>\$ 165,877,849</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 as of August 31, 2011.

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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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.

Investment Policy

The Authority has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investments of the Authority are in compliance with its investment policy.

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES

The individual interfund receivables/payables as of August 31, 2011 follow:

	<u>Receivables</u>	<u>Payables</u>
Enterprise Funds:		
General and Administration Division	\$ 3,175,054	\$
Highlands Division	36,503	
Region H		
Woodlands Division		932,999
Bear Branch Reservoir		36,503
Groundwater Reduction Plan Division	490,732	2,732,787
	<u>\$ 3,702,289</u>	<u>\$ 3,702,289</u>

Interfund balances primarily result from payroll transactions with related employee benefits, GRP pumpage fees and advances to startup the GRP Division from the General and Administration Division. Payroll transactions and related employee benefits become the basis for expenses of the divisions and departments which use the services. Beginning in fiscal year 2010, interfund transactions record the monthly groundwater pumpage fee which is a source of revenue to the GRP Division and an expense of the Woodlands Division. Prior to fiscal year 2011 when the GRP Division started receiving operating revenues from GRP pumpage fees, the General and Administration Division provided operating funds for the GRP Division. The fiscal year 2012 budget anticipates that the funds advanced to the GRP Division will be repaid to the General and Administration Division during the year.

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, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at Aug. 31, 2011</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 10,353,889	\$ 59,818	\$	\$ 10,413,707
Water permits and rights	30,941,517	5,195		30,946,712
Construction in progress	<u>11,324,009</u>	<u>24,369,436</u>	<u>(16,719,476)</u>	<u>18,973,969</u>
Total Capital Assets Not Being Depreciated	<u>52,619,415</u>	<u>24,434,449</u>	<u>(16,719,476)</u>	<u>60,334,388</u>
Capital Assets Being Depreciated:				
Furniture, fixtures and equipment	521,767	1,121,210		1,642,977
Other machinery and equipment	1,504,746	204,697		1,709,443
Automobiles and trucks	1,607,564	151,546	(23,524)	1,735,586
Buildings	3,510,969	5,531,569		9,042,538
Dams and appurtenances	8,182,965	5,711		8,188,676
Water systems	88,388,478	8,178,084	(4,752)	96,561,810
Wastewater utility systems	83,535,554	542,695		84,078,249
Capital improvement plans	<u>376,882</u>			<u>376,882</u>
Total Capital Assets Being Depreciated	<u>187,628,925</u>	<u>15,735,512</u>	<u>(28,276)</u>	<u>203,336,161</u>
Less Accumulated Depreciation for:				
Furniture, fixtures and equipment	291,575	266,505		558,080
Other machinery and equipment	1,158,417	124,431		1,282,848
Automobiles and trucks	973,086	226,413	(9,802)	1,189,697
Buildings	721,784	186,233		908,017
Dams and appurtenances	2,811,981	117,774		2,929,755
Water systems	33,502,736	2,584,411		36,087,147
Wastewater utility systems	38,633,592	2,805,297		41,438,889
Capital improvement plans	<u>175,586</u>	<u>19,141</u>		<u>194,727</u>
Total Accumulated Depreciation	<u>78,268,757</u>	<u>6,330,205</u>	<u>(9,802)</u>	<u>84,589,160</u>
Total Capital Assets Being Depreciated, Net	<u>109,360,168</u>	<u>9,405,307</u>	<u>(18,474)</u>	<u>118,747,001</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 161,979,583</u>	<u>\$ 33,839,756</u>	<u>\$ (16,737,950)</u>	<u>\$ 179,081,389</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:

	Original Bond Issue Cost	Balance at Sept. 1, 2010	Current Year Amortization	Balance at Aug. 31, 2011
General and Administration Division				
Water Revenue Refunding Bonds:				
Series 2000	456,465	1,591	1,591	
Series 2010	(55,807)	(55,154)	(3,897)	(51,257)
Total General and Administration Division	400,658	(53,563)	(2,306)	(51,257)
Highlands Division				
Water Revenue Bonds:				
Series 2003	\$ 171,646	\$ 113,760	\$ 8,078	\$ 105,682
Series 2010	482,706	481,827	18,631	463,196
Total Highlands Division	654,352	595,587	26,709	568,878
Woodlands Division				
Special Project Revenue Bonds:				
Series 1998	338,564	41,973	7,713	34,260
Series 1999	300,166	810	810	
Series 1999	364,753	5,908	5,908	
Surety Bond Series 1997	50,427	14,832	2,966	11,866
Series 2004	436,669	338,384	16,849	321,535
Series 2004	680,739	527,518	26,266	501,252
Series 2007	617,961	551,986	23,998	527,988
Refunding Bonds:				
Series 2010	(156,686)	(152,590)	(18,576)	(134,014)
Total Woodlands Division	2,632,593	1,328,821	65,934	1,262,887
GRP Division				
Special Project Revenue Bonds:				
Series 2009	479,337	457,146	26,630	430,516
Series 2011	1,934,269		18,310	1,915,959
Total GRP Division	2,413,606	457,146	44,940	2,346,475
Total Debt Issuance Costs	\$ 6,101,209	\$ 2,327,991	\$ 135,277	\$ 4,126,983

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, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at Aug. 31, 2011</u>	<u>Due Within One Year</u>
General and Administration Division							
Water Revenue Bonds:							
Series 2003	3.77%	\$ 4,950,000	\$ 4,250,000	\$	\$ 195,000	\$ 4,055,000	\$ 205,000
Water Revenue Refunding Bonds:							
Series 2010	2-4%	14,000,000	14,000,000			14,000,000	830,000
Total General and Administration Division			18,250,000		195,000	18,055,000	1,035,000
Highlands Division							
Water Revenue Bonds:							
Series 2010	3-4.375%	25,380,000	25,380,000			25,380,000	635,000
Total Highlands Division			25,380,000			25,380,000	635,000
Woodlands Division							
Special Project Revenue Bonds:							
Series 1999	4.60%	14,730,000	315,000		315,000		
Series 1999	4.60%	19,905,000	875,000		425,000	450,000	450,000
Series 2007	5.25-5.5%	14,435,000	13,820,000		300,000	13,520,000	315,000
Special Project Refunding Bonds:							
Series 1998	4.40%	6,520,000	350,000		350,000		
Water Revenue Refunding Bonds:							
Series 2004	2-5%	21,310,000	17,575,000		990,000	16,585,000	1,275,000
Series 2004	2-5%	18,970,000	18,230,000		145,000	18,085,000	150,000
Series 2010	3-5%	4,440,000	4,440,000			4,440,000	375,000
Series 2010	3-4%	2,365,000	2,365,000			2,365,000	360,000
Total Woodlands Division			57,970,000		2,525,000	55,445,000	2,925,000
Groundwater Reduction Plan Division							
Special Project Revenue Bonds:							
Series 2009	.85-2.66%	21,500,000	21,500,000			21,500,000	
Series 2011	3-5.25%	83,155,000		83,155,000		83,155,000	
			21,500,000	83,155,000		104,655,000	
Total Bonds Payable			\$ 123,100,000	\$ 83,155,000	\$ 2,720,000	\$ 203,535,000	\$ 4,595,000

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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.

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

On May 18, 2011, SJRA issued \$83,155,000 San Jacinto River Authority Special Project Revenue Bonds (GRP Project), Series 2011 in the open market. The proceeds from the sale of the bonds were used to finance Groundwater Reduction Plan Division capital improvement projects and pay the cost of issuance. The bonds are collateralized solely by a lien on a pledge of the GRP Project net revenues.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General and Administration Division			
2012	\$ 1,035,000	\$ 640,895	\$ 1,675,895
2013	1,060,000	616,960	1,676,960
2014	1,095,000	589,000	1,684,000
2015	1,135,000	555,370	1,690,370
2016	1,170,000	520,178	1,690,178
2017-2021	6,630,000	1,884,841	8,514,841
2022-2025	5,930,000	462,028	6,392,028
	<u>\$ 18,055,000</u>	<u>\$ 5,269,272</u>	<u>\$ 23,324,272</u>
Highlands Division			
2012	\$ 635,000	\$ 976,146	\$ 1,611,146
2013	655,000	953,571	1,608,571
2014	680,000	930,208	1,610,208
2015	705,000	905,971	1,610,971
2016	730,000	880,859	1,610,859
2017-2021	4,080,000	3,971,095	8,051,095
2022-2026	4,820,000	3,230,559	8,050,559
2027-2031	5,840,000	2,208,845	8,048,845
2032-2036	7,235,000	818,889	8,053,889
	<u>\$ 25,380,000</u>	<u>\$ 14,876,143</u>	<u>\$ 40,256,143</u>
Woodlands Division			
2012	\$ 2,925,000	\$ 2,484,830	\$ 5,409,830
2013	2,815,000	2,372,818	5,187,818
2014	2,935,000	2,260,430	5,195,430
2015	3,055,000	2,139,180	5,194,180
2016	3,185,000	2,002,530	5,187,530
2017-2021	11,680,000	8,421,763	20,101,763
2022-2026	11,530,000	5,744,738	17,274,738
2027-2031	14,540,000	2,572,118	17,112,118
2032-2034	2,780,000	223,913	3,003,913
	<u>\$ 55,445,000</u>	<u>\$ 28,222,320</u>	<u>\$ 83,667,320</u>
Groundwater Reduction Plan Division			
2012	\$	\$ 3,207,271	\$ 3,207,271
2013		3,848,725	3,848,725
2014		3,848,725	3,848,725
2015	2,035,000	3,818,200	5,853,200
2016	2,095,000	3,865,799	5,960,799
2017-2021	18,415,000	19,540,247	37,955,247
2022-2026	23,355,000	16,173,637	39,528,637
2027-2031	24,190,000	11,218,835	35,408,835
2032-2036	23,430,000	5,829,500	29,259,500
2037-2038	11,135,000	563,625	11,698,625
	<u>\$ 104,655,000</u>	<u>\$ 71,914,564</u>	<u>\$ 176,569,564</u>

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Notes Payable

The General and Administration Division entered into a loan commitment in the previous year. The commitment from the bank is for \$4,000,000 for a term of 120 months, interest only at 5.7% through April 2011 and 104 principal and interest payments of \$38,095 thereafter or until such time as all principal has been repaid and interest on the unpaid balance. As of August 31, 2011, the Authority had borrowed \$4,000,000 on this loan commitment and the balance of the note at August 31, 2011 was \$3,926,810.

The Groundwater Reduction Plan Division entered into a loan commitment in the previous year. The commitment from the bank was \$1,200,000 for a term of 36 months, interest at 4% and monthly payments of \$35,459. The balance of the note was paid off during the year ended August 31, 2011.

Notes payable activity for the year ended August 31, 2011 follows:

Balance at beginning of year	\$ 1,947,767
Additions	3,000,000
Retirements	<u>(1,020,957)</u>
Balance at end of year	<u>\$ 3,926,810</u>

Maturities of the loan commitments for the balances outstanding as of August 31, 2011 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General and Administration Division			
2012	\$ 258,282	\$ 220,001	\$ 478,283
2013	251,831	205,312	457,143
2014	266,777	190,366	457,143
2015	282,609	174,534	457,143
2016	298,939	158,204	457,143
2017-2020	<u>2,568,372</u>	<u>391,690</u>	<u>2,960,062</u>
	<u>\$ 3,926,810</u>	<u>\$ 1,340,107</u>	<u>\$ 5,266,917</u>

NOTE 7 – ADMINISTRATIVE AND GENERAL EXPENSES

The administrative and general expenses 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, 2011.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – PENSION PLAN

Plan Description

The Authority's defined benefit pension plan, the San Jacinto River Authority Pension Plan (the "Plan"), provides retirement benefits to plan members and beneficiaries. 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. At November 1, 2010, there were 107 plan members.

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, prepared by Milliman, is available upon request from the Authority. The Authority has contracted with Alliant Services to evaluate the Authority's pension plan and voluntary 457 plan and make recommendations regarding modernization, cost-control measures, and long-term strategies for retirement offerings.

Funding Policy

Employees of the Authority do not contribute to the Plan. The Authority makes annual contributions to the Plan equal to the total of normal cost and the amount needed to fund the unfunded actuarial accrued liability over a ten year amortization period as determined from the actuarial valuation report.

Annual Pension Cost and Net Pension Asset

For 2011, the Authority's annual pension cost of \$645,829 for the Plan was equal to the Authority's required and actual contribution plus a portion of the unfunded actuarial accrued liability applied on an accrual basis to the fiscal year. The annual required contribution for the current year was determined as a part of the November 1, 2010 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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Three Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost</u>	<u>% of Annual Pension Contributed</u>	<u>Net Pension Asset</u>
Aug. 31, 2009	\$ 551,847	103.7 %	\$ 20,222
Aug. 31, 2010	561,092	104.0	42,751
Aug. 31, 2011	645,829	103.9	67,763

Funded Status and Funding Progress

As of November 1, 2010, the most recent actuarial valuation date, the plan was 97.2% funded. The actuarial accrued liability for benefits was \$7.4 million, and the actuarial value of assets was \$7.2 million resulting in an unfunded actuarial accrued liability (UAAL) of \$0.2 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4.7 million and the ratio of the UAAL to the covered payroll was 4.4%.

The Schedule of Funding Progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

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 5% per annum, (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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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.

As of August 31, 2011, six 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 \$41,303 for OPEB medical insurance coverage for retired employees covered under the OPEB plan during the year. After review, the Authority deems no reserve necessary for OPEB healthcare plan.

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 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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation.

	<u>Sept. 1, 2008</u>	<u>Sept. 1, 2009</u>	<u>Sept. 1, 2010</u>
Determination of Annual Required Obligation			
Normal Cost at year end	\$ N/A	\$ N/A	\$ 48,911
Amortization of UAAL	N/A	N/A	109,425
Annual Required Contribution (ARC)	<u>\$ 316,787</u>	<u>\$ 340,400</u>	<u>\$ 158,336</u>
Expected Benefit Payments	<u>\$ (44,444)</u>	<u>\$ (46,113)</u>	<u>\$ (41,303)</u>
Determination of Net OPEB Obligation			
Annual required contribution	\$ 316,787	\$ 340,400	\$ 158,336
Interest on prior year Net OPEB Obligation			22,665
Adjustment to ARC			
Annual OPEB cost (expense)	<u>316,787</u>	<u>340,400</u>	<u>181,001</u>
Contributions made	<u>(44,444)</u>	<u>(46,113)</u>	<u>(41,303)</u>
Increase in net OPEB obligation	<u>272,343</u>	<u>294,287</u>	<u>139,698</u>
Net OPEB obligation - beginning of year		<u>272,343</u>	<u>566,630</u>
Net OPEB obligation - end of year	<u>\$ 272,343</u>	<u>\$ 566,630</u>	<u>\$ 706,328</u>

The following table shows the annual OPEB cost and net OPEB obligation for the prior three years.

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Estimated % of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Aug. 31, 2009	\$ 316,787	14 %	\$ 272,343
Aug. 31, 2010	340,400	14	566,630
Aug. 31, 2011	181,001	23	706,328

Required Supplementary Information

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accr. Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
Aug. 31, 2009	\$ 0	\$ 3,009,073	\$ 3,009,073	0 %	\$ 455,791	660.2 %
Aug. 31, 2010	0	3,282,370	3,282,370	0	469,053	699.8
Sept. 1, 2010	0	1,892,176	1,892,176	0	463,099	408.6

Funded Status and Funding Progress

As of September 1, 2010, the most recent actuarial valuation date, the plan was 0% percent funded. The actuarial accrued liability for benefits was \$1,892,716 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$463,099 and the ratio of the UAAL to the covered payroll was 408.6%.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and 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 September 1, 2010 actuarial valuation, the projected unit credit 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 separating from service before normal retirement is based on Table T-1 of the Actuary's Pension Handbook, modified for females. The marital status of eligible active employees was assumed to continue throughout retirement. Life expectancies were based on the RP2000 Mortality Table with Projection Scale AA. The actuarial assumptions also included an assumed investment rate of return of 4.0% for fiscal years 2011 and later.

The annual healthcare cost trend rate was 6.7% for fiscal 2011, 6.5% for fiscal 2012, 6.0% for fiscal 2013, 5.9% for fiscal 2014 and ultimately grade down to 4.2% per year after 2018.

The unfunded actuarial accrued liability is being amortized as a level dollar amount on a 30 year open basis.

NOTE 10 – MAJOR CUSTOMERS

Industrial water sales totaling \$6,929,437 were invoiced to two primary customers. This accounts for 82% of the General Administration water sales revenues for the year ended August 31, 2011.

Water revenues totaling \$1,085,881 accrued from one primary customer. This accounts for 61% of the Lake Conroe Division's operating revenues for the year ended August 31, 2011.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Water pumpage fees totaling \$5,792,551 were invoiced to two primary customers. This accounts for 54% of The Groundwater Reduction Plan Division's operating revenues for the year ended August 31, 2011.

Water and sewer service fees and capacity charges totaling \$13,449,916 accrued from three primary customers. This accounts for 43% of The Woodlands Division's operating revenues for the year ended August 31, 2011.

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 REGION H 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. The Authority has received contributions from governments and other parties interested in the development of the plan that partially fund miscellaneous other costs.

NOTE 13 – TRANSFER TO LAKE CONROE DIVISION FROM GENERAL AND ADMINISTRATION DIVISION

The Lake Conroe Division has a net loss before contributions and transfers. This loss has been funded primarily by transfers from the General and Administration Division.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 14 – COMPENSATED ABSENCES

Vacation

As of August 31, 2011, employees of the Authority accrue five (5) days of paid vacation after the completion of six (6) months of continuous employment, or the first business day thereafter. After twelve (12) months of continuous employment, employees accrue an additional five (5) days of paid vacation. Thereafter employees accrue ten (10) days of paid vacation on January 1st of each year to be used by December 31st of the current year. After completion of five (5) years of service, beginning on the employee's 5th anniversary date, the employees accrue one (1) additional day of vacation per year until the employee accrues a total of fifteen (15) days of vacation per annum. Upon completion of twenty (20) years of employment, employees accrue twenty (20) days of vacation annually. Employees are allowed to defer up to 5 days of vacation accrued in the current calendar year to the following calendar year. Upon termination of employment, employees who have given proper notice, will normally be paid for unused vacation time that has been accrued through the date of termination. If the Authority terminates employment for any reason other than a lay-off or reduction in force, no payment will be made for accrued vacation. The liability and annual expense for accrued vacation was calculated based on the employees pay rate times the accrued vacation plus applicable employee benefits as of the end of the fiscal year.

Compensatory Time

Non-exempt employees may accrue compensatory time in lieu of being paid overtime compensation upon approval by the Manager. Compensatory time is overtime and requires the same management approvals. Non-exempt employees may be eligible to bank overtime for later use as compensatory time off at a rate of 1½ hours time worked.

Compensatory time is limited based on the operations needs of the division. The actual overtime worked must be banked in a minimum of ½ hour increments. The maximum accrual per division is listed below:

Maximum Accruals:

General and Administration Employees – 40 actual hours = 60 compensatory time hours
Woodlands Employees – 20 actual hours = 30 compensatory time hours
Lake Conroe Employees – 40 actual hours = 60 compensatory time hours
Highlands Employees – 120 actual hours = 180 compensatory time hours

Compensatory time may be used for personal leaves of absences that regular sick and/or vacation would not cover. Reasonable notice is required to use compensatory time. Requests for use of compensatory time will be granted provided that operational needs are not compromised.

Payment of Compensatory Time

All employees who are reclassified from a non-exempt position to an exempt position will be paid all accrued compensatory time upon approval of the reclassification and will cease to be eligible for any additional overtime and/or compensatory time. Likewise, an

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

employee who is promoted, transferred or demoted to another non-exempt position will be paid in full for any compensatory time accrued before the promotion or demotion becomes effective. Upon leaving employment with the Authority, a non-exempt employee will be paid for unused compensatory time at the employee's current hourly rate.

Sick Leave

The Authority provides paid sick leave benefits to all eligible employees for periods of temporary absence due to illness, injuries or scheduled medical appointments.

Accrual: Sick leave will accrue at the rate of one-day (8 hours) per month. No more than 36 days of accrued sick leave may be carried forward from one fiscal year to the next. Balances in excess of 36 days will be canceled on September 1 of each year.

Retirement: When an employee retires, the employee will be paid for one-half of the unused sick leave balance or 18 days, whichever is less. The definition of retirement is based on the definition of retirement established by the SJRA's Pension Plan.

Based on the experience of the Authority, employees who have attained the age of 55 with 10 years of service are considered likely to remain employed by the Authority until the normal retirement at age 65. The liability and annual expense for sick leave pay was calculated based on the available sick leave time balances up to the 18 day maximum for employees who are likely to be eligible for the benefit times the pay rate plus applicable employee benefits as of the end of the fiscal year.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The following table shows the beginning liability balances, current year's expense and ending liability balance for each category of compensated absences:

	<u>Sept. 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Aug. 31, 2011</u>
Lake Conroe Vacation	\$ 17,223	\$ 395	\$	\$ 17,618
Highlands Vacation	15,121		2,687	12,434
General & Admin Vacation	70,681	29,877	1,186	99,372
Woodlands Vacation	74,097	17,730		91,827
GRP Vacation	12,470	964		13,434
Vacation Total	<u>189,592</u>	<u>48,966</u>	<u>3,873</u>	<u>234,685</u>
Lake Conroe Sick Leave				
Highlands Sick Leave	7,573		7,573	
General & Admin Sick Leave	29,362	275		29,637
Woodlands Sick Leave	21,571	1,531		23,102
GRP Sick Leave	11,814		1,435	10,379
Sick Leave Total	<u>70,320</u>	<u>1,806</u>	<u>9,008</u>	<u>63,118</u>
Lake Conroe Comp Time	2,404		1,933	471
Highlands Comp Time	6,583	4,358		10,941
General & Admin Comp Time	3,096	664		3,760
Woodlands Comp Time				
GRP Comp Time		259		259
Compensatory Time Total	<u>12,083</u>	<u>5,281</u>	<u>1,933</u>	<u>15,431</u>
Total	<u>\$ 271,995</u>	<u>\$ 56,053</u>	<u>\$ 14,814</u>	<u>\$ 313,234</u>

The current year expense and ending fiscal year 2011 liability for compensatory time is calculated based on the total employee hours accrued times the fiscal year 2011 pay rate plus applicable employee benefits.

NOTE 15 – SUBSEQUENT EVENT

Special Project Revenue Bonds (GRP), Series 2011A

On December 14, 2011, the Authority closed on \$67,470,000 Special Project Revenue Bonds (GRP), Series 2011A for the Surface Water Program through the Texas Water Development Board (TWBD). These funds will be utilized to construct a surface water treatment plant and transmission system for the Authority's groundwater reduction plan participants. This project is necessary to meet the regulatory requirements of the Lone Star Groundwater Conservation District.

REQUIRED SUPPLEMENTARY INFORMATION

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, 2011

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>
10/31/2005	\$ 267,348	\$ 328,222	122.8 %
10/31/2006	325,357	365,215	112.3
10/31/2007	337,523	372,478	110.4
10/31/2008	397,109	437,482	110.2
10/31/2009	551,847	572,069	103.7
10/31/2010	562,406	583,621	103.8

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>
11/1/2005	\$ 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
11/1/2009	6,632,221	6,903,154	270,933	96.1	4,129,705	6.6
11/1/2010	7,225,943	7,432,242	206,299	97.2	4,728,214	4.4

Note: This schedule reflects the plan's fiscal year.

SAN JACINTO RIVER AUTHORITY

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

Year Ended August 31, 2011

Three Year Trend Information

Schedule of Contributions From the Employer

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
8/31/2009	\$ 316,787	14.0%	\$272,343
8/31/2010	340,400	13.6%	566,630
8/31/2011	181,001	23.0%	706,328

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 %
8/31/2010	0	3,282,370	3,282,370	0.0	469,053	699.8
9/1/2010*	0	1,892,176	1,892,176	0.0	463,099	408.6

The Authority has implemented GASB Statement No. 45 for the year ended August 31, 2009.

- * The Alternative Method was used for the fiscal years ending August 31, 2009 and 2010. A full actuarial valuation was performed for the fiscal year ending August 31, 2011 and the valuation date was changed to the first day of the fiscal year.

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OTHER SUPPLEMENTARY INFORMATION

SAN JACINTO RIVER AUTHORITY

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

For the Year Ended August 31, 2011

	<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	\$ 21,373,552	\$ 21,373,552	\$ 25,988,716	\$ 4,615,164
Total Revenues	21,373,552	21,373,552	25,988,716	4,615,164
<u>Operating Expenses</u>				
Current:				
Salaries and wages	3,439,122	3,439,122	3,309,400	129,722
Employee insurance and other payroll benefits	1,676,029	1,676,029	1,436,113	239,916
Outside services employed	2,129,869	2,129,869	1,447,485	682,384
Operating supplies and expenses	7,100,141	7,100,141	8,493,600	(1,393,459)
Rentals	62,396	62,396	69,027	(6,631)
Maintenance, repairs and parts	4,857,407	4,857,407	3,725,462	1,131,945
General and administrative	513,090	513,090	467,087	46,003
Asset Purchases	372,500	372,500		372,500
Total Expenditures	20,150,554	20,150,554	18,948,174	1,202,380
Operating Net Income (Loss)	1,222,998	1,222,998	7,040,542	5,817,544
<u>Nonoperating Revenues</u>				
Interest income	3,160	3,160	36,900	33,740
Other	30,000	30,000	13,162	(16,838)
Total Nonoperating Revenues	33,160	33,160	50,062	16,902
Change in Net Assets	\$ 1,256,158	\$ 1,256,158	\$ 7,090,604	\$ 5,834,446

NOTE TO OTHER 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 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 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 schedule.

SAN JACINTO RIVER AUTHORITY

SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL - GENERAL AND ADMINISTRATION, HIGHLANDS AND LAKE CONROE DIVISIONS AND REGION H

For the Year Ended August 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<u>Operating Revenues</u>				
Water revenues	\$ 11,237,793	\$ 11,237,793	\$ 9,458,910	\$ (1,778,883)
Permits, licenses and fees	615,000	615,000	763,503	148,503
Water planning study	98,789	98,789	141,878	43,089
Total Revenues	<u>11,951,582</u>	<u>11,951,582</u>	<u>10,364,291</u>	<u>(1,587,291)</u>
<u>Operating Expenses</u>				
Current:				
Salaries and wages	1,542,762	1,542,762	1,531,181	11,581
Employee insurance and other payroll benefits	771,670	771,670	717,475	54,195
Outside services employed	827,128	827,128	511,384	315,744
Operating supplies and expenses	692,033	692,033	413,494	278,539
Rentals	91,177	91,177	29,378	61,799
Maintenance, repairs and parts	659,059	659,059	325,852	333,207
Water planning study expenses	98,789	98,789	157,071	(58,282)
General and administrative	1,267,540	1,267,540	1,750,274	(482,734)
Depreciation	472,205	472,205	878,126	(405,921)
Total Expenditures	<u>6,422,363</u>	<u>6,422,363</u>	<u>6,314,235</u>	<u>108,128</u>
Operating Net Income	5,529,219	5,529,219	4,050,056	(1,479,163)
<u>Nonoperating Revenues (Expenses)</u>				
Interest income	24,000	24,000	160,966	136,966
Interest expense on bonds	(1,913,447)	(1,913,447)	(1,818,228)	95,219
Other	24,000	24,000	110,715	86,715
Total Nonoperating Revenues (Expenses)	<u>(1,865,447)</u>	<u>(1,865,447)</u>	<u>(1,546,547)</u>	<u>318,900</u>
Change in Net Assets	<u>\$ 3,663,772</u>	<u>\$ 3,663,772</u>	<u>\$ 2,503,509</u>	<u>\$ (1,160,263)</u>

NOTE TO OTHER SUPPLEMENTARY INFORMATION

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

SAN JACINTO RIVER AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES -
BUDGET AND ACTUAL
GROUNDWATER REDUCTION PLAN DIVISION
For the Year Ended August 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over</u> <u>(Under)</u>
<u>Operating Revenues</u>				
Water revenues	\$ 8,156,454	\$ 8,156,454	\$ 10,826,665	\$ 2,670,211
Total Revenues	<u>8,156,454</u>	<u>8,156,454</u>	<u>10,826,665</u>	<u>2,670,211</u>
<u>Operating Expenses</u>				
Current:				
Salaries and wages	1,185,735	1,185,735	1,004,680	181,055
Employee insurance and other payroll benefits	428,768	428,768	304,128	124,640
Outside services employed	275,075	275,075	2,413,310	(2,138,235)
Operating supplies and expenses	2,170,083	2,170,083	1,702,712	467,371
Rentals			5,690	(5,690)
Maintenance, repairs and parts	11,000	11,000	20,350	(9,350)
General and administrative	665,676	665,676	549,014	116,662
Total Expenditures	<u>4,736,337</u>	<u>4,736,337</u>	<u>5,999,884</u>	<u>(1,263,547)</u>
Operating Net Income	3,420,117	3,420,117	4,826,781	1,406,664
<u>Nonoperating Revenues (Expenses)</u>				
Interest income	24,000	24,000	197,355	173,355
Interest expense	(31,083)	(31,083)	(1,096,553)	(1,065,470)
Other			(44,774)	(44,774)
Total Nonoperating Revenues (Expenses)	<u>(7,083)</u>	<u>(7,083)</u>	<u>(943,972)</u>	<u>(936,889)</u>
Change in Net Assets	<u>\$ 3,413,034</u>	<u>\$ 3,413,034</u>	<u>\$ 3,882,809</u>	<u>\$ 469,775</u>

SAN JACINTO RIVER AUTHORITY
SCHEDULE OF NET ASSETS
GROUNDWATER REDUCTION PLAN DIVISION

August 31, 2011

Assets

Current Assets

Cash and cash equivalents	
Unrestricted	\$ 11,759,872
Restricted for construction	86,014,381
Accounts receivable and prepaids	1,541,615
Total Current Assets	<u>99,315,868</u>

Noncurrent Assets

Debt issuance costs - net	<u>2,346,475</u>
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Capital Assets - at cost

Land	1,139,941
Furniture and fixtures	93,463
Automobiles and trucks	26,575
Buildings	189,557
Water systems	7,678
Construction in progress	10,257,642
Accumulated Depreciation	<u>(28,880)</u>
Total Capital Assets	<u>11,685,976</u>
Total Noncurrent Assets	<u>14,032,451</u>

Total Assets	<u><u>\$ 113,348,319</u></u>
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Liabilities

Current Liabilities

Accounts payable and accrued liabilities - unrestricted	\$ 6,717,402
Restricted for debt service - accrued interest payable	961,181
Restricted for construction - retainage payable	766
Total Current Liabilities	<u>7,679,349</u>

Noncurrent Liabilities

First lien water revenue bonds - less current maturities	<u>104,655,000</u>
Total Noncurrent Liabilities	<u>104,655,000</u>
Total Liabilities	<u>112,334,349</u>

Net Assets

Net Assets

Invested in capital assets - net of related debt	(6,955,409)
Unrestricted	7,969,379
Total Net Assets	<u><u>\$ 1,013,970</u></u>

SAN JACINTO RIVER AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES
GROUNDWATER REDUCTION PLAN DIVISION

For the Year Ended August 31, 2011

Operating Revenues

Water revenues	\$ 10,826,665
Total Revenues	10,826,665

Operating Expenses

Current:

Salaries and wages	1,004,680
Employee insurance and other payroll benefits	304,128
Outside services employed	2,413,310
Operating supplies and expenses	1,702,712
Rentals	5,690
Maintenance, repairs and parts	20,350
General and administrative expenses	549,014
Depreciation	27,299
Total Expenditures	6,027,183

Operating Net Income (Loss) 4,799,482

Nonoperating Revenues (Expenses)

Interest income	197,355
Amortization of debt issuance costs	(44,940)
Interest expense on bonds	(1,096,553)
Other	166
Total Nonoperating Revenues (Expenses)	(943,972)

Income (Loss) Before Operating Transfers 3,855,510

Transfers 15,574

Change in Net Assets 3,871,084

Net Assets at Beginning of Year (2,857,114)

Net Assets at End of Year \$ 1,013,970

SAN JACINTO RIVER AUTHORITY
SCHEDULE OF CASH FLOWS
GROUNDWATER REDUCTION PLAN DIVISION

For the Year Ended August 31, 2011

Cash Flows from Operating Activities	
Cash received from customers	\$ 10,380,160
Cash payments to suppliers for goods and services	(1,896,702)
Cash paid for employee services	(1,308,808)
Net Cash Provided by Operating Activities	<u>7,174,650</u>
Cash Flows from Capital and Related Financing Activities	
Principal payments on notes	(947,767)
Interest paid on bonds	(2,057,734)
Proceeds from bond sales	83,155,000
Bond issue expenses	(1,934,269)
Transfers	15,574
Acquisition of capital assets	(6,372,349)
Net Cash Provided by Capital and Related Financing Activities	<u>71,858,455</u>
Cash Flows from Investing Activities	
Interest earned	197,355
Net Cash Flows Provided by Investing Activities	<u>197,355</u>
Net Increase in Cash and Cash Equivalents	79,230,460
Cash and equivalents at beginning of year	<u>18,543,793</u>
Cash and Equivalents at End of Year	<u>\$ 97,774,253</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 4,799,482
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Other revenues	166
Depreciation	27,299
(Increase) in receivables	(446,671)
(Increase) in prepaids	(5,468)
Increase in accounts payable and accrued liabilities	2,799,842
Total Adjustments	<u>2,375,168</u>
Net Cash Provided by Operating Activities	<u>\$ 7,174,650</u>

SAN JACINTO RIVER AUTHORITY

LAKE CONROE DAM, RESERVOIR AND RELATED EQUIPMENT

August 31, 2011

Dam and Appurtenances:

Dam and appurtenances - joint	\$ 16,533,352
Dam and appurtenances - San Jacinto River Authority	1,169,194
Total Dam and Appurtenances	<u>17,702,546</u>

Buildings and Residences:

Office building - joint	188,957
Warehouse building - joint	31,342
Residences - joint	190,356
Boat house - joint	100,380
Storage building - San Jacinto River Authority	23,404
Total Buildings and Residences	<u>534,439</u>

Equipment:

Construction and maintenance equipment - joint	170,569
Transportation equipment - joint	328,832
Office furniture and fixtures - joint	27,957
Computer software - joint	144,530
Computer hardware - joint	56,092
Telephone system - joint	40,838
Laboratory equipment - joint	62,034
Miscellaneous equipment - joint	101,557
Construction and maintenance equipment - San Jacinto River Authority	45,919
Total Equipment	<u>978,328</u>

Land:

Land easements and improvements - joint	7,570,340
Land acquisition and administration - joint	5,863,771
Ayer Island improvements - joint	49,508
Land easements - Newton Park	312,928
Water supply well rehabilitation - joint	20,241
Lake Conroe land - site prep - SJRA	28,379
Land acquisition and administration - San Jacinto River Authority	580,032
Total Land	<u>14,425,199</u>

Total Lake Conroe Dam, Reservoir and Related Equipment 33,640,512

Less City of Houston Contribution (20,908,812)

San Jacinto River Authority's Interest in Lake Conroe Dam, Reservoir and Related Equipment 12,731,700

Less Accumulated Depreciation on San Jacinto River Authority's Interest in Assets (3,044,200)

Net Interest in Lake Conroe Dam, Reservoir and Related Equipment \$ 9,687,500

SAN JACINTO RIVER AUTHORITY

INSURANCE COVERAGE

August 31, 2011

<u>Types of Coverages</u>	<u>Amount of Coverage</u>	<u>Insurer</u>	<u>Coverage to</u>
Property Coverages			
Buildings	\$ 118,647,072	TWCA Risk Management Fund	7/1/2012
Contents	\$ 5,297,924	TWCA Risk Management Fund	7/1/2012
EDP Equipment	\$ 574,784	TWCA Risk Management Fund	7/1/2012
Mobile Equipment/Contractors Equip	\$ 1,752,578	TWCA Risk Management Fund	7/1/2012
Miscellaneous Property & Equipment	\$ 173,376	TWCA Risk Management Fund	7/1/2012
Rented Equipment	\$ 200,000	TWCA Risk Management Fund	7/1/2012
Total Property Coverages;	<u>\$ 126,645,734</u>		
Boiler and Machinery:	\$ 46,978,486	TWCA Risk Management Fund	7/1/2012
Automobile:			
Bodily injury and property damage	Combined limit \$ 1,000,000	TWCA Risk Management Fund	7/1/2012
Excess auto liability	\$ 5,000,000	TWCA Risk Management Fund	7/1/2012
Physical damage	Actual cash value	TWCA Risk Management Fund	7/1/2012
General Liability	\$ 1,000,000	TWCA Risk Management Fund	7/1/2012
	per occurrence		
Excess General Liability	\$ 5,000,000	TWCA Risk Management Fund	7/1/2012
Public Officials:			
Errors and omissions	\$ 1,000,000	TWCA Risk Management Fund	7/1/2012
Excess errors and omissions	\$ 4,000,000	TWCA Risk Management Fund	7/1/2012
Workers' Compensation	Statutory	TWCA Risk Management Fund	7/1/2012

The Authority has reviewed the current limits for its Automobile, General Liability, and Errors and Omissions coverages and determined that the current limits are within the range recommended by the Authority's underwriter and the amounts typically carried by other river authorities and water districts.

SAN JACINTO RIVER AUTHORITY

PRINCIPAL OFFICIALS

August 31, 2011

Directors

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

Joseph V. Turner, Vice President
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Mary L. Rummell, Secretary
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Joseph L. Stunja, Treasurer
P.O. Box 329
Conroe, Texas 77305-0329

Fredrick Koetting, Member
P.O. Box 329
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R. Gary Montgomery, Member
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David C. Kleimann, Member
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Reed Eichelberger, General Manager
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Michael Jackson, Controller
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Ron Kelling, Deputy General Manager, Operations
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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>
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Financial Trends	64-67
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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	68-70
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These schedules contain information to help the reader assess the Authority's most significant local revenue source, the water and sewer service.

Debt Capacity	71-73
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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	74-76
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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	78-81
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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 Nine Fiscal Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Business-type activities			
Invested in capital assets-net of related debt	\$ 65,310,123	\$ 48,547,804	\$ 50,362,973
Restricted	4,019,668	19,894,387	31,273,497
Unrestricted	15,112,280	14,332,693	15,446,458
Total business-type activities net assets	<u>\$ 84,442,071</u>	<u>\$ 82,774,884</u>	<u>\$ 97,082,928</u>
Primary government			
Invested in capital assets-net of related debt	\$ 65,310,123	\$ 48,547,804	\$ 50,362,973
Restricted	4,019,668	19,894,387	31,273,497
Unrestricted	15,112,280	14,332,693	15,446,458
Total primary government net assets	<u>\$ 84,442,071</u>	<u>\$ 82,774,884</u>	<u>\$ 97,082,928</u>

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

Fiscal Year

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 60,374,586	\$ 65,772,745	\$ 65,030,432	\$ 71,921,272	\$ 39,210,018	\$ 93,493,165
22,324,988	18,254,369	34,936,170	28,654,942	65,464,657	7,778,815
17,451,681	16,039,280	18,156,477	23,616,921	21,068,435	36,370,470
<u>\$ 100,151,255</u>	<u>\$ 100,066,394</u>	<u>\$ 118,123,079</u>	<u>\$ 124,193,135</u>	<u>\$ 125,743,110</u>	<u>\$ 137,642,450</u>
\$ 60,374,586	\$ 65,772,745	\$ 65,030,432	\$ 71,921,272	\$ 39,210,018	\$ 93,493,165
22,324,988	18,254,369	34,936,170	28,654,942	65,464,657	7,778,815
17,451,681	16,039,280	18,156,477	23,616,921	21,068,435	36,370,470
<u>\$ 100,151,255</u>	<u>\$ 100,066,394</u>	<u>\$ 118,123,079</u>	<u>\$ 124,193,135</u>	<u>\$ 125,743,110</u>	<u>\$ 137,642,450</u>

SAN JACINTO RIVER AUTHORITY

CHANGES IN NET ASSETS

Last Nine Fiscal Years

	2003	2004	2005
Expenses			
Business-type activities:			
Salaries and wages	\$ 2,280,689	\$ 2,276,993	\$ 2,365,528
Employee insurance and other payroll benefits	1,039,212	1,056,883	1,166,323
Outside services employed	1,322,733	1,438,566	1,410,829
Operating supplies and expenses	2,489,217	2,923,444	3,355,259
Rentals	24,074	42,515	18,895
Maintenance, repairs and parts	2,223,585	2,069,226	1,867,411
Water planning study expenses	340,232	419,037	505,656
General and administrative expenses	717,041	712,106	677,448
Depreciation	3,691,444	3,971,573	4,241,197
Total business-type activities expenses	<u>14,128,227</u>	<u>14,910,343</u>	<u>15,608,546</u>
Total primary government expenses	<u>\$ 14,128,227</u>	<u>\$ 14,910,343</u>	<u>\$ 15,608,546</u>
Program Revenues:			
Business-type activities			
Water sales:			
Industrial	\$ 3,950,633	\$ 3,997,431	\$ 4,061,681
Irrigation	13,200	14,800	18,249
Water and sewer service fees	8,524,518	7,880,999	9,574,736
Permits, licenses, and fees	169,136	252,942	140,832
Capacity charges	4,011,418	4,252,382	4,171,424
Water planning study	340,232	420,802	505,656
Total business-type activities revenues	<u>17,009,137</u>	<u>16,819,356</u>	<u>18,472,578</u>
Total primary government revenues	<u>\$ 17,009,137</u>	<u>\$ 16,819,356</u>	<u>\$ 18,472,578</u>
Net (Expenses) Revenue			
Business-type activities			
Interest income	\$ 638,911	\$ 367,633	\$ 924,941
Gain (Loss) on disposal of capital assets	(434,576)	(109,568)	6,500
Oil and gas royalty income	67,231	52,551	57,689
Other revenues	5,502	4,699	3,584
FEMA Grant			
Other expenses			
Amortization of debt issuance costs	(106,704)	(486,268)	(736,681)
Interest expense on bonds	(4,298,316)	(3,990,520)	(3,445,937)
Total business-type activities	<u>(4,127,952)</u>	<u>(4,161,473)</u>	<u>(3,189,904)</u>
Total primary government	<u>\$ (4,127,952)</u>	<u>\$ (4,161,473)</u>	<u>\$ (3,189,904)</u>
General Revenues and Other Change in Net Assets			
Business-type activities:			
Capital Contributions	\$ 1,403,036	\$ 585,273	\$ 14,633,916
Total business-type activities	<u>1,403,036</u>	<u>585,273</u>	<u>14,633,916</u>
Total primary government	<u>\$ 1,403,036</u>	<u>\$ 585,273</u>	<u>\$ 14,633,916</u>
Change in Net Assets			
Business-type activities	<u>155,994</u>	<u>(1,667,187)</u>	<u>14,308,044</u>
Total primary government	<u>\$ 155,994</u>	<u>\$ (1,667,187)</u>	<u>\$ 14,308,044</u>

Note: The requirement for statistical data is ten years; only nine years are available at this time.
The Authority does not currently have any governmental activities.

Fiscal Year

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 2,537,539	\$ 2,974,694	\$ 3,609,239	\$ 4,213,962	\$ 4,610,165	\$ 6,702,971
1,352,771	1,777,904	1,802,280	2,057,484	2,316,454	2,783,051
1,318,626	1,981,899	2,785,842	3,279,261	2,718,636	5,053,638
4,238,291	3,871,080	4,717,992	4,499,020	5,437,305	7,595,490
18,677	32,509	48,714	111,362	147,150	124,643
2,966,070	2,495,369	3,456,995	4,174,346	2,446,618	4,133,285
389,211	75,104	125,700	356,123	1,026,692	157,071
643,248	830,749	949,078	1,370,683	1,971,681	
4,501,769	4,619,949	5,747,453	5,219,499	5,823,940	6,330,205
<u>17,966,202</u>	<u>18,659,257</u>	<u>23,243,293</u>	<u>25,281,740</u>	<u>26,498,641</u>	<u>32,880,354</u>
<u>\$ 17,966,202</u>	<u>\$ 18,659,257</u>	<u>\$ 23,243,293</u>	<u>\$ 25,281,740</u>	<u>\$ 26,498,641</u>	<u>\$ 32,880,354</u>
\$ 3,973,539	\$ 6,020,521	\$ 7,660,698	\$ 8,264,471	\$ 8,862,294	\$ 9,037,794
25,752	28,147	40,013	58,291	76,369	134,341
11,488,378	8,558,969	13,514,338	16,270,637	15,253,398	33,257,666
157,742	791,295	858,733	682,043	578,560	763,503
4,202,855	4,212,228	5,149,975	5,522,353	5,205,756	5,466,830
389,211	82,726	575,909	464,449	1,088,622	141,878
<u>20,237,477</u>	<u>19,693,886</u>	<u>27,799,666</u>	<u>31,262,244</u>	<u>31,064,999</u>	<u>48,802,012</u>
<u>\$ 20,237,477</u>	<u>\$ 19,693,886</u>	<u>\$ 27,799,666</u>	<u>\$ 31,262,244</u>	<u>\$ 31,064,999</u>	<u>\$ 48,802,012</u>
\$ 1,666,911	\$ 1,874,487	\$ 1,549,570	\$ 482,664	\$ 229,489	\$ 287,860
10,826	7,716	11,706	22,746	161,336	47,542
82,420	35,714	51,268	32,820	12,635	7,920
57,313	43,313	185,648	74,016	1,932	6,305
1,262,964	408,965		1,910,083		
		(17,800)			(119,476)
(663,089)	(631,922)	(641,709)	(646,329)	(683,725)	(728,548)
<u>(3,445,006)</u>	<u>(3,344,542)</u>	<u>(3,814,792)</u>	<u>(3,875,334)</u>	<u>(3,527,175)</u>	<u>(5,367,553)</u>
<u>(1,027,661)</u>	<u>(1,606,269)</u>	<u>(2,676,109)</u>	<u>(1,999,334)</u>	<u>(3,805,508)</u>	<u>(5,865,950)</u>
<u>\$ (1,027,661)</u>	<u>\$ (1,606,269)</u>	<u>\$ (2,676,109)</u>	<u>\$ (1,999,334)</u>	<u>\$ (3,805,508)</u>	<u>\$ (5,865,950)</u>
\$ 1,824,713	\$ 486,779	\$ 16,176,421	\$ 2,088,886	\$ 789,125	\$ 1,843,632
<u>1,824,713</u>	<u>486,779</u>	<u>16,176,421</u>	<u>2,088,886</u>	<u>789,125</u>	<u>1,843,632</u>
<u>\$ 1,824,713</u>	<u>\$ 486,779</u>	<u>\$ 16,176,421</u>	<u>\$ 2,088,886</u>	<u>\$ 789,125</u>	<u>\$ 1,843,632</u>
<u>3,068,327</u>	<u>(84,861)</u>	<u>18,056,685</u>	<u>6,070,056</u>	<u>1,549,975</u>	<u>11,899,340</u>
<u>\$ 3,068,327</u>	<u>\$ (84,861)</u>	<u>\$ 18,056,685</u>	<u>\$ 6,070,056</u>	<u>\$ 1,549,975</u>	<u>\$ 11,899,340</u>

SAN JACINTO RIVER AUTHORITY

WATER AND SEWER SERVICE FEES BY SOURCE

Last Nine Fiscal Years

<u>Fiscal Year</u>	<u>Water and Sewer Fees</u>			<u>Total Water Direct Rate</u>	<u>Total WasteWater Direct Rate (1)</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>		
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
2010	7,068,137	7,497,114	14,565,251	1.26	1.63
2011	10,227,673	12,286,754	22,514,427	1.40	1.99

(1) Direct Rate based on per thousand gallons

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

SAN JACINTO RIVER AUTHORITY

PRINCIPAL WATER AND SEWER FEES PAYERS

August 31, 2011

<u>Customer</u>	<u>2011</u>			<u>2004</u>		
	<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	\$ 1,153,160	8	5%	\$ 573,356	8	7%
MUD 7	1,913,709	6	8%	916,643	4	10%
MUD 36	1,066,172	9	4%	524,871	9	6%
MUD 39	965,122	10	4%	275,116	10	3%
MUD 40	1,556,085	7	6%	739,882	7	8%
MUD 46	5,680,517	1	24%	922,735	3	10%
MUD 47	4,690,465	2	19%	2,119,350	1	24%
MUD 60	3,078,934	3	13%	1,113,070	2	13%
MUD 67	2,034,900	4	8%	819,927	5	9%
Metro MUD	1,977,606	5	8%	786,167	6	9%

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

SAN JACINTO RIVER AUTHORITY

LIST OF PRINCIPAL CUSTOMERS

August 31, 2011

General and Administration Division

ExxonMobil
Chevron Chemical Company
Amoco Chemical Corporation
Entergy
Grassland Operating Co
Murff Turf Farms
Vernon Walton
Occidental Chemical Corp
Newport Municipal Utility District
LCY Elastomers, LP

Woodlands Division

Municipal Utility District 2
Municipal Utility District 6
Municipal Utility District 7
Municipal Utility District 36
Municipal Utility District 39
Municipal Utility District 40
Municipal Utility District 46
Municipal Utility District 47
Municipal Utility District 60
Municipal Utility District 67
Municipal Utility District 386
Metro Municipal Utility District

Lake Conroe Division

Bentwater Yacht & Country Club
Walden on Lake Conroe

Groundwater Reduction Plan Division

City of Conroe
SJRA - Woodlands Division
Rayford Road Municipal Utility District
Montgomery County Municipal Utility District 89
New Caney Municipal Utility District
Montgomery County Municipal Utility District 83
Southern Mont. Co. Municipal Utility District
MSEC Enterprises
Quadvest, LP

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 Nine Fiscal Years

Fiscal Year	Business-Type Activities			Total Primary Government	Percentage of Revenue (1)	Debt per Population (2)
	Water Revenue Bonds	Special Project Revenue Bond	Loans			
2003	\$ 23,055,000	\$ 51,930,000	\$	74,985,000	449.85%	\$ 113
2004	22,600,000	50,555,000		73,155,000	446.11%	110
2005	62,400,000	13,695,000		76,095,000	423.53%	115
2006	61,470,000	12,550,000		74,020,000	372.93%	112
2007	60,110,000	11,350,000		71,460,000	364.38%	108
2008	58,355,000	24,860,000		83,215,000	305.67%	125
2009	56,540,000	23,550,000		80,090,000	260.05%	121
2010 (3)	86,240,000	36,860,000	1,947,767	125,047,767	417.02%	188
2011 (3)	84,910,000	118,625,000	3,926,810	207,461,810	426.35%	313

(1) Based on operating revenues.

(2) See the Schedule of Demographic Statistics on page 74.

(3) Increases are reflective of the Groundwater Reduction Plan bond issuances.

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

Details regarding the Authority's outstanding debt can be found in the notes to the financial statements.

SAN JACINTO RIVER AUTHORITY

PLEDGE - REVENUE COVERAGE

Last Eight Fiscal Years

Fiscal Year	Water Revenue Bonds						Cover Ratio
	Revenue	Less Operating Expenses	Net Available for Debt Service	Debt Service			
				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	
2010	10,595,845	5,585,308	5,010,537	815,000	969,101	2.81	
2011	8,448,902	2,809,489	5,639,413	195,000	1,189,324	4.07	

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

Special Revenue Bonds						
Revenue	Less Operating Expenses	Net Available for Debt Service	Debt Service		Cover 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	4,206,490	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	5,518,628	2,350,000	3,171,379	1.00	
5,205,756	19,638	5,186,118	2,655,000	2,807,120	0.95	
5,466,830	8,150	5,458,680	2,525,000	2,578,229	1.07	

SAN JACINTO RIVER AUTHORITY

DISTRICT DEMOGRAPHICS

The 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. The SJRA's service area includes ten counties and more than 30 cities and communities. This geographic diversity in turn provides economic diversity with a combination of agriculture, oil and gas, high tech and industry.

The 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 recreational 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 within SJRA's ten counties.

<u>County/City</u>	<u>Population</u>
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

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

<u>County/City</u>	<u>Educational Attainment</u>	
	<u>High School</u>	<u>College</u>
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

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

<u>County/City</u>	<u>Median Age</u>
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

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

<u>County/City</u>	<u>Per Capita Income (\$)</u>
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

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

<u>County/City</u>	<u>Unemployment Rate</u>
Barrett	8.3%
Baytown	7.9%
Crosby	6.3%
Grimes	6.2%
Highlands	6.4%
Liberty	9.0%
Montgomery	5.1%
San Jacinto	6.6%
Waller	6.4%
Walker	5.7%

Source US Census Bureau, Census 2000

The 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

<u>Division</u>	<u>Number of Full-Time</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Highlands	9	7	7	6	7
Lake Conroe	6	7	7	7	7
Woodlands	40	37	35	37	38
General & Administration	7	8	8	8	9
Groundwater Reduction Plan					
Total	62	59	57	58	61

Note: Full-time employees

**Positions
Equivalent**

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
6	6	6	6	7
8	9	9	11	13
40	43	44	45	45
11	13	17	27	48
			1	4
65	71	76	90	117

SAN JACINTO RIVER AUTHORITY

OPERATING STATISTICS

Last Ten Calendar Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>General and Administration, Lake Conroe and Highlands Divisions</u>					
Water Delivered (Thousand Gallons)	33,921,089	27,735,785	24,874,814	29,486,257	22,379,447
Water Rights (See detail below)	3	3	4	5	5

Woodlands Division

Water Average Pumpage (Thousand Gallons)	4,948,191	5,075,982	4,663,533	5,578,435	6,238,117
Wastewater Average Flow (Thousand Gallons per Day)	6,630	6,689	6,852	7,107	7,253
Water Permits	1	1	1	1	1
Wastewater Permits	3	3	3	3	3
Storm Water Permits		2	2	2	2

Water Rights Permitted at End of Year

<u>Source</u>	<u>Water Right Permit Number</u>	<u>Permitted Amount (afpy)</u>
Lake Conroe	COA 10-4963	33,333
Lake Houston - Run of River	COA 10-4964	55,000
Lake Houston - Effluent Woodlands WWTP's	Permit 5809	14,944
Lake Houston - Additional Storage	Permit 5807	14,100
Lake Houston - Additional Run of River	Permit 5808	40,000
Trinity River - Devers	Permit 5271	56,000
Trinity River - CLCND	COA 08-4279	30,000

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
24,192,482	24,583,503	23,474,958	22,956,529	21,951,139
5	5	7	7	7
5,083,736	6,333,984	6,832,883	5,789,840	7,674,492
7,682	7,624	7,756	7,643	7,557
1	1	1	1	1
3	3	3	3	3
2	2	2	2	2

SAN JACINTO RIVER AUTHORITY

SCHEDULE OF CAPITAL ASSET ADDITIONS

Last Nine Fiscal Years

	2003	2004	2005	2006
General and Administration and Highlands Divisions				
Land	\$	\$	\$	\$
Water permits and rights	8,109,069	316,439	79,824	85,669
Construction in progress	449,473			87,918
Furniture, fixtures & equip		7,843		23,805
Other machinery & equip	22,290	80,067	11,515	11,369
Automobiles and trucks	25,926		51,519	93,107
Buildings		39,279	25,822	
Water systems		586,269		
Lake Conroe Division				
Land				
Construction in progress	28,130	208,903	29,146	
Furniture, fixtures & equip				2,785
Other machinery & equip		7,330		2,388
Automobiles and trucks	19,683	8,285	8,100	6,457
Buildings				
Dams and appurtenances	15,901	21,497	270,070	2,199
Water systems				
Woodlands Division				
Land	34,520	265,004	43,085	5,000
Construction in progress	6,428,763	5,204,917	1,294,339	3,097,327
Furniture, fixtures & equip		25,136	10,065	24,797
Other machinery & equip	5,979		16,549	8,850
Automobiles and trucks	53,128	79,389	19,115	118,370
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
Wastewater utility systems	2,836,980	21,098	10,369,113	8,248,477
Capital Improvement Plans		49,505		
Groundwater Reduction Plan Division				
Land				
Construction in Progress				
Furniture, fixtures and equipment				
Other machinery & equip				
Automobiles and trucks				
Water systems				
Total Capital Assets	<u>\$ 20,260,333</u>	<u>\$ 7,981,990</u>	<u>\$ 16,347,663</u>	<u>\$ 13,241,413</u>

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 nine years are available at this time.

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$	\$	\$	\$	\$ 31,415
35,235	50,330	42,536	4,737	5,194
879,998	35,412	1,240,832	5,303,395	7,743,714
		59,880	3,761	888,915
46,316	5,034	162,469	128,081	102,666
52,373	49,568	35,845	55,566	102,171
22,535	11,971		3,025	5,215,813
913,252		395,987	716,658	3,308,871
				28,372
11,966	15,397	69,895	74,266	63,589
4,470		3,851	1,254	75,846
11,133	17,447	18,446	55,156	10,774
	8,741		8,459	22,799
2,320		23,933	6,936	46,370
2,613		17,676	7,528	5,711
				6,747
29,840		42,394	25,364	31
6,626,492	16,958,077	7,348,205	5,670,466	6,398,484
	7,313	88,005	81,356	77,986
36,657	12,043	46,909	20,822	91,258
42,131	129,846	287,450	313,628	
			13,293	79,829
3,457,408	787,524	21,084,196	2,665,510	4,854,789
446,691	8,586,424	613,969	2,716,115	542,695
			1,139,941	
			2,265,204	10,163,648
			15,000	78,463
				189,557
				26,575
				7,678
<u>\$ 12,621,430</u>	<u>\$ 26,675,127</u>	<u>\$ 31,582,478</u>	<u>\$ 21,295,521</u>	<u>\$ 40,169,960</u>