



SAN JACINTO RIVER AUTHORITY
COMPREHENSIVE ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR ENDED
AUGUST 31, 2016

Prepared by the Accounting Department
Montgomery County, Texas



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

December 16, 2016

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, 2016. The purpose of the CAFR is to provide reliable financial information about the SJRA to the SJRA's Board of Directors, customers, general public, and other interested parties. The SJRA'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 the CAFR, based upon a comprehensive framework of internal controls that are established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective of such internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

An independent auditor, Knox Cox & Co, L.L.P., Certified Public Accountants, has issued an unmodified ("clean") opinion on the SJRA's financial statements for the year ended August 31, 2016. The independent auditor's report is located at the front of the financial section of the 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 geographical area consists of all of Montgomery County and parts of Waller, Grimes, Walker, San Jacinto, Liberty, and Fort Bend counties.

LAKE CONROE DIVISION
P.O. Box 329
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

The SJRA is governed by a board of seven directors appointed to six-year staggered 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 wastewater treatment; municipal, industrial and agricultural raw water supply; water quality management and reservoir operations. These operations are accounted for in the division descriptions below.

The **General & 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's primary function is to provide management and support services to the SJRA's four operating divisions (listed below).

The **Highlands Division** is located in East Harris County and operates a pump station at Lake Houston: Raw water from Lake Houston is diverted into the SJRA's extensive 27-mile system of canals and a 1,400 acre reservoir for delivery to industrial, municipal, and agricultural customers. The Highlands Division operates a pump station to transfer raw water from the Trinity River via the Coastal Water Authority to the Highland Division's East Canal. The Highlands System also includes a pump station to transfer raw water from the Trinity River via the Coastal Water Authority (CWA) to the Highlands Division's South Canal.

The **Lake Conroe Division** is situated seven miles west of Interstate 45 at the Lake Conroe dam. The SJRA supplies raw water from Lake Conroe, which was built as a water supply reservoir and completed in 1973. The lake is exclusively operated by the SJRA; however, the City of Houston owns two-thirds of the permitted water rights in the reservoir and participates in two-thirds of the Lake Conroe costs. In addition to operating and maintaining the dam, this Division handles the licensing, regulation, and enforcement functions related to onsite sewage facilities immediately around Lake Conroe, boat sanitation, piers, boat slips, boathouses, marinas, and other facilities operated or constructed around or on Lake Conroe. The Lake Conroe Division collects fees associated with these permits and licenses.

The **Woodlands Division** is located in southern Montgomery County and provides wholesale water supply and wastewater treatment services to the 112,505 person community of The Woodlands (The Woodlands Development Corporation data as of January 2016). To provide these services, the SJRA operates wastewater treatment plants, lift stations, water wells, water plants, water booster pump stations, elevated and ground storage tanks, and miles of wastewater conveyance and water transmission facilities. The Woodlands Division purchases surface water from the Groundwater Reduction Plan (GRP) Division to blend with groundwater provided by the water wells.

The **Groundwater Reduction Plan (GRP) Division**, with its office located at the Lake Conroe dam, is responsible for implementing an alternative water supply program

for its participants that meets the groundwater reduction requirements of the Lone Star Groundwater Conservation District (LSGCD) and ensure reliable, long-term water supplies for its participants in Montgomery County. The GRP Division designed, constructed, operates, maintains, and administers a surface water treatment plant and transmission lines. The GRP Division withdraws raw surface water from Lake Conroe, treats it to meet or exceed drinking water standards, and then transmit it to selected customer cities and water utilities within Montgomery County.

ECONOMIC CONDITION AND OUTLOOK

The Texas Economy. According to the Texas Comptroller of Public Accounts Key Economic Indicators as of October 2016: Unemployment Rate for Texas was 4.7% while the U.S. was 4.9%; Measures of Inflation CPI change from previous year for Texas was 1.9% while the U.S. was 1.6%; and Consumer Confidence Index for Texas was 14.9% while the U.S. was 15.7%. The Comptroller issued the "Regional Snapshot: Gulf Coast Region" showing population growth to be 26% in the Region vs. 20% for Texas and 9% for the U.S. for 2004-2014. Also in the Regional Snapshot was Per Capita Personal Income Growth to be 49% for the Region vs. 47% for Texas and 34% for the U.S. for 2004-2014.

The Local Economy. The SJRA's boundaries include the entire watershed of the San Jacinto River and its tributaries excluding Harris County. The SJRA serves many customers in the greater 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. Continued population growth within SJRA's service area will necessitate the demand for water. With the SJRA's service area located between Houston and Dallas, two rapidly growing major metropolitan areas, the need for future water supplies and reliable planning is vital, 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 assurance, 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 (MD&A) also included herein, the SJRA continues to meet its responsibility for sound financial management. The SJRA encourages readers to closely review each section of this report including the 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 2016 included planning for adequate, long-term 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 watershed protections plans.

A major initiative in Fiscal Year 2016 was the continued implementation of critical facility rehabilitation to the SJRA's raw water delivery system in the Highlands as primarily financed by low interest bonds from the Texas Water Development Board. This multi-year project includes removal and replacement of numerous siphons, construction of a new East Canal pumping station, canal improvements, rehabilitation of the existing Lake Houston Pump Station and installation of additional flow measuring equipment. This program will increase the capabilities and reliability of the delivery system. In addition to critical facility rehabilitation, the SJRA completed a comprehensive hydraulic and facilities assessment of the Highlands system to determine hydraulic capacities and identify additional repair and improvement needs.

During Fiscal Year 2016, the new Groundwater Reduction Plan (GRP) facilities started delivery of surface water through over 50 miles of transmission lines, surface water receiving facilities, and a standpipe to GRP's selected customers. Another major initiative was the continued financing and construction activities for the GRP program. SJRA had completed the financing for the GRP Phase 1 by the end of Fiscal Year 2016.

For the Future. In November 2009, the LSGCD adopted final regulations that required certain groundwater users to prepare and submit a Groundwater Reduction Plan by April 1, 2010, outlining how large volume groundwater users intended to meet a January 2016 deadline for the reduction of groundwater use and conversion to alternative water supplies. The SJRA met this regulatory requirement with the development of a long-term approach that will provide a compliance solution for participants within 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 GRP Pumpage Fee and GRP Surface Water Fees monthly. For fiscal year 2016, the GRP Pumpage Fee was set at \$2.32 per thousand gallons of groundwater pumped by the participating entity and is

billed monthly. The GRP Surface Water Fee was set at \$2.51 per thousand gallons of surface water received by the participating entity. It is anticipated that these fees will increase in the future if costs are incurred for planning and implementation of future phases as needed and operation, maintenance and repair of the necessary infrastructure to continue to deliver surface water and contributions to reserves. SJRA Board approved the Fiscal Year 2016 rates based on the most recent rate studies suggesting that the GRP Pumpage Fee would be \$2.32 per thousand gallons for groundwater users and \$2.51 per thousand gallons for surface water users for fiscal year 2016. The total cost of the entire surface water system that was constructed to meet the 2016 deadline was \$490 million. As of the end of the 2016 fiscal year, 150 participants have joined the SJRA GRP represent approximately 80 percent of the water use in Montgomery County. The GRP Division was responsible for implementing the surface water program. The GRP was responsible for constructing, operating, and maintaining the necessary infrastructure that started delivering surface water in mid-September 2015, ahead of the January 1, 2016 deadline.

The Woodlands' aging Wastewater System is in need of rehabilitation. The Municipal Utility Districts (MUD) agreed to an estimated \$40 million bond sale to be sold in 2017 to address major rehabilitation needs in addition to continued annual rehabilitation of the system.

The Highlands Division initiatives will include rehabilitation and raising of canal segments and will include rehabilitation of the South Canal Pump Station along with the SCADA system.

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 Knox Cox & Co., LLP was selected to conduct the FY2016 financial audit. 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, and Texas Water Development Board.

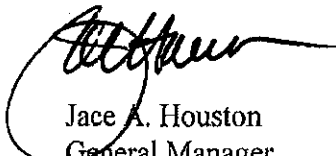
Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the SJRA for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended August 31, 2015. This was the seventh consecutive year that the SJRA has achieved this prestigious award. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government entity and its management.

In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized CAFR, whose contents conform to

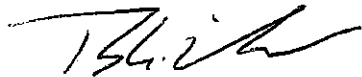
program standards. Such a CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for a certificate for Fiscal Year 2016.

Acknowledgements. 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 customers 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.

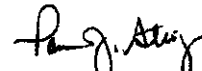
Sincerely,



Jace A. Houston
General Manager



Tom Michel
Director of Financial and
Administrative Services



Pam J. Steiger, CPA
Controller

SAN JACINTO RIVER AUTHORITY
Certificate of Achievement for Excellence in Financial
Reporting



Government Finance Officers Association

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

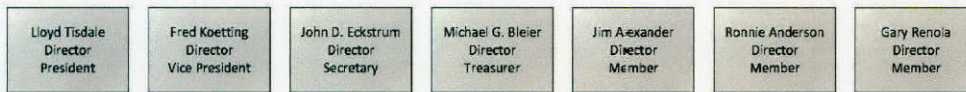
August 31, 2015

Executive Director/CEO

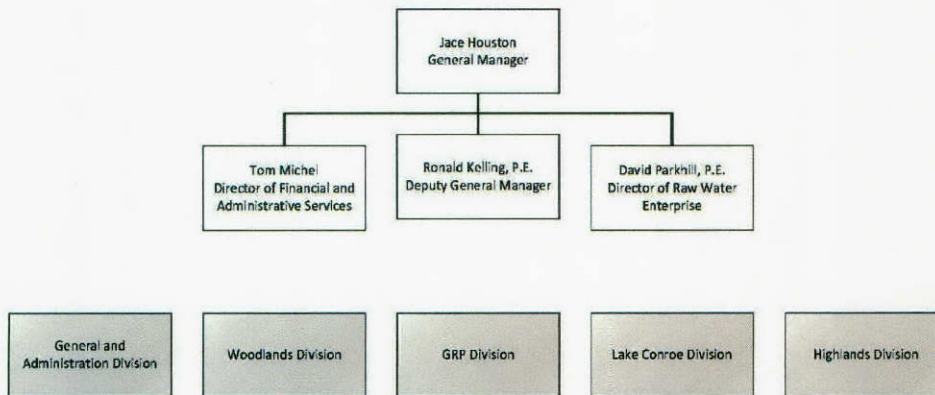
SAN JACINTO RIVER AUTHORITY

Organizational Chart

BOARD OF DIRECTORS



SENIOR MANAGEMENT TEAM



SAN JACINTO RIVER AUTHORITY

Board of Directors

	<u>Term Expires</u>
Lloyd B. Tisdale, President	2019
Fredrick Koetting, Vice President	2021
John Eckstrum, Secretary	2017
Michael G. Bleier, Treasurer	2019
Gary Renola, Member	2017
Ronnie Anderson, Member	2021
Jim Alexander, Member	2019

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, and may continue to serve after such term until a successor is appointed.

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FINANCIAL SECTION



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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, 2016, and the related notes to the financial statements, which collectively comprise the San Jacinto River Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the San Jacinto River Authority, as of August 31, 2016, and the respective changes in financial position and cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

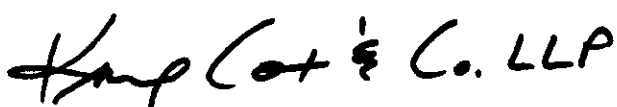
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 5-12 and 60-64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Jacinto River Authority's basic financial statements. The introductory section, other supplementary information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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.



Sugar Land, Texas
December 16, 2016

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 fiscal year ended August 31, 2016. 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 \$832.9 million; of this amount, approximately \$678.5 million represents net capital assets and \$137.0 million represents cash and cash equivalents under current, noncurrent and deferred assets.
- Liabilities for the Authority totaled \$664.3 million of which \$622.8 million accounts for obligations under long-term debt.
- The Authority's total assets exceeded liabilities by approximately \$169.9 million. This amount represents net position; of this amount, \$76.5 million is net investment in capital assets. An additional \$54.9 million is restricted net position and the remaining \$38.5 million represents unrestricted net position.
- Operating revenues for the Authority at year-end were \$87.0 million. The major revenue sources were water and wastewater treatment service fees to Woodlands' MUDs of \$40.1 million; Groundwater Reduction Plan fees of \$30.8 million; untreated water sales to industrial, municipal and agricultural customers of \$13.1 million; and capacity charges of \$3.8 million.
- Operating expenses totaled \$61.6 million. Highlights within operating expenses were salaries, wages and employee benefits of \$16.4 million, operating supplies of \$11.3 million and depreciation of \$23.5 million.
- Non-operating expenses exceeded non-operating revenues by approximately \$23.9 million. This was primarily attributable to interest expense paid on bonds that totaled \$24.9 million as of year-end.
- Capital contributions totaled \$1.4 million - contributions from a Highlands Industrial customer, Woodlands MUDs, and a GRP customer.
- Fiscal Year 2016 is the first year of water sales for the GRP water treatment plant.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management 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:

- Raw Water Supply
- Highlands Division
- Lake Conroe Division
- Woodlands Division
- Groundwater Reduction Plan Division
- General and Administration Division
- Bear Branch
- Region H

NOTES TO THE FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION

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

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

- Net Investment in Capital Assets
- Restricted
- Unrestricted

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

FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a financial statement position. In the case of the Authority, assets exceeded liabilities by \$169.9 million at the close of the most recent fiscal year.

As of August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current assets	\$ 152,968,808	\$ 206,275,540
Noncurrent assets	1,418,831	1,891,774
Capital assets	<u>678,545,748</u>	<u>655,147,424</u>
Total Assets	832,933,387	863,314,738
Deferred Outflows of Resources	1,565,044	1,222,439
Liabilities		
Current liabilities	38,248,038	55,035,808
Noncurrent liabilities	<u>626,027,227</u>	<u>642,339,009</u>
Total Liabilities	664,275,265	697,374,817
Deferred Inflows of Resources	310,242	78,805
Net Position		
Net Investment in		
Capital Assets	76,461,833	81,417,800
Restricted:		
Debt service	52,840,875	50,405,307
Other	2,091,130	1,874,409
Unrestricted	<u>38,519,086</u>	<u>33,386,039</u>
Total Net Position	<u>\$ 169,912,924</u>	<u>\$ 167,083,555</u>

- Current assets decreased by \$53.3 million which represents a 26% decrease from the prior year primarily due to a decrease in cash and cash equivalents from spending related to capital assets for the Groundwater Reduction Plan Division's (GRP) construction of water treatment plant and transmission lines and annual debt service payments.
- Noncurrent assets decreased by \$0.5 million, a net 25% decrease due to accrual for Pension Plan and Other Post Employment Benefits increase of \$0.3 million and Prepaid Reservation Fee decrease of \$0.4 million.
- Capital assets increased by \$23.4 million, a 4% increase due to completing aforementioned GRP construction of water treatment plant and transmission lines.
- Total liabilities decreased by \$33.1 million, a 5% decrease from the prior year primarily due to reduction of accounts payable due to less construction and paying down of bonds payable for the Groundwater Reduction Plan Division and Highlands Division.
- Current liabilities decreased by \$16.8 million, a 31% decrease primarily due to construction being completed on new GRP plant and transmission lines.
- Noncurrent liabilities decreased by \$16.3 million, a 3% increase primarily due to reducing debt service.

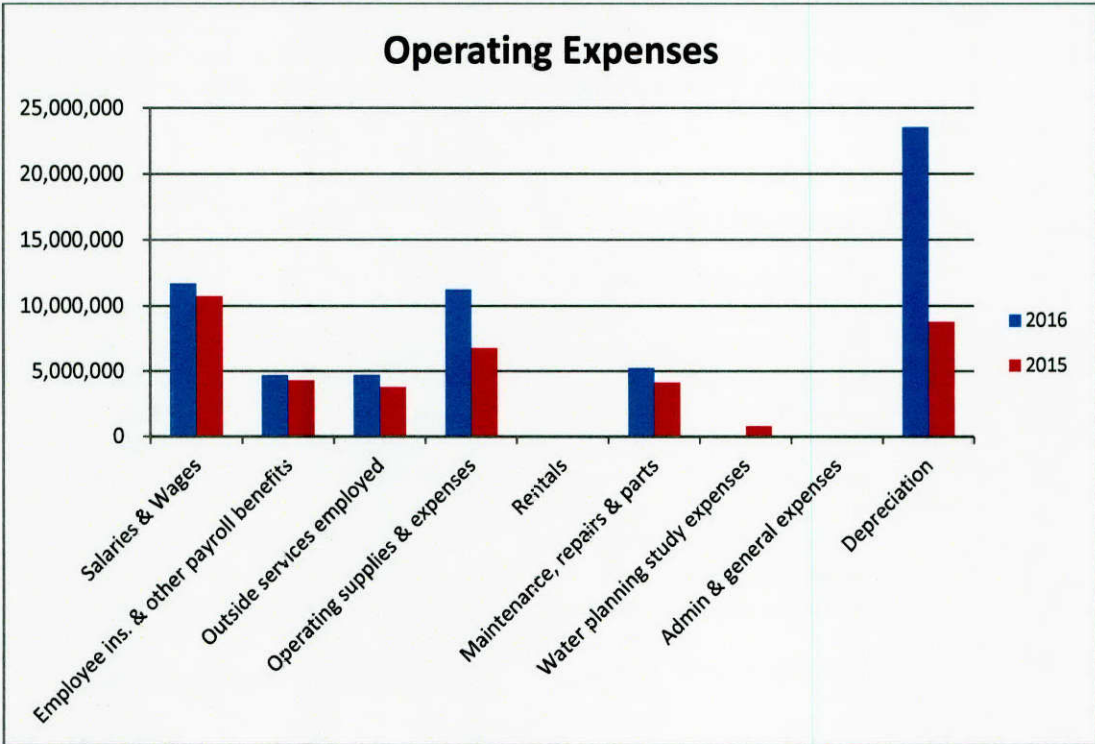
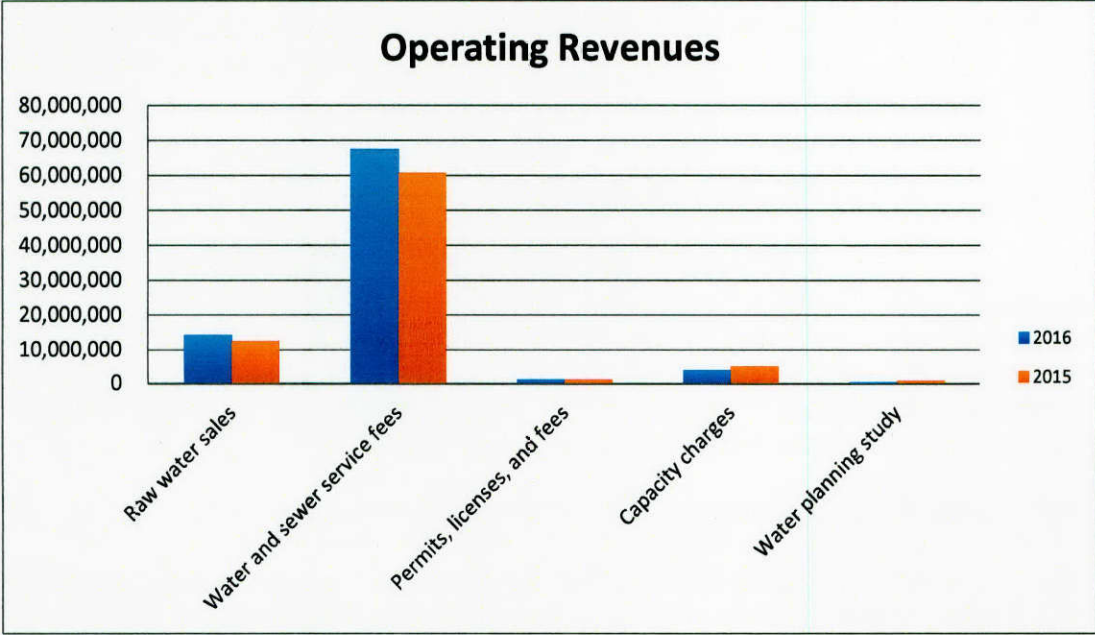
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

For the Years Ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Raw water sales	\$ 14,248,674	\$ 12,407,829
Water and sewer service fees	67,391,878	60,607,860
Permits, licenses and fees	1,125,274	1,131,372
Capacity charges	3,834,462	5,022,163
Water planning study (Region H)	359,554	759,984
Total Operating Revenues	<u>86,959,842</u>	<u>79,929,208</u>
Operating Expenses:		
Salaries and wages	11,724,348	10,720,810
Employee insurance and other payroll benefits	4,715,723	4,255,143
Outside services employed	5,042,298	3,759,083
Operating supplies & expenses	11,252,100	6,754,835
Rentals	85,327	69,320
Maintenance, repairs and parts	5,279,400	4,113,761
Water planning study expenses (Region H)	17,877	802,042
Depreciation	23,527,194	8,753,185
Total Operating Expenses	<u>61,644,267</u>	<u>39,228,179</u>
Operating Income	25,315,575	40,701,029
Nonoperating Revenues (Expenses)	(23,894,425)	(25,459,607)
Contributed Capital	<u>1,408,219</u>	<u>4,030,000</u>
Net Income	2,829,369	19,271,422
Net position at beginning of year	<u>167,083,555</u>	<u>147,812,133</u>
Net Position at End of Year	<u>\$ 169,912,924</u>	<u>\$ 167,083,555</u>

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



- Salaries and wages increased by \$1.0 million, a 9% increase from the prior year which was due to less vacancies of budgeted positions within the Divisions.
- Operating supplies and expenses increased by \$4.5 million, an increase of 67% due to the start-up of the GRP water treatment plant.
- Depreciation expense increased by \$14.8 million, an increase of 169% from the previous year. The increase was due to the addition of capital assets by purchase/construction of capital assets mostly due to GRP.

CAPITAL ASSETS AND LONG-TERM DEBT

The Authority's net capital assets as of August 31, 2016 totaled \$678.5 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 \$23.4 million, a 4% increase.

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

- The Authority added \$430.9 million for the water treatment facility, transmission lines and buildings of the Groundwater Reduction Plan Division, mostly from construction in progress.
- The Authority added \$1.4 million for the Sjolander siphon in the Highlands.
- The Authority added \$2.7 million in the Woodlands for electrical upgrades to water plant #3 and water wells 23 and 24 along with automation to wastewater treatment plants 2 and 3.

	<u>2016</u>	<u>2015</u>
Capital Assets - at cost		
Land	\$ 13,357,142	\$ 12,893,124
Water permits and rights	30,947,801	30,947,801
Office furniture, fixtures & equip	5,101,567	3,889,381
Other machinery and equipment	3,851,332	3,162,152
Automobiles and trucks	2,664,759	2,520,012
Buildings	26,278,711	12,949,534
Dams and appurtenances	9,648,763	9,648,676
Water systems	564,622,957	143,792,919
Wastewater utility systems	93,896,853	92,236,618
Capital improvement plans	376,882	376,882
Construction in progress	65,736,314	457,476,529
Less accumulated depreciation	<u>(137,937,333)</u>	<u>(114,746,204)</u>
Total Capital Assets	<u>\$ 678,545,748</u>	<u>\$ 655,147,424</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 \$622.8 million. The debt primarily represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

As of August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Long-Term Debt		
First Lien Bonds-		
less current maturities	\$ 616,340,000	\$ 632,385,000
Notes payable less current	2,308,433	2,596,704
Unamortized bond premium	<u>4,151,535</u>	<u>4,360,409</u>
Total Long-Term Debt	<u>\$ 622,799,968</u>	<u>\$ 639,342,113</u>

The Authority's total first lien bonds decreased a net of \$16.0 million from the previous year.

Additional information on the Authority's long-term debt can be found in Notes 5 and 6 to the financial statements.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller of the San Jacinto River Authority; P.O. Box 329; Conroe, Texas 77305.

BASIC FINANCIAL STATEMENTS



SAN JACINTO RIVER AUTHORITY

STATEMENT OF NET POSITION

August 31, 2016

	<u>Business Type Activities -</u>			
	<u>Total</u>	<u>Eliminations</u>	<u>Raw Water Enterprise</u>	
			<u>Raw Water Supply</u>	<u>Highlands Division</u>
<u>Assets and Deferred Outflows</u>				
Current Assets				
Cash and cash equivalents				
Unrestricted	\$ 30,143,446	\$	\$ 15,929,739	\$ 2,322,350
Restricted:				
Debt service	63,457,024		6,563,813	
Construction	41,335,862		22,521,834	
Other	2,135,798			
Accounts receivable	12,457,566	(2,188,452)	2,029,746	330,341
Inventory	117,985			5,896
Prepaid expenses	3,321,127			43,827
Total Current Assets	152,968,808	(2,188,452)	2,029,746	45,395,450
				2,858,303
Noncurrent Assets				
Prepaid reservations fees	1,418,831			
Deferred Outflows of Resources				
Deferred pension related items	1,565,044			
Capital Assets - at cost				
Land	10,860,839			1,643,805
Land Improvements	2,496,303			5,402,312
Water permits and rights	30,947,801		30,947,801	
Furniture, fixtures and equipment	5,101,567		267,749	189,769
Other machinery and equipment	3,851,332		2,117,164	201,409
Automobiles and trucks	2,664,759		225,841	129,505
Buildings	26,278,711		1,612,443	171,166
Dams and appurtenances	9,648,763			7,839,514
Water systems	564,622,957		44,590,519	6,747
Wastewater utility systems	93,896,853			
Capital improvement plans	376,882			
Construction in progress	65,736,314		17,284,515	51,202
Accumulated depreciation	(137,937,333)		(9,813,383)	(3,744,003)
Total Capital Assets	678,545,748		30,947,801	57,928,653
				10,247,621
Total Assets and Deferred Outflows	\$ 834,498,431	\$ (2,188,452)	\$ 32,977,547	\$ 103,324,103
				\$ 13,105,924

See Notes to Financial Statements.

Enterprise Funds

Woodlands Division	Groundwater Reduction Plan Division	Bear Branch	Region H	General and Administration Division
\$ 2,271,515	\$ 5,957,222	\$ 138,614	\$	\$ 3,514,006
3,205,695	53,637,516			
11,053,780	7,750,248			
2,004,031			131,767	
5,191,581	6,274,478			321,936
112,089				
238,576	2,357,097	1,774		641,836
<u>24,077,267</u>	<u>76,046,561</u>	<u>140,388</u>	<u>131,767</u>	<u>4,477,778</u>
	<u>1,418,831</u>			
				<u>1,565,044</u>
1,829,065	1,138,325	847,332		
28,095	2,458,208			
1,030,916	2,323,998			1,289,135
1,182,332	350,427			
1,119,349	448,730			741,334
2,814,140	15,555,138			6,115,824
		1,809,249		
102,146,427	417,700,590			178,674
93,896,853				
376,882				
10,074,883	38,255,371			70,343
<u>(105,011,895)</u>	<u>(16,349,016)</u>	<u>(296,844)</u>		<u>(2,722,192)</u>
<u>109,487,047</u>	<u>461,901,771</u>	<u>2,359,737</u>		<u>5,673,118</u>
<u>\$ 133,564,314</u>	<u>\$ 539,367,163</u>	<u>\$ 2,500,125</u>	<u>\$ 131,767</u>	<u>\$ 11,715,940</u>

SAN JACINTO RIVER AUTHORITY

STATEMENT OF NET POSITION

August 31, 2016

	<u>Total</u>	<u>Eliminations</u>	<u>Business - Type Activities -</u>		
			<u>Raw Water Enterprise</u>		
			<u>Raw Water Supply</u>	<u>Highlands Division</u>	<u>Lake Conroe Division</u>
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities - unrestricted	\$ 6,624,620	\$ (2,188,452)	\$ 41,081	\$ 1,179,920	\$ 260,697
Restricted for Debt service:					
Current portion of bonds	18,350,000		1,235,000	1,925,000	
Current portion of notes	288,568				
Accrued interest payable	10,811,743		195,594	975,882	
Restricted for Construction:					
Accounts payable					
Retainage payable	1,981,241			200,748	
Unearned revenue	191,866		3,900		156,670
Total Current Liabilities	<u>38,248,038</u>	<u>(2,188,452)</u>	<u>1,475,575</u>	<u>4,281,550</u>	<u>417,367</u>
Noncurrent Liabilities					
Net Pension obligation	1,812,720				
Net OPEB obligation	1,414,539			269,994	506,127
Total Noncurrent Liabs	<u>3,227,259</u>			<u>269,994</u>	<u>506,127</u>
Long-Term Debt					
First lien water revenue bonds - less current maturities	620,491,535		11,641,839	61,114,689	
Notes payable less current	2,308,433				
Total Long-Term Debt	<u>622,799,968</u>		<u>11,641,839</u>	<u>61,114,689</u>	
Total Liabilities	<u>664,275,265</u>	<u>(2,188,452)</u>	<u>13,117,414</u>	<u>65,666,233</u>	<u>923,494</u>
Deferred Inflows of Resources					
Differences between projected and actual earnings on pension plan investments	310,242				
Fund Equity					
Net Position					
Net investment in capital assets	76,461,833		18,070,962	17,210,050	10,247,621
Restricted:					
Debt service	52,840,875			5,587,931	
Other	2,091,130				
Unrestricted	38,519,086		1,789,171	14,859,889	1,934,809
Total Net Position	<u>169,912,924</u>		<u>19,860,133</u>	<u>37,657,870</u>	<u>12,182,430</u>
Total Liabilities, Deferred Inflows and Fund Equity	<u>\$ 834,498,431</u>	<u>\$ (2,188,452)</u>	<u>\$ 32,977,547</u>	<u>\$ 103,324,103</u>	<u>\$ 13,105,924</u>

See Notes to Financial Statements.

Enterprise Funds

<u>Woodlands Division</u>	<u>Groundwater Reduction Plan Division</u>	<u>Bear Branch</u>	<u>Region H</u>	<u>General and Administration Division</u>
\$ 3,981,326	\$ 2,733,068	\$ 5,993	\$ 13,372	\$ 597,615
2,165,000	13,025,000			288,568
695,609	8,944,658			
636,362	1,144,131			
			31,296	
<u>7,478,297</u>	<u>25,846,857</u>	<u>5,993</u>	<u>44,668</u>	<u>886,183</u>
				1,812,720
535,612				102,806
<u>535,612</u>				<u>1,915,526</u>
40,038,559	507,696,448			2,308,433
<u>40,038,559</u>	<u>507,696,448</u>			<u>2,308,433</u>
<u>48,052,468</u>	<u>533,543,305</u>	<u>5,993</u>	<u>44,668</u>	<u>5,110,142</u>
				310,242
77,700,906	(52,203,560)	2,359,737		3,076,117
2,510,086	44,742,858			
2,004,031			87,099	
3,296,823	13,284,560	134,395		3,219,439
<u>85,511,846</u>	<u>5,823,858</u>	<u>2,494,132</u>	<u>87,099</u>	<u>6,295,556</u>
<u>\$ 133,564,314</u>	<u>\$ 539,367,163</u>	<u>\$ 2,500,125</u>	<u>\$ 131,767</u>	<u>\$ 11,715,940</u>

SAN JACINTO RIVER AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended August 31, 2016

	Business - Type Activities -			
	Total	Eliminations	Raw Water Enterprise	
			Raw Water Supply	Highlands Division
Operating Revenues:				
Water sales:				
Industrial and Municipal	\$ 12,622,941	\$ (2,152,841)	\$ 14,775,782	\$
Irrigation	139,677		139,677	
Water and sewer service fees	67,391,878	(14,899,500)	338,214	
Permits, licenses and fees	1,125,274			1,125,274
Contractual revenues	1,486,056			1,486,056
Capacity charges	3,834,462			
Water planning grant	359,554			
Total Operating Revenues	86,959,842	(17,052,341)	15,253,673	2,611,330
Operating Expenses:				
Salaries and wages	11,724,348			1,354,376
Employee insurance and other payroll benefits	4,715,723			617,693
Outside services employed	5,042,298	(14,625,157)	379,121	586,575
Operating supplies and expenses	11,252,100	(2,427,184)		218,239
Rentals	85,327	(22,310)		42,108
Maintenance, repairs & parts	5,279,400			337,737
Water planning grant expenses	17,877			
General and admin. expenses allocated				469,415
Depreciation	23,527,194			186,965
Total Operating Expenses	61,644,267	(17,074,651)	379,121	3,813,108
Operating Income (Loss)	25,315,575	22,310	14,874,552	(1,201,778)
Nonoperating Revenues (Expenses)				
Interest income	396,775			106,587
Gain (Loss) on disposal of assets	452,827			103,667
Other revenues	39,697	(22,310)		6,150
Amortization of bond premium or discounts	278,666		32,624	15,561
Bond issuance costs	(108,133)			(923)
Interest expense	(24,954,257)		(472,175)	(2,324,409)
Total Nonoperating Revenues (Expenses)	(23,894,425)	(22,310)	(439,551)	109,817
Income (Loss) Before Contributions and Transfers	1,421,150		14,435,001	(1,091,961)
Transfers			(12,411,484)	787,573
Capital Contributions/(Distributions)	1,408,219			1,000,000
Change in Net Position	2,829,369		2,023,517	(304,388)
Net Position at Beginning of Year	167,083,555		17,836,616	12,486,818
Net Position at End of Year	\$ 169,912,924	\$	\$ 19,860,133	\$ 12,182,430

See Notes to Financial Statements.

Enterprise Funds

Woodlands Division	Groundwater Reduction Plan Division	Bear Branch	Region H	General and Administration Division
\$	\$	\$	\$	\$
36,298,006	45,655,158			
3,834,462			359,554	
<u>40,132,468</u>	<u>45,655,158</u>		<u>359,554</u>	
4,499,294	3,638,892	19,116		642,038
1,877,679	1,354,422	7,505		222,332
15,932,785	1,644,201	22,241	408,681	371,682
3,730,081	8,578,047	3,799		863,955
32,163	4,236	1,750		24,624
4,091,117	358,162	117,516		118,710
			17,877	
739,877	584,825	14,962		(2,349,183)
<u>6,390,119</u>	<u>15,142,402</u>	<u>21,705</u>		<u>303,021</u>
<u>37,293,115</u>	<u>31,305,187</u>	<u>208,594</u>	<u>426,558</u>	<u>197,179</u>
<u>2,839,353</u>	<u>14,349,971</u>	<u>(208,594)</u>	<u>(67,004)</u>	<u>(197,179)</u>
51,893	200,805	422		37,068
58,336	152,607			9,055
15,747	6,294			27,461
225,615	4,866			
	(107,210)			
<u>(725,139)</u>	<u>(21,312,915)</u>			<u>(119,619)</u>
<u>(373,548)</u>	<u>(21,055,553)</u>	<u>422</u>		<u>(46,035)</u>
2,465,805	(6,705,582)	(208,172)	(67,004)	(243,214)
(116,243)	(42,692)	(11,083)	138,497	723,860
<u>179,499</u>	<u>70,541</u>	<u>158,179</u>		
<u>2,529,061</u>	<u>(6,677,733)</u>	<u>(61,076)</u>	<u>71,493</u>	<u>480,646</u>
<u>82,982,785</u>	<u>12,501,591</u>	<u>2,555,208</u>	<u>15,606</u>	<u>5,814,910</u>
<u>\$ 85,511,846</u>	<u>\$ 5,823,858</u>	<u>\$ 2,494,132</u>	<u>\$ 87,099</u>	<u>\$ 6,295,556</u>

SAN JACINTO RIVER AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended August 31, 2016

	Business - Type Activities -				
	Total	Eliminations	Raw Water Enterprise		
			Raw Water Supply	Highlands Division	Lake Conroe Division
Cash Flows from Operating Activities					
Cash received from customers	\$ 87,807,007	\$ (17,052,341)	\$ 14,476,439	\$ (742,939)	\$ 2,620,122
Cash payments to suppliers for goods and services	(38,095,458)	17,074,651	(389,031)	(2,122,906)	(1,829,473)
Cash paid for employee services	(16,325,232)			(2,175,169)	(1,912,916)
Other revenues	39,697	(22,310)		6,355	6,150
Net Cash Provided (Used) by Operating Activities	33,426,014		14,087,408	(5,034,659)	(1,116,117)
Cash Flows from Noncapital Financing Activities					
Transfers			(12,411,484)	10,931,572	787,573
Net Cash Provided (Used) by Noncapital Finance Activities			(12,411,484)	10,931,572	787,573
Cash Flows from Capital and Related Financing Activities					
Principal paid on bonds	(18,355,000)		(1,190,000)	(910,000)	
Principal paid on notes	(273,881)				
Interest paid	(25,532,886)		(485,924)	(1,989,041)	
Proceeds from bond sales	2,305,000				
Bond issue expenses	(108,133)			(923)	
Acquisition of facilities and equipment	(46,863,948)			(12,680,592)	(70,487)
Proceeds from the sale of assets	452,827			129,162	103,667
Capital contributions/(distributions)	1,408,219			1,000,000	
Net Cash Provided (Used) by Capital and Related Financing Activities	(86,967,802)		(1,675,924)	(14,451,394)	33,180

Enterprise Funds

Woodlands Division	Groundwater Reduction Plan Division	Bear Branch	Region H	General and Administration Division
\$ 40,505,783	\$ 45,363,609	\$ (14,962)	\$ 300,080	\$ 2,351,216
(24,836,967)	(23,721,977)	(168,078)	(547,561)	(1,554,116)
(6,314,373)	(4,997,670)	(26,621)		(898,483)
15,747	6,294			27,461
<u>9,370,190</u>	<u>16,650,256</u>	<u>(209,661)</u>	<u>(247,481)</u>	<u>(73,922)</u>
(116,243)	(42,692)	(11,083)	138,497	723,860
<u>(116,243)</u>	<u>(42,692)</u>	<u>(11,083)</u>	<u>138,497</u>	<u>723,860</u>
(3,245,000)	(13,010,000)			(273,881)
(1,723,313)	(21,214,989)			(119,619)
	2,305,000			
	(107,210)			
(8,377,667)	(25,389,565)			(345,637)
58,336	152,607			9,055
179,499	70,541	158,179		
<u>(13,108,145)</u>	<u>(57,193,616)</u>	<u>158,179</u>		<u>(730,082)</u>

SAN JACINTO RIVER AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended August 31, 2016

	Business - Type Activities -				
	Total	Eliminations	Raw Water Enterprise		
			Raw Water Supply	Highlands Division	Lake Conroe Division
Cash Flows from Investing Activities					
Interest earned	396,776			106,587	
Net Cash Provided by Investing Activities	396,776			106,587	
Net Increase (Decrease) in Cash and Cash Equivalents	(53,145,012)			(8,447,894)	(295,364)
Cash and equivalents at beginning of year	190,217,142			53,463,280	2,617,714
Cash and Equivalents at End of Year	<u>\$ 137,072,130</u>	<u>\$</u>	<u>\$</u>	<u>\$ 45,015,386</u>	<u>\$ 2,322,350</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ 25,315,575	\$ 22,310	\$ 14,874,552	\$ (5,096,056)	\$ (1,201,778)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Other revenues and expenses	39,697	(22,310)		6,355	6,150
Depreciation	23,527,194			1,482,982	186,965
(Increase) decrease in receivables	3,124,879	2,188,452	(771,534)	(202,835)	497,174
(increase) decrease in inventory	(66,571)			(484)	
(Increase) decrease in prepaid expenses and deposits	(70,233)			652	(7,348)
Increase (decrease) in net pension liability	65,061				
Increase (decrease) in accounts payable and accrued liabilities	(18,474,460)	(2,188,452)	(9,910)	(1,256,828)	(637,466)
Increase (decrease) in net OPEB obligation	165,302			31,555	59,153
Increase (decrease) in deferred outflows	(342,605)				
Increase (decrease) in deferred inflows	231,437				
Increase (decrease) in unearned revenue	(89,262)		(5,700)		(18,967)
Total Adjustments	<u>8,110,439</u>	<u>(22,310)</u>	<u>(787,144)</u>	<u>61,397</u>	<u>85,661</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 33,426,014</u>	<u>\$</u>	<u>\$ 14,087,408</u>	<u>\$ (5,034,659)</u>	<u>\$ (1,116,117)</u>

See Notes to Financial Statements.

Enterprise Funds

<u>Woodlands Division</u>	<u>Groundwater Reduction Plan Division</u>	<u>Bear Branch</u>	<u>Region H</u>	<u>General and Administration Division</u>
51,893	200,805	423		37,068
51,893	200,805	423		37,068
(3,802,305)	(40,335,247)	(62,142)	(108,984)	(43,076)
22,337,326	107,800,233	200,756	240,751	3,557,082
<u>\$ 18,535,021</u>	<u>\$ 67,414,986</u>	<u>\$ 138,614</u>	<u>\$ 131,767</u>	<u>\$ 3,514,006</u>
\$ 2,839,353	\$ 14,349,971	\$ (208,594)	\$ (67,004)	\$ (197,179)
15,747	6,294			27,461
6,390,119	15,142,402	21,705		303,021
1,118,313	293,276			2,033
(66,087)				
155,342	(152,236)	51		(66,694)
				65,061
(1,140,076)	(12,989,451)	(22,823)	(121,003)	(108,451)
62,600				11,994
				(342,605)
				231,437
(5,121)			(59,474)	
6,530,837	2,300,285	(1,067)	(180,477)	123,257
<u>\$ 9,370,190</u>	<u>\$ 16,650,256</u>	<u>\$ (209,661)</u>	<u>\$ (247,481)</u>	<u>\$ (73,922)</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 cost of providing services to customers on a continuing basis (expenses, including depreciation) 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, debt service 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, Region H and Bear Branch and the time and salary costs are allocated to each division based on time worked. The majority of the growth occurring during and after 2007 (see Number of Employees by Division, pages 88-89) had been directly related to the planning and implementation of a groundwater reduction program in response to regulations adopted by the Lone Star Groundwater Conservation District.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Raw Water Fund ("Raw Water Enterprise")

This Enterprise consists of the Highlands and Lake Conroe Divisions plus revenue and expenses associated with the Authority's overall raw water supply system that are not otherwise divisible between the Highlands Division and the Lake Conroe Division (Raw Water Supply). The Enterprise accounts for the long-term water sale contracts to industrial, agricultural and municipal customers from its raw water supplies. Most of the sales contracts contain provisions for the quantities of water, take or pay whether or not the water is used by the customers. Some of the sales contracts contain options and reservations for the additional purchases of near-term future water supplies by customers. In all such contracts, the Authority has reserved the right from time to time to adjust its rates for the sale and for reservation of raw water.

Highlands Fund ("Highlands Division")

This fund accounts for the long-term water sale commitments to several industrial, agricultural and municipal customers from its water resources in the Reservoir and Canal System located in Highlands, Texas.

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 permitted water rights of Lake Conroe. The Authority, in whom the legal title to the physical properties is vested, owns the remaining one-third of the permitted water rights. The Authority operates Lake Conroe for the benefit of customers it serves and the City of Houston and customers they serve. The operating costs of Lake Conroe are generally 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 \$23,648,799 in Lake Conroe are excluded from the capital asset totals presented.

During the useful life of Lake Conroe, the Authority has been contracted 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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Woodlands Division Fund ("Woodlands Division")

This fund accounts for the water and wastewater treatment plants (Central Plants) and major water production, storage and distribution facilities and wastewater collection and conveyance equipment (Central Lines) located in The Woodlands, Texas. As described below, the Central Plants and Central Lines (collectively, the Central Facilities) are provided to this fund through purchases at actual costs of reserve capacity rights in such Central Facilities by the eleven municipal utility districts located in The Woodlands, Texas. Some of the costs of reserve capacity were reduced by federal grants received by the Authority for the initial cost of construction and expansion of wastewater treatment facilities comprising a part of the Central Facilities. The Woodlands Division participates in the groundwater reduction program administered by the Authority's GRP Division. The pumpage fee and surface water fee income and related payments are reflected in the eliminations column of the financial statements.

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 to and collections from the participating municipal utility districts. The basic agreement with the municipal utility districts provides for water and wastewater service billings based upon the recovery of the actual expenses incurred for the operations, maintenance and contingency reserves for the Central Facilities, exclusive of depreciation of such assets, as well as capacity charges for the purchase of reserved capacity rights. As of August 31, 2016, the following municipal utility districts have purchased reserve capacity in such Central Facilities: Montgomery County Municipal Utility District Nos. 6, 7, 36, 39, 46, 47, 60 and 67, The Woodlands Municipal Utility District No. 1, The Woodlands Metro Center Municipal Utility District and Harris-Montgomery Counties Municipal Utility District No. 386.

In the initial 1975 agreement and supplemental agreements thereto between the Authority and The Woodlands Development Company (Company) including its successors, the Company agreed to advance monies to the Woodlands Division, to the extent that funds were not otherwise available to finance the costs of the expansions to the Central Facilities. Such agreements also stipulate that sums advanced to the Woodlands Division by the Company shall be reimbursed to the Company from capacity charges received from the participating municipal utility districts. Since 1989, the Company has not been called upon to make any advances for such purposes, and substantially all prior advances by the Company have been fully reimbursed. The participating municipal utility districts make payment of capacity charges for purchased reserved capacity rights by contributing their respective pro rata shares of costs, in cash by contributing additional facilities in kind, or by payment of their pro rata shares of the debt services costs on contract revenue bonds issued by the Authority to finance the costs of Central Facilities.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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) 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 surface water treatment and transmission 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 had to 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 GRP 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 from the City's two-thirds share in Lake Conroe. The Authority will pay a reservation fee for water that is reserved from the City 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 and capital expenses for Lake Conroe. The term of the agreement is for 80 years, with a continuation of service upon expiration under similar terms.

Bear Branch Fund ("Bear Branch")

The Authority also owns and maintains the Bear Branch Reservoir System (Bear Branch) which provides elements of a storm water management system within a portion of 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, 2016, contracts have been signed with Montgomery County Municipal Utility Districts Nos. 7, 46, 47, 60 and 67 to purchase their agreed to proportionate share of reserve capacity rights for storm water detention resulting from the construction and maintenance of Bear Branch System.

Region H Fund ("Region H")

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

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 Position.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. 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 and securities per the Authority's Investment Policy.

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, 2016, no allowance for bad debts is recorded.

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 installed cost exceeding \$5,000 and useful life of five 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
Capital improvement plans	20 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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

G. Unamortized Bond Premium or Discount

Included within long-term debt is unamortized bond premium or discount. The bond premiums or discounts 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 December 16, 2016, which is the date the financial statements were available to be issued.

I. Net Position

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

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

A summary of **net investment in capital assets** as of August 31, 2016 follows:

	<u>Capital Assets - Net of Depreciation</u>	<u>Notes and Bonds Payable</u>	<u>Total</u>
General and Administration Division	\$ 5,673,118	\$ (2,597,001)	\$ 3,076,117
Raw Water Supply	30,947,801	(12,876,839)	18,070,962
Highlands Division	80,249,739	(63,039,689)	17,210,050
Lake Conroe Division	10,247,621		10,247,621
Woodlands Division	119,904,465	(42,203,559)	77,700,906
Groundwater Reduction Plan Division	468,517,888	(520,721,448)	(52,203,560)
Bear Branch	2,359,737		2,359,737
Region H			
Total	<u>\$ 717,900,369</u>	<u>\$ (641,438,536)</u>	<u>\$ 76,461,833</u>

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A summary of net position restricted for **debt service** as of August 31, 2016 follows:

	<u>Restricted Cash for Debt Service</u>	<u>Liabilities Payable from Restricted Cash for Debt Service</u>	<u>Total</u>
General and Administration Division	\$	\$	\$
Raw Water Supply			
Highlands Division	6,563,813	(975,882)	5,587,931
Lake Conroe Division			
Woodlands Division	3,205,695	(695,609)	2,510,036
Groundwater Reduction Plan Division	53,687,516	(8,944,658)	44,742,858
Bear Branch			
Region H			
Total	<u>\$ 63,457,024</u>	<u>\$ (10,616,149)</u>	<u>\$ 52,840,875</u>

A summary of net position restricted for **construction** as of August 31, 2016 follows:

	<u>Restricted Cash for Construction</u>	<u>Bonds Payable</u>	<u>Liabilities Payable from Restricted Cash for Construction</u>	<u>Total</u>
General and Administration Division	\$	\$	\$	\$
Raw Water Supply				
Highlands Division	22,521,834	(22,321,086)	(200,748)	-
Lake Conroe Division				
Woodlands Division	11,053,780	(10,417,418)	(636,362)	-
Groundwater Reduction Plan Division	7,760,248	(6,616,117)	(1,144,131)	-
Bear Branch				
Region H				
Total	<u>\$ 41,335,862</u>	<u>\$ (39,354,621)</u>	<u>\$ (1,981,241)</u>	<u>\$ -</u>

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A summary of net position restricted for **other** as of August 31, 2016 follows:

	Contingency Reserve	Grants	Total
General and Administration Division	\$	\$	\$
Raw Water Supply			
Highlands Division			
Lake Conroe Division			
Woodlands Division	2,004,031		2,004,031
Groundwater Reduction Plan Division			
Bear Branch			
Region H		87,099	87,099
Total	\$ 2,004,031	\$ 87,099	\$ 2,091,130

A summary of net position – **unrestricted** as of August 31, 2016 follows:

	Designated				
	Operating Reserve	Contingency	Capital Reserve and Replacement	Undesignated	Total
General & Administration Div.	\$ 740,773	\$ 1,481,547	\$ 927,523	\$ 69,596	\$ 3,219,439
Raw Water Supply				1,789,171	1,789,171
Highlands Division	961,105	1,922,211	4,673,531	7,303,042	14,859,889
Lake Conroe Division	298,228	596,456	1,427,666	(387,541)	1,934,809
Woodlands Division	789,356			2,507,467	3,296,823
Groundwater Reduct. Plan Div.	4,105,060			9,179,500	13,284,560
Bear Branch				134,395	134,395
Region H					
Total	\$ 6,894,522	\$ 4,000,214	\$ 7,028,720	\$ 20,595,630	\$ 38,519,086

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. Marketable securities are held at U.S. Bank and are carried at market value.

	<u>Book Balance</u>	<u>Bank Balance</u>	<u>Insurance & Market Value of Collateral</u>
Collateral held by pledging banks in the Authority's name	\$ 4,354,564	\$ 5,333,086	\$ 16,126,695
Cash equivalents, not requiring pledging by banks, money funds & Pools	<u>132,717,566</u>	<u>131,739,044</u>	N/A
Total Cash and Cash Equivalents	<u>\$ 137,072,130</u>	<u>\$ 137,072,130</u>	

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

Investment Policy

The Authority has adopted a written Public Funds Investment Act 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.

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

The Authority invested in obligations of the U.S. or its agencies as of August 31, 2016.

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 AAAM 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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The Authority has been authorized by the Board of Directors to invest in the Pools. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 79, investment pools use amortized cost (which excludes unrealized gains and losses) to compute share price. An external investment pool qualifies for amortized cost reporting if it transacts with its participants at a stable net asset value per share and meets various portfolio maturity, quality, diversification liquidity and pricing requirements. Investments in pools are deemed to have a weighted average maturity of one day. At August 31, 2016, the Authority participated in TexPool (\$98,082,304) and TexStar (\$4,418,873).

Interest Rate Risk

In accordance with its investment policy, the Authority manages its exposure to declines in fair market values by limiting the weighted average maturity of its investment portfolio to less than two years, in order to meet cash requirements for ongoing operation. The Authority's investments in the state investment pools via TexPool and TexStar were rated AAAM by Standard and Poor's.

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.

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The individual interfund receivables/payables as of August 31, 2016 follow:

	<u>Receivables</u>	<u>Payables</u>
Enterprise Funds:		
General and Administration Division	\$ 315,507	\$ 3,075
Highlands Division	262,217	
Woodlands Division		1,761,422
Groundwater Reduction Plan Division	1,610,728	423,249
Bear Branch		706
	<u>\$ 2,188,452</u>	<u>\$ 2,188,452</u>

Interfund balances and transfers primarily result from payroll transactions with related employee benefits, and GRP pumpage fees and GRP surface water fees. 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 and surface water fees which is sources of revenue to the GRP Division and expenses of the Woodlands Division.

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, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at Aug. 31, 2016</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 10,396,821	\$ 464,361	\$ (343)	\$ 10,860,839
Water permits and rights	30,947,801			30,947,801
Construction in progress	457,476,529	45,370,189	(437,110,404)	65,736,314
Total Capital Assets Not Being Depreciated	<u>498,821,151</u>	<u>45,834,550</u>	<u>(437,110,747)</u>	<u>107,544,954</u>
Capital Assets Being Depreciated:				
Land improvements	2,496,303			2,496,303
Furniture, fixtures and equipment	3,889,381	1,212,186		5,101,567
Other machinery and equipment	3,162,152	858,589	(169,408)	3,851,333
Automobiles and trucks	2,520,012	340,060	(195,313)	2,664,759
Buildings	12,949,534	13,333,800	(4,624)	26,278,710
Dams and appurtenances	9,648,676	87		9,648,763
Water systems	143,792,919	420,830,038		564,622,957
Wastewater utility systems	92,236,618	1,660,235		93,896,853
Capital improvement plans	376,882			376,882
Total Capital Assets Being Depreciated	<u>271,072,477</u>	<u>438,234,995</u>	<u>(369,345)</u>	<u>708,938,127</u>
Less Accumulated Depreciation for:				
Roads	411,789	124,333		536,122
Furniture, fixtures and equipment	2,072,167	810,130		2,882,297
Other machinery and equipment	1,945,996	331,778	(150,250)	2,127,524
Automobiles and trucks	1,937,902	281,922	(185,814)	2,034,010
Buildings	2,338,627	669,973		3,008,600
Dams and appurtenances	3,385,816	135,214		3,521,030
Water systems	50,941,270	18,351,796		69,293,066
Wastewater utility systems	51,475,068	2,822,047		54,297,115
Capital improvement plans	237,569			237,569
Total Accumulated Depreciation	<u>114,746,204</u>	<u>23,527,193</u>	<u>(336,064)</u>	<u>137,937,333</u>
Total Capital Assets Being Depreciated, Net	<u>156,326,273</u>	<u>414,707,802</u>	<u>(33,281)</u>	<u>571,000,794</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 655,147,424</u>	<u>\$ 460,542,352</u>	<u>\$ (437,144,028)</u>	<u>\$ 678,545,748</u>

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – UNAMORTIZED BOND PREMIUM OR DISCOUNT

A summary of changes in the unamortized bond premium or discount follows:

	Original Bond Premium or (Discount)	Balance at Sept. 1, 2015	Current Year Amortization	Balance at Aug. 31, 2016
Raw Water Supply				
Water Revenue Refunding Bonds:				
Series 2010	\$ 421,941	\$ 273,892	\$ 29,610	\$ 244,282
Series 2012	70,827	60,571	3,014	57,557
Total Raw Water Supply	<u>492,768</u>	<u>334,463</u>	<u>32,624</u>	<u>301,839</u>
Highlands Division				
Water Revenue Bonds:				
Series 2010	130,316	104,500	5,161	99,339
Series 2013	265,830	242,053	10,459	231,594
Series 2014	(1,348)	(1,303)	(59)	(1,244)
Total Highlands Division	<u>394,798</u>	<u>345,250</u>	<u>15,561</u>	<u>329,689</u>
Total Raw Water Enterprise	<u>887,566</u>	<u>679,713</u>	<u>48,185</u>	<u>631,528</u>
Woodlands Division				
Special Project Revenue Bonds:				
Series 2007	(144,350)	(5,115)	(5,115)	
Special Project Revenue Refunding Bonds:				
Series 2010	103,982	19,650	15,997	3,653
Series 2010	252,508	125,289	24,025	101,264
Series 2014	1,183,116	1,110,030	61,461	1,048,569
Series 2014	2,488,017	2,334,320	129,247	2,205,073
Total Woodlands Division	<u>3,883,273</u>	<u>3,584,174</u>	<u>225,615</u>	<u>3,358,559</u>
GRP Division				
Special Project Revenue Bonds:				
Series 2011	114,995	96,526	4,423	92,103
Series 2016	69,788		443	69,345
Total GRP Division	<u>184,783</u>	<u>96,526</u>	<u>4,866</u>	<u>161,448</u>
Totals	<u>\$ 4,955,622</u>	<u>\$ 4,360,413</u>	<u>\$ 278,666</u>	<u>\$ 4,151,535</u>

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – LONG-TERM DEBT

A summary of changes in bonds payable follows:

	<u>Interest Rates</u>	<u>Original Issuance</u>	<u>Balance at Sept. 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at Aug. 31, 2016</u>	<u>Due Within One Year</u>
Raw Water Supply							
Water Revenue Refunding Bonds:							
Series 2010	3.00-4.25%	14,000,000	\$ 10,570,000	\$	\$ 920,000	\$ 9,650,000	\$ 955,000
Series 2012	2.00-3.00%	3,710,000	3,195,000		270,000	2,925,000	280,000
Total Raw Water Supply			<u>13,765,000</u>		<u>1,190,000</u>	<u>12,575,000</u>	<u>1,235,000</u>
Highlands Division							
Water Revenue Bonds:							
Series 2010	3.00-4.38%	25,380,000	22,705,000		730,000	21,975,000	755,000
Series 2013	2.00-5.00%	6,730,000	6,555,000		180,000	6,375,000	180,000
Series 2014	2.00-3.50%	5,360,000	5,360,000			5,360,000	155,000
Series 2015	0.89-4.28%	29,000,000	29,000,000			29,000,000	835,000
Total Highlands Division			<u>63,620,000</u>		<u>910,000</u>	<u>62,710,000</u>	<u>1,925,000</u>
Total Raw Water Enterprise			<u>77,385,000</u>		<u>2,100,000</u>	<u>75,285,000</u>	<u>3,160,000</u>
Woodlands Division							
Special Project Revenue Bonds:							
Series 2007	5.25-5.50%	14,435,000	800,000		390,000	410,000	410,000
Special Project Revenue Refunding Bonds:							
Series 2010	4.00-5.00%	4,440,000	2,860,000		430,000	2,430,000	445,000
Series 2010	4.00-4.00%	2,365,000	845,000		415,000	430,000	430,000
Series 2014	2.00-5.00%	11,355,000	11,230,000		1,225,000	10,005,000	70,000
Series 2014	3.00-5.00%	26,700,000	26,355,000		785,000	25,570,000	810,000
Total Woodlands Division			<u>42,090,000</u>		<u>3,245,000</u>	<u>38,845,000</u>	<u>2,165,000</u>
Groundwater Reduction Plan Division							
Special Project Revenue Bonds:							
Series 2009	0.85-2.66%	21,500,000	21,500,000			21,500,000	
Series 2011	3.00-5.25%	33,155,000	81,120,000		2,095,000	79,025,000	2,170,000
Series 2011A	1.47-4.97%	67,470,000	63,360,000		2,105,000	61,255,000	2,145,000
Series 2012	1.47-4.62%	175,000,000	165,375,000		4,920,000	160,455,000	5,005,000
Series 2012A	1.67-4.62%	165,000,000	160,995,000		2,950,000	158,045,000	2,680,000
Series 2013	0.53-4.76%	39,850,000	38,915,000		940,000	37,975,000	950,000
Series 2016	2.00-4.00%	2,305,000		2,305,000		2,305,000	75,000
Total Groundwater Reduction Plan Division			<u>531,265,000</u>	<u>2,305,000</u>	<u>13,010,000</u>	<u>520,560,000</u>	<u>13,025,000</u>
Total Bonds Payable			<u>\$ 650,740,000</u>	<u>\$ 2,305,000</u>	<u>\$ 18,355,000</u>	<u>\$ 634,690,000</u>	<u>\$ 18,350,000</u>

Of the \$634,690,000 of bonds payable, \$616,340,000 is considered long-term and \$18,350,000 is considered current.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The Water Revenue Bonds within Raw Water Enterprise 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.

The GRP Division Special Project Revenue Bond resolutions require that the gross revenues of the GRP, 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 Special Project Revenue Bonds in such fiscal year.
- Debt Service Reserve Fund – On a monthly basis, in equal monthly installments, an amount 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 Special Project Revenue Bonds at the time of such computation.

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 on a monthly basis in an amount not less than one-twelfth of the scheduled amount of principal and interest to become due on the outstanding Special Project Revenue Bonds in such fiscal year.

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

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>
Raw Water Enterprise			
2017	\$ 3,160,000	\$ 2,757,432	\$ 5,917,432
2018	3,260,000	2,665,544	5,925,544
2019	3,365,000	2,567,877	5,932,877
2020	3,470,000	2,465,528	5,935,528
2021	3,580,000	2,356,879	5,936,879
2022-2026	17,650,000	9,892,907	27,542,907
2027-2031	14,120,000	7,085,748	21,205,748
2032-2036	17,365,000	3,853,197	21,218,197
2037-2040	9,315,000	779,029	10,094,029
	<u>\$ 75,285,000</u>	<u>\$ 34,424,141</u>	<u>\$ 109,709,141</u>
Woodlands Division			
2017	\$ 2,165,000	\$ 1,628,001	\$ 3,793,001
2018	2,270,000	1,549,000	3,819,000
2019	2,335,000	1,476,450	3,811,450
2020	2,410,000	1,390,712	3,800,712
2021	2,490,000	1,299,394	3,789,394
2022-2026	11,015,000	5,179,550	16,194,550
2027-2031	13,760,000	2,264,250	16,024,250
2032-2034	2,400,000	146,400	2,546,400
	<u>\$ 38,845,000</u>	<u>\$ 14,933,757</u>	<u>\$ 53,778,757</u>
Groundwater Reduction Plan Division			
2017	\$ 13,025,000	\$ 21,337,138	\$ 34,362,138
2018	13,315,000	21,044,819	34,359,819
2019	13,650,000	20,713,575	34,363,575
2020	14,020,000	20,340,105	34,360,105
2021	14,430,000	19,930,199	34,360,199
2022-2026	79,875,000	91,913,886	171,788,886
2027-2031	97,225,000	74,573,405	171,798,405
2032-2035	121,505,000	50,296,343	171,801,343
2037-2041	153,385,000	18,422,966	171,807,966
2042	130,000	2,194	132,194
	<u>\$ 520,560,000</u>	<u>\$ 338,574,630</u>	<u>\$ 859,134,630</u>

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Notes Payable

The General and Administration Division entered into a loan commitment in 2010. The commitment from the bank was 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 and interest on the unpaid balance has been repaid. On June 24, 2014, the Authority refinanced the loan commitment from the bank. The new loan commitment is for \$3,191,758 for a term of 120 months at 4.25%, principal and interest payments of \$32,792 until such time as all principal and interest on the unpaid balance has been repaid. The Authority's balance of the note at August 31, 2016 was \$2,597,001.

Notes payable activity for the year ended August 31, 2016 follows:

Balance at beginning of year	\$ 2,870,882
Additions	
Retirements	<u>(273,881)</u>
Balance at end of year	<u>\$ 2,597,001</u>

Maturities of the loan commitments for the balances outstanding as of August 31, 2016 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General and Administration Division			
2017	\$ 288,568	\$ 104,393	\$ 392,961
2018	301,059	91,864	392,923
2019	314,129	78,791	392,920
2020	327,584	65,152	392,736
2021	342,110	51,394	393,504
2022-2024	<u>1,023,551</u>	<u>46,540</u>	<u>1,070,091</u>
	<u>\$ 2,597,001</u>	<u>\$ 438,134</u>	<u>\$ 3,035,135</u>

NOTE 7 – GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative 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, 2016.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – PENSION PLAN

Statement of Net Position

	<u>October 31, 2014</u>	<u>October 31, 2015</u>
Assets		
Cash and cash equivalents	\$ 1,395,527	\$ 1,598,191
Investments:		
Fixed income	6,725,318	7,210,421
Stocks	2,635,842	3,033,176
Real estate	554,485	643,162
Total Investments	<u>9,915,645</u>	<u>10,886,759</u>
Total Assets	<u>\$ 11,311,172</u>	<u>\$ 12,484,950</u>
Net Position Restricted for Pensions	<u>\$ 11,311,172</u>	<u>\$ 12,484,950</u>

Statement of Changes in Fiduciary Net Position

Additions	
Employer contributions	\$ 1,222,436
Total Contributions	<u>1,222,436</u>
Investment income (loss):	
Net increase in fair value of investments	265,496
Net Investment Income	<u>265,496</u>
Total Additions	<u>1,487,932</u>
Deductions	
Service benefits	306,775
Administrative expenses	7,379
Total Deductions	<u>314,154</u>
Net Increase (Decrease)	1,173,778
Net Position Restricted for Pensions	
Beginning of year (October 31, 2014)	<u>11,311,172</u>
End of Year (October 31, 2015)	<u>\$ 12,484,950</u>

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

Method used to value investments. Investments are reported at fair value.

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the San Jacinto River Authority Pension Plan and additions to/deductions from the San Jacinto River Authority Pension Plan's fiduciary net position have been determined on the same basis as they are reported by the San Jacinto River Authority. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

Plan Administration. 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.

Lincoln National Life and Standard Insurance Co. are the trustees 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 make recommendations regarding modernization, cost-control measures, and long-term strategies for retirement offerings.

Benefits Provided. The Plan is available to all active employees hired before August 1, 2016, 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.

Plan Membership. At November 1, 2014, there were 164 plan members including 121 active members, 22 terminated vested members, and 21 retirees and beneficiaries.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Contributions. 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.

Investments

Investment policy. It is the policy of the Authority's Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Board's adopted asset allocation policy as of August 31, 2016.

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed Income	35%
Domestic Equities	50%
Foreign Equities	10%
Real Estate	<u>5%</u>
Total	100%

Rate of return. For the plan year ended October 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.2%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Calculation of Money-Weighted Rate of Return

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

<u>Interest</u>	<u>Net External Cash Flows</u>	<u>Periods Invested</u>	<u>Period Weight</u>	<u>Net External Cash Flows With</u>
Beginning Value - November 1, 2014	\$ 11,311,172	12.00	1.00	\$ 11,560,266
Monthly Net External Cash Flows:				
November	(26,180)	12.00	1.00	(26,756)
December	(26,180)	11.00	0.92	(26,709)
January	(26,180)	10.00	0.83	(26,657)
February	1,196,257	9.00	0.75	1,215,960
March	(26,180)	8.00	0.67	(26,564)
April	(26,180)	7.00	0.58	(26,512)
May	(26,180)	6.00	0.50	(26,466)
June	(26,180)	5.00	0.42	(26,420)
July	(26,180)	4.00	0.33	(26,368)
August	(26,180)	3.00	0.25	(26,322)
September	(26,180)	2.00	0.17	(26,277)
October	(26,180)	1.00	0.08	<u>(26,225)</u>
Ending Value - October 31, 2015	\$ 12,484,950			<u>\$ 12,484,950</u>
Money-Weighted Rate of Return	2.20%			

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Return on assets. The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation (assuming 30-year annualized return). The capital market assumptions are per Milliman's investment consulting practice as of December 31, 2015.

<u>Asset Class</u>	<u>Index</u>	<u>Target Allocation*</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>
US Core Fixed Income	Barclays Aggregate	15.00%	2.69%
US Intermediate Bonds	Barclays IT Govt/Credit	10.00%	2.23%
US Inflation-Indexed Bonds	Barclays US TIPS	5.00%	1.94%
US High Yield Bonds	BAML High Yield	5.00%	4.55%
US Large Caps	S&P 500	12.00%	5.11%
US Small & Mid Caps	Russell 2500	4.00%	6.11%
US Large Growth	Russell 1000 Growth	8.00%	5.84%
US Large Value	Russell 1000 Value	8.00%	4.98%
US Small Growth	Russell 2000 Growth	4.00%	7.17%
US Small Value	Russell 2000 Value	4.00%	5.61%
US MidCap Growth	Russell MidCap Growth	5.00%	6.53%
US MidCap Value	Russell MidCap Value	5.00%	5.27%
Foreign Developed Equity	MSCI EAFE NR	10.00%	6.04%
US REITs	FTSE NAREIT Equity REIT	5.00%	5.22%
Assumed Inflation - Mean			2.32%
Assumed Inflation - Standard Deviation			1.89%
Portfolio Real Mean Return			4.21%
Portfolio Nominal Mean Deviation			6.53%
Portfolio Standard Deviation			11.59%
Long-Term Expected Rate of Return			6.50%

* As outlined in the Plan's investment policy effective August 31, 2016

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Net Pension Liability

	<u>October 31, 2014</u>	<u>October 31, 2015</u>
Total pension liability	\$ 13,058,831	\$ 14,297,670
Fiduciary net position	11,311,172	12,484,950
Net Pension Liability	\$ 1,747,659	\$ 1,812,720
Fiduciary net position as a % of total pension liability	86.62%	87.32%
Covered payroll	\$ 8,773,266	\$ 9,452,146
Net pension liability as a % of covered payroll	19.92%	19.18%

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date taking into account any significant changes between the valuation date and the fiscal year end as prescribed by GASB 67 and 68.

Discount Rate

	<u>October 31, 2014</u>	<u>October 31, 2015</u>
Discount rate	6.50%	6.50%
Long-term expected rate of return, net of investment expense	6.50%	6.50%
Municipal bond rate	N/A	N/A

Other Key Actuarial Assumptions

	<u>October 31, 2014</u>	<u>October 31, 2015</u>
Valuation date	November 1, 2013	November 1, 2014
Measurement date	October 31, 2014	October 31, 2015
Inflation	2.50%	2.50%
Salary increases including inflation	5.00%	5.00%
Mortality	RP-2000 w/ generational projection per Scale AA	RP-2000 w/ generational projection per Scale AA
Actuarial cost method	Entry Age Normal	Entry Age Normal

Discount rate. The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Authority, calculated using the discount rate of 6.50%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate:

	Current		
	1% Decrease	Discount Rate	1% Increase
	5.50%	6.50%	7.50%
Total pension liability	\$ 16,464,787	\$ 14,297,670	\$ 12,482,955
Fiduciary net position	12,484,950	12,484,950	12,484,950
Net Pension Liability	\$ 3,979,837	\$ 1,812,720	\$ (1,995)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension	Plan Fiduciary	Net Pension
	Liability	Net Pension	Liability
	(a)	(b)	(a)-(b)
Balances as of August 31, 2015	\$ 13,058,831	\$ 11,311,172	\$ 1,747,659
Changes for the year:			
Service cost	1,000,263		1,000,263
Interest on total pension liability	882,137		882,137
Effect of economic/demographic gains or losses	(336,786)		(336,736)
Benefit payments	(306,775)	(306,775)	0
Administrative expenses		(7,379)	7,379
Net investment income		265,496	(265,496)
Employer contributions		1,222,436	(1,222,436)
Balances as of August 31, 2016	\$ 14,297,670	\$ 12,484,950	\$ 1,812,720

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued San Jacinto River Authority financial report (i.e. GASB 67 disclosure requirements).

Pension Expense

Pension Expense	September 01, 2015 to August 31, 2016
Service cost	\$ 1,000,263
Interest on total pension liability	882,137
Administrative expenses	7,379
Expected investment return net of investment expenses	(764,281)
Recognition of economic/demographic gains and losses	(26,544)
Recognition of investment gains and losses	80,056
	<u>\$ 1,179,010</u>

As of August 31, 2016, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Contributions made subsequent to measurement date	\$	\$ 1,225,120
Difference between expected and actual experience	310,242	
Net difference between projected and actual earnings		339,924
Total	<u>\$ 310,242</u>	<u>\$ 1,565,044</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31:	
2017	\$ 53,512
2018	53,512
2019	53,511
2020	73,213
2021	(26,544)
Thereafter*	(177,522)

* Note that additional future deferred inflows and outflows of resources may impact these numbers.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Calculation of the Discount Rate

Depletion Date Projection

In order to determine if the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, we have prepared a depletion date projection using the following techniques and assumptions:

- Current active members contribute the required employee contribution amounts.
- The employer contributes the actuarially determined contribution (ADC) amounts (ADC = \$1,091,804 for plan year beginning November 1, 2014).
- Benefit payments are projected based on the actuarial assumptions and the current plan provisions.
- Members are assumed to receive pay increases, terminate, retire, become disabled, die, and so forth according to the actuarial assumptions used for the November 1, 2014 valuation.
- Terminating and retiring members will not be replaced with new employees.
- Current administrative expenses are assumed to increase by 3.00% per year.
- All cash flows are assumed to occur, on average, halfway through the year.
- The long-term expected rate of return on pension plan investments is 6.50%.
- The tax-exempt, high-quality general obligation municipal bond index rate is N/A.
- The funding policy used to determine actuarially determined contributions does not change.
- The actuarial assumptions do not change.
- The plan provisions do not change except if any material future changes have been agreed upon as of the measurement date.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Table 1: Projection of Contributions

Year	Projected Payroll Current Employees	Projected Payroll Future Employees	Total Employees Payroll	Contributions from Current Employees	Employer Contributions for Current Employees	Contributions from Future Employees*	Total Contributions
1	\$ 8,667,578	\$	\$ 8,667,578	\$	\$ 1,334,296	\$	\$ 1,334,296
2	8,995,568		8,995,568		1,259,907		1,259,907
3	9,283,134		9,283,134		1,244,314		1,244,314
4	9,249,607		9,249,607		1,263,578		1,263,578
5	9,483,404		9,483,404		1,307,539		1,307,539
6	9,877,513		9,877,513		1,291,155		1,291,155
7	9,836,825		9,836,825		1,303,980		1,303,980
8	10,046,934		10,046,934		1,277,257		1,277,257
9	9,892,001		9,892,001		1,248,965		1,248,965
10	9,675,224		9,675,224		1,235,369		1,235,369

Note: Years subsequent to year 10 have been omitted from this table.

* Contributions from future employees that are above service cost and, therefore, can be allocated to payments of benefits of current employees under GASB rules.

Table 2: Projection of Fiduciary Net Position

Year	Projected Beginning Fiduciary Net Position	Projected Total Contributions	Projected Benefit Payments	Projected Administrative Expenses	Projected Investment Earnings	Projected Ending Fiduciary Net Position
1	\$ 12,484,950	\$ 1,334,296	\$ 343,647	\$ 7,600	\$ 843,471	\$ 14,311,470
2	14,311,470	1,259,907	381,527	7,828	958,538	16,140,560
3	16,140,560	1,244,314	449,256	8,063	1,074,714	18,002,269
4	18,002,269	1,263,578	451,853	8,305	1,196,259	20,001,948
5	20,001,948	1,307,539	442,218	8,554	1,327,972	22,186,687
6	22,186,687	1,291,155	540,649	8,811	1,466,240	24,394,622
7	24,394,622	1,303,980	592,027	9,075	1,608,494	26,705,994
8	26,705,994	1,277,257	697,361	9,347	1,754,432	29,030,975
9	29,030,975	1,248,965	915,785	9,627	1,897,529	31,252,057
10	31,252,057	1,235,369	989,702	9,916	2,039,046	33,526,854

Note: Years subsequent to year 10 have been omitted from this table.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Table 3: Actuarial Present Value of Projected Benefit Payments

Year	Projected Beginning Fiduciary Net Position	Projected Benefit Payments	"Funded" Portion of Benefit Payments	"Unfunded" Portion of Benefit Payments	Present Value of "Funded" Benefit Payments*	Present Value of "Unfunded" Benefit Payments**	Present Value of Total Benefit Payments***
1	\$ 12,484,950	\$ 343,647	\$ 343,647	\$	\$ 322,673	\$	\$ 322,673
2	14,311,470	381,527	381,527	\$	336,377	\$	336,377
3	16,140,560	449,256	449,256	\$	371,916	\$	371,916
4	18,002,269	451,853	451,853	\$	351,236	\$	351,236
5	20,001,948	442,218	442,218	\$	322,766	\$	322,766
6	22,186,687	540,649	540,649	\$	370,525	\$	370,525
7	24,394,622	592,027	592,027	\$	380,973	\$	380,973
8	26,705,994	697,361	697,361	\$	421,367	\$	421,367
9	29,030,975	915,785	915,785	\$	519,574	\$	519,574
10	31,252,057	989,702	989,702	\$	527,240	\$	527,240
95	273,434,922						
96	291,081,891						
97	309,872,124						
98	329,879,819						
99	351,183,995						
Total					\$ 25,690,705		\$ 25,690,705

Note: Years 11-94 have been omitted from this table.

* Discounted at the long-term expected rate of return, 6.50%.

** Discounted at the municipal bond rate, N/A.

*** Discounted at the single interest rate that produces a total actuarial present value equal to the sum of the actuarial present values of "funded" and "unfunded" benefit payments, 6.50%.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

The Authority provides other post-employment benefits (OPEB) for supplemental medical insurance coverage for certain retired employees and their dependents and grandfathered active employees. The OPEB plan is a single-employer defined benefit supplemental healthcare plan administered by the Authority. Section 49.069 of the Texas Water Code assigns the responsibility 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, 2016, ten former employees, dependents, and surviving spouses are receiving OPEB healthcare benefits. Five 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 Directors. 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 an estimated \$52,301 for OPEB medical insurance coverage for retired employees covered under the OPEB plan during the fiscal year ending August 31, 2016. After review, the Authority deems no reserve necessary for OPEB healthcare plan.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer. 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, 2013</u>	<u>Sept. 1, 2014</u>	<u>Sept. 1, 2015</u>
Determination of Annual Required Obligation			
Normal Cost at year end	\$ 42,857	\$ 42,857	\$ 42,857
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	124,777	191,481	201,278
Annual Required Contribution (ARC)	<u>\$ 167,634</u>	<u>\$ 234,338</u>	<u>\$ 244,135</u>
Expected Benefit Payments	<u>\$ (49,446)</u>	<u>\$ (51,223)</u>	<u>\$ (52,301)</u>
Determination of Net OPEB Obligation			
Annual required contribution	\$ 167,634	\$ 234,338	\$ 244,135
Interest on prior year Net OPEB Obligation	39,686	43,570	49,969
Adjustment to ARC	<u>(60,757)</u>	<u>(66,704)</u>	<u>(76,501)</u>
Annual OPEB cost (expense)	146,563	211,204	217,603
Contributions made	<u>(49,446)</u>	<u>(51,223)</u>	<u>(52,301)</u>
Increase in net OPEB obligation	97,117	159,981	165,302
Net OPEB obligation - beginning of year	<u>992,139</u>	<u>1,089,256</u>	<u>1,249,237</u>
Net OPEB obligation - end of year	<u>\$ 1,089,256</u>	<u>\$ 1,249,237</u>	<u>\$ 1,414,539</u>

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

Three Year Trend Information

<u>Schedule of Contributions From the Employer</u>			
<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Estimated % of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
8/31/2014	\$ 146,563	34%	\$1,089,256
8/31/2015	211,204	24%	1,249,237
8/31/2016	217,603	24%	1,414,539

<u>Schedule of Funding Progress for the Retiree Healthcare (OPEB) Plan</u>						
<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>
9/1/2013	\$ 0	\$ 2,037,561	\$ 2,037,561	0 %	\$ 336,482	605.5 %
9/1/2014*	0	2,109,673	2,109,673	0	347,971	606.3
9/1/2015*	0	2,185,285	2,185,285	0	352,848	619.3

* A full valuation was not performed for fiscal years ended August 31, 2015 or August 31, 2016. All entries have been derived from the September 1, 2013 valuations.

** Covered payroll estimates based on active participants in the OPEB valuations and compensation provided for the pension valuations.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Funded Status and Funding Progress

As of September 1, 2015, the OPEB plan was 0% funded. The estimated actuarial accrued liability for benefits was \$2,185,285. This value is based on a roll forward of the full valuation performed as of September 1, 2013. The covered payroll (annual payroll of active employees covered by the plan) was \$352,848 and the ratio of the UAAL to the covered payroll was 619.3%. 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. The valuation assumptions include a future inflation rate of 2.50%.

In the September 1, 2013 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 2014 and later.

The annual healthcare cost trend rate was 7.4% for fiscal 2014, 6.0% for fiscal 2015, 6.1% for fiscal 2016, 5.8% for fiscal 2017 and ultimately grade down to 4.5% per year after 2093.

The unfunded actuarial accrued liability is being amortized as a level dollar amount on a 27 year closed basis beginning September 1, 2013.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – MAJOR CUSTOMERS

Industrial and municipal water sales totaling \$13,478,919 were invoiced to the Authority's three largest customers of the Raw Water Supply Division. This accounts for 91% of the Raw Water Supply Division water sales revenues for the year ended August 31, 2016.

Revenues totaling \$1,486,056 accrued from the Authority's primary contractual partner (City of Houston) in the Lake Conroe reservoir project. This accounts for 57% of the Lake Conroe Division's operating revenues for the year ended August 31, 2016.

Water pumpage and surface water fees totaling \$23,283,467 were invoiced to the Authority's two largest customers of the Groundwater Reduction Plan Division. This accounts for 51% of Groundwater Reduction Plan Division's operating revenues for the year ended August 31, 2016.

Water and sewer service fees and capacity charges totaling \$19,365,425 were invoiced to the Authority's five largest customers of the Woodlands Division. This accounts for 48% of The Woodlands Division's operating revenues for the year ended August 31, 2016.

NOTE 11 – CONTINGENCIES

On June 20, 2016, the Authority adopted a Rate Order setting revised rates applicable to its GRP Participants. The rate revisions were to take effect on September 1, 2016.

On August 16, 2016, the City of Conroe, Texas, the second-largest rate payer in the Authority's GRP, adopted an ordinance that, among other things, directed City staff not to pay the revised rates adopted by the Authority.

On August 31, 2016, the San Jacinto River Authority filed suit in the District Court of Travis County, Texas, pursuant to Chapter 1205 of the Texas Government Code, seeking a declaratory judgment that (i) the Authority is authorized to set rates for its GRP Participants pursuant to the procedures set forth in the contracts between the Authority and its GRP Participants (the "GRP Contracts"), (ii) the Authority adopted its fiscal year 2017 Rate Order, including the setting of its fiscal year 2017 rates, in accordance with the procedures set forth in the GRP Contracts, (iii) the Authority's fiscal year 2017 rates, the Rate Order, and the GRP Contract are legal and valid, and (iv) the City of Conroe's refusal to pay the fiscal year 2017 rate is illegal and invalid, and its failure to pay is a breach of its GRP Contract. The Cities of Conroe, Magnolia, and Splendor, Texas, along with two privately-owned water utilities, Quadvest, L.P. and Woodlands Oaks Utility, L.P., have intervened in opposition to the Authority's suit.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The suit is currently pending and the Authority cannot predict the outcome of same. As such, the Authority cannot make a statement at this time regarding the impact the resolution of the suit may have upon the Authority's financial condition. The Authority has expended approximately \$621,500 in legal fees and costs related to the suit and additional expenditures are anticipated to be incurred by the Authority in the future.

The City of Conroe and City of Magnolia are paying the fiscal year 2016 rates (not fiscal year 2017 rates) and are incurring late fees and finance fees on the unpaid balances. All other participants are paying the fiscal year 2017 rates.

NOTE 12 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Commercial insurance coverage exceeded settlement amounts in each of the past three years.

NOTE 13 – FUNDING FOR REGION H WATER PLANNING GRANT

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 Region H costs.

NOTE 14 – COMPENSATED ABSENCES

Vacation

As of August 31, 2016, employees of the Authority accrue vacation quarterly based on their hire date. Vacation is accrued as follows:

- | | |
|-------------------------------|----------------------|
| • 0-4.99 years of employment | 20 hours per quarter |
| • 5-5.99 years of employment | 22 hours per quarter |
| • 6-6.99 years of employment | 24 hours per quarter |
| • 7-7.99 years of employment | 26 hours per quarter |
| • 8-8.99 years of employment | 28 hours per quarter |
| • 9-19.99 years of employment | 30 hours per quarter |
| • 20 plus years of employment | 40 hours per quarter |

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Employees will be allowed to accrue up to six (6) quarters of vacation time. Balances exceeding 6 quarters at the employee's current accrual rate will be cancelled, and employees will not be paid for unused vacation time unless otherwise authorized by the General Manager due to a declared Minor or Major Emergency Closing that prevents a previously scheduled vacation. Employees must use the accrued vacation in at least half (1/2) hour increments.

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 employee's pay rate times the accrued vacation hours plus applicable employee benefits as of the end of the fiscal year.

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/Termination: There is no payment for unused sick leave when an employee terminates employment for any reason other than normal retirement. When an employee is retiring and meets all the eligibility requirements under the SJRA's Pension Plan to retire at their normal retirement date, that employee will be eligible for payment of their unused sick leave balance up to a maximum of thirty-six (36) days.

Compensatory Time

Non-exempt employees may accrue compensatory time (comp 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 times hours worked.

Compensatory time is limited based on the operational 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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Compensatory time may be used for personal leave 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 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, transfer 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.

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, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Aug. 31, 2016</u>
Lake Conroe Vacation	\$ 22,171	\$ 3,549	\$	\$ 25,720
Highlands Vacation	10,060	780		10,840
General & Admin Vacation	192,376	7,450		199,826
Woodlands Vacation	79,142	9,926		89,068
GRP Vacation	39,665	1,686		41,351
Vacation Total	<u>343,414</u>	<u>23,391</u>		<u>366,805</u>
Lake Conroe Sick Leave				
Highlands Sick Leave				
General & Admin Sick Leave	47,895	1,365		49,260
Woodlands Sick Leave	2,814	330		3,144
GRP Sick Leave				
Sick Leave Total	<u>50,709</u>	<u>1,695</u>		<u>52,404</u>
Lake Conroe Comp Time	1,723		406	1,317
Highlands Comp Time	5,551		315	5,236
General & Admin Comp Time	8,563		1,470	7,093
Woodlands Comp Time	2,319		1,813	506
GRP Comp Time	949	111		1,060
Compensatory Time Total	<u>19,105</u>	<u>111</u>	<u>4,004</u>	<u>15,212</u>
Total	<u>\$ 413,228</u>	<u>\$ 25,197</u>	<u>\$ 4,004</u>	<u>\$ 434,421</u>

The current year expense and ending fiscal year 2016 liability for compensatory time is calculated based on the total employee hours accrued times the end of fiscal year 2016 pay rate.

REQUIRED SUPPLEMENTARY INFORMATION



SAN JACINTO RIVER AUTHORITY

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NOS. 67 & 68, DEFINED BENEFIT PENSION PLAN, SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Year Ended August 31, 2016

Fiscal Year Ending August 31	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Total Pension Liability</u>				
Service cost	\$ 1,000,263	\$ 904,125	\$	\$
Interest on total pension liability	882,137	805,717		
Effect of plan changes				
Effect of assumption changes or inputs				
Effect of economic/demographic gains or (losses)	(336,786)			
Benefit payments	(306,775)	(280,659)		
Net change in total pension liability	<u>1,238,839</u>	<u>1,429,183</u>		
Total pension liability, beginning	13,058,831	11,629,648		
Total Pension Liability, Ending (a)	<u><u>\$ 14,297,670</u></u>	<u><u>\$ 13,058,831</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>
<u>Fiduciary Net Position</u>				
Employer contributions	\$ 1,222,436	\$ 1,200,435	\$	\$
Member contributions				
Investment income net of investment expenses	265,496	754,693		
Benefit payments	(306,775)	(280,659)		
Administrative expenses	(7,379)	(11,471)		
Net Change in Plan Fiduciary Net Position	<u>1,173,778</u>	<u>1,662,998</u>		
Fiduciary net position, beginning	11,311,172	9,648,174		
Fiduciary Net Position, Ending (b)	<u><u>\$ 12,484,950</u></u>	<u><u>\$ 11,311,172</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>
Net Pension Liability, Ending (a)-(b)	<u><u>\$ 1,812,720</u></u>	<u><u>\$ 1,747,659</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>
Fiduciary Net Position as a % of total pension liability	87.32%	86.62%		
Covered Payroll	\$ 9,452,146	\$ 8,773,266	\$ 7,693,148	\$ 6,776,385
Net Pension Liability as a % of Covered Payroll	19.18%	19.92%		

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$	\$	\$	\$	\$	\$
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
\$	\$	\$	\$	\$	\$
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
\$ 5,939,787	\$ 4,728,214	\$ 4,129,705	\$ 4,013,370	\$ 3,254,963	\$ 2,890,174

SAN JACINTO RIVER AUTHORITY

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NOS. 67 & 68, DEFINED BENEFIT PENSION PLAN, SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended August 31, 2016

Fiscal Year Ended August 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2007	\$ 325,357	\$ 365,215	\$ (39,858)	\$ 2,890,174	12.64%
2008	337,523	372,478	(34,955)	3,254,963	11.44%
2009	397,109	437,482	(40,373)	4,013,370	10.90%
2010	551,847	572,069	(20,222)	4,129,705	13.85%
2011	562,406	583,621	(21,215)	4,728,214	12.34%
2012	648,608	670,841	(22,233)	5,939,787	11.29%
2013	798,954	807,782	(8,828)	6,776,385	11.92%
2014	951,702	958,987	(7,285)	7,693,148	12.47%
2015	1,090,455	1,200,435	(109,980)	8,773,266	13.68%
2016	1,091,804	1,222,436	(130,632)	9,452,146	12.93%

Actuarial Methods and Assumptions Used for Funding Policy

The following actuarial methods and assumptions were used in the November 1, 2014 funding valuation. Each assumption is individually reasonable and, in combination, offer our best estimate of anticipated experience under the plan at the time.

Valuation Timing

The valuation is performed as of November 1 and the actuarially determined contribution is determined as of midyear (i.e. April 1).

Actuarial Cost Method

Level dollar

Amortization Method

Level percent or level dollar
Closed, open, or layered periods
Amortization Period at 11/1/2013
Amortization Growth Rate

Level dollar
Layered
25 years for IUAAL, 5 years for subsequent gains/losses
N/A

Asset Valuation Method

Smoothing period
Recognition method
Corridor

N/A, Market Value
Market Value
None

Inflation

2.30%

Salary Increases

5.00%
6.50%, based on the Plan's investment policy, including target asset allocation, and Milliman's capital market expectations.

Investment Rate of Return

None

Cost of Living Adjustment

65

Retirement Age

Turnover

Crocker-Sarason T-1 Table

Mortality

RP-2000 Mortality for Employees, Healthy Annuitants, and Disabled Annuitants with generational projection per Scale AA

SAN JACINTO RIVER AUTHORITY

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NOS. 67 & 68, DEFINED BENEFIT PENSION PLAN, SCHEDULE OF INVESTMENT RETURNS

Year Ended August 31, 2016

<u>Fiscal Year Ended August 31</u>	<u>Net Money- Weighted Rate of Return</u>
2007	3.85%
2008	4.01%
2009	3.99%
2010	3.93%
2011	3.55%
2012	3.09%
2013	2.89%
2014	3.73%
2015	7.42%
2016	2.20%

SAN JACINTO RIVER AUTHORITY

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

Year Ended August 31, 2016

Three Year Trend Information

Schedule of Contributions From the Employer			
Fiscal Year Ended	Annual Required Contribution	Estimated % of OPEB Cost Contributed	Net OPEB Obligation
8/31/2014	\$ 146,563	34%	\$1,089,256
8/31/2015	211,204	24%	1,249,237
8/31/2016	217,603	24%	1,414,539

Schedule of Funding Progress for the Retiree Healthcare (OPEB) Plan						
Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) AAL Actuarial Accrued Liability	(3) UAAL Unfunded AAL (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Covered Payroll**	(6) UAAL as a % of Covered Payroll (3) / (5)
9/1/2013	\$ 0	\$ 2,037,561	\$ 2,037,561	0 %	\$ 336,482	605.5 %
9/1/2014*	0	2,109,673	2,109,673	0	347,971	606.3
9/1/2015*	0	2,185,285	2,185,285	0	352,848	619.3

- * A full valuation was not performed for fiscal years ended August 31, 2015 or August 31, 2016. All entries have been derived from the September 1, 2013 valuations.
- ** Covered payroll estimates based on active participants in the OPEB valuations and compensation provided for the pension valuations.

OTHER SUPPLEMENTARY INFORMATION



SAN JACINTO RIVER AUTHORITY

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL - RAW WATER ENTERPRISE

Year Ended August 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Operating Revenues</u>				
Water revenues	\$ 17,609,381	\$ 17,609,381	\$ 16,401,515	\$ (1,207,866)
Permits, licenses and fees	1,080,273	1,080,273	1,463,488	383,215
Total Revenues	<u>18,689,654</u>	<u>18,689,654</u>	<u>17,865,003</u>	<u>(824,651)</u>
<u>Operating Expenses</u>				
Current:				
Salaries and wages	3,337,346	3,337,346	2,925,008	(412,338)
Employee insurance and other payroll benefits	1,480,312	1,480,312	1,253,785	(226,527)
Outside services employed	1,645,699	1,645,699	1,287,865	(357,834)
Operating supplies and expenses	718,577	718,577	503,402	(215,175)
Rentals	67,391	67,391	44,864	(22,527)
Maintenance, repairs and parts	725,331	725,331	593,895	(131,436)
General and administrative	1,024,211	1,024,211	1,009,519	(14,692)
Depreciation			1,669,947	1,669,947
Total Expenditures	<u>8,998,867</u>	<u>8,998,867</u>	<u>9,288,285</u>	<u>289,418</u>
Operating Net Income	9,690,787	9,690,787	8,576,718	(1,114,069)
<u>Nonoperating Revenues (Expenses)</u>				
Interest income	14,000	14,000	106,587	92,587
Interest expense on bonds	(2,901,716)	(2,901,716)	(2,796,584)	105,132
Other	(41,297)	(41,297)	292,596	333,893
Total Nonoperating Revenues (Expenses)	<u>(2,929,013)</u>	<u>(2,929,013)</u>	<u>(2,397,401)</u>	<u>531,612</u>
Income (Loss) Before Contributions and Transfers	<u>\$ 6,761,774</u>	<u>\$ 6,761,774</u>	<u>\$ 6,179,317</u>	<u>\$ (582,457)</u>

SAN JACINTO RIVER AUTHORITY

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

Year Ended August 31, 2016

	<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	\$ 38,990,800	\$ 38,990,800	\$ 36,313,944	\$ (2,676,856)
Total Revenues	<u>38,990,800</u>	<u>38,990,800</u>	<u>36,313,944</u>	<u>(2,676,856)</u>
<u>Operating Expenses</u>				
Current:				
Salaries and wages	4,688,798	4,688,798	4,499,294	(189,504)
Employee insurance and other payroll benefits	2,010,334	2,010,334	1,877,679	(132,655)
Outside services employed	17,545,993	17,545,993	15,932,785	(1,613,208)
Operating supplies and expenses	4,337,989	4,337,989	3,730,081	(607,908)
Rentals	29,500	29,500	32,163	2,663
Maintenance, repairs and parts	7,238,150	7,238,150	4,091,117	(3,147,033)
General and administrative	768,057	768,057	739,877	(28,180)
Asset Purchases				
Total Expenditures	<u>36,618,821</u>	<u>36,618,821</u>	<u>30,902,996</u>	<u>(5,715,825)</u>
Operating Net Income (Loss)	2,371,979	2,371,979	5,410,948	3,038,969
<u>Nonoperating Revenues</u>				
Interest income	6,350	6,350	51,893	45,543
Other			74,083	74,083
Total Nonoperating Revenues	<u>6,350</u>	<u>6,350</u>	<u>125,976</u>	<u>119,626</u>
Income (Loss) Before Contributions and Transfers	<u>\$ 2,378,329</u>	<u>\$ 2,378,329</u>	<u>\$ 5,536,924</u>	<u>\$ 3,158,595</u>

NOTES 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.

Revenues and expenses are below budget due to a record year of excess rainfall; therefore, less water usage and less expenditures were incurred than budgeted.

SAN JACINTO RIVER AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
GROUNDWATER REDUCTION PLAN DIVISION
Year Ended August 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Operating Revenues</u>				
Water revenues (GRP Pumpage Fees)	\$ 50,842,697	\$ 50,842,697	\$ 45,655,158	\$ (5,187,539)
Total Revenues	<u>50,842,697</u>	<u>50,842,697</u>	<u>45,655,158</u>	<u>(5,187,539)</u>
<u>Operating Expenses</u>				
Current:				
Salaries and wages	3,775,402	3,775,402	3,638,892	(136,510)
Employee insurance and other payroll benefits	1,535,516	1,535,516	1,354,422	(181,094)
Outside services employed	2,262,512	2,262,512	1,644,201	(618,311)
Operating supplies and expenses	13,008,559	13,008,559	8,578,047	(4,430,512)
Rentals			4,236	4,236
Maintenance, repairs and parts	270,000	270,000	358,162	88,162
General and administrative	834,069	834,069	584,825	(249,244)
Depreciation			15,142,402	15,142,402
Total Expenditures	<u>21,686,058</u>	<u>21,686,058</u>	<u>31,305,187</u>	<u>9,619,129</u>
Operating Net Income	29,156,639	29,156,639	14,349,971	(14,806,668)
<u>Nonoperating Revenues (Expenses)</u>				
Interest income	3,950	3,950	200,805	196,855
Interest expense	(21,299,405)	(21,299,405)	(21,312,915)	(13,510)
Other	12,300	12,300	56,557	44,257
Total Nonoperating Revenues (Expenses)	<u>(21,283,155)</u>	<u>(21,283,155)</u>	<u>(21,055,553)</u>	<u>227,602</u>
Income (Loss) Before Contributions and Transfers	<u>\$ 7,873,484</u>	<u>\$ 7,873,484</u>	<u>\$ (6,705,582)</u>	<u>\$ (14,579,066)</u>

Revenues are below budget due to a record year of excess rainfall; therefore, less water was used than budgeted.

SAN JACINTO RIVER AUTHORITY

SCHEDULE OF NET POSITION **GROUNDWATER REDUCTION PLAN DIVISION**

August 31, 2016

Assets

Current Assets

Cash and cash equivalents	
Unrestricted	\$ 5,967,222
Restricted for debt service	53,687,516
Restricted for construction	7,760,248
Accounts receivable and prepaids	8,631,575
Total Current Assets	<u>76,046,561</u>

Noncurrent Asset - Prepaid reservation fees 1,418,831

Capital Assets - at cost

Land	1,138,325
Land improvements	2,468,208
Furniture and fixtures	2,323,998
Other machinery and equipment	350,427
Automobiles and trucks	448,730
Buildings	15,565,138
Water systems	417,700,590
Construction in progress	38,255,371
Accumulated Depreciation	<u>(16,349,016)</u>
Total Capital Assets	<u>461,901,771</u>

Total Noncurrent and Capital Assets 463,320,602

Total Assets \$ 539,367,163

Liabilities

Current Liabilities

Accounts payable and accrued liabilities - unrestricted	\$ 2,733,068
Restricted for debt services - current portion of bonds	13,025,000
Restricted for debt services - accrued interest payable	8,944,658
Restricted for construction - retainage payable	<u>1,144,131</u>
Total Current Liabilities	<u>25,846,857</u>

Noncurrent Liabilities

First lien water revenue bonds - less current maturities	507,535,000
Unamortized bond premium or discount	<u>161,448</u>
Total Noncurrent Liabilities	<u>507,696,448</u>
Total Liabilities	<u>533,543,305</u>

Net Position

Net Position

Invested in capital assets - net of related debt	(52,203,560)
Restricted for debt service	44,742,858
Unrestricted	<u>13,284,560</u>
Total Net Position	<u>\$ 5,823,858</u>

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

Year Ended August 31, 2016

Operating Revenues

Water revenues (GRP Pumpage and Surface Water Fees)	\$ 45,655,158
Total Revenues	45,655,158

Operating Expenses

Current:	
Salaries and wages	3,638,892
Employee insurance and other payroll benefits	1,354,422
Outside services employed	1,644,201
Operating supplies and expenses	8,578,047
Rentals	4,236
Maintenance, repairs and parts	358,162
General and administrative expenses	584,825
Depreciation	15,142,402
Total Expenditures	31,305,187

Operating Net Income (Loss) 14,349,971

Nonoperating Revenues (Expenses)

Interest income	200,805
Gain (Loss) on disposal of assets	152,607
Amortization of debt issuance costs	4,866
Interest expense on bonds	(21,312,915)
Other	(100,916)

Total Nonoperating Revenues (Expenses) (21,055,553)

Income (Loss) Before Transfers and Contributions (6,705,582)

Transfers	(42,692)
Contributions	70,541

Change in Net Position (6,677,733)

Net Position at Beginning of Year	12,501,591
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Net Position at End of Year	\$ 5,823,858
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SAN JACINTO RIVER AUTHORITY
SCHEDULE OF CASH FLOWS
GROUNDWATER REDUCTION PLAN DIVISION

Year Ended August 31, 2016

Cash Flows from Operating Activities	
Cash received from customers	\$ 45,363,609
Cash payments to suppliers for goods and services	(23,721,977)
Cash paid for employee services	(4,997,670)
Other revenues and expenses	6,294
Net Cash Provided by Operating Activities	<u>16,650,256</u>
Cash Flows from Noncapital Financing Activities	
Transfers	<u>(42,692)</u>
Net Cash Provided by Noncapital Financing Activities	<u>(42,692)</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on bonds	(13,010,000)
Interest paid on bonds	(21,214,989)
Proceeds from bond sales	2,305,000
Bond issue expenses	(107,210)
Acquisition of capital assets	(25,389,565)
Proceeds from the sale of assets	152,607
Capital contributions	70,541
Net Cash (Used) by Capital and Related Financing Activities	<u>(57,193,616)</u>
Cash Flows from Investing Activities	
Interest earned	<u>200,805</u>
Net Cash Flows Provided by Investing Activities	<u>200,805</u>
Net (Decrease) in Cash and Cash Equivalents	(40,385,247)
Cash and equivalents at beginning of year	<u>107,800,233</u>
Cash and Equivalents at End of Year	<u>\$ 67,414,986</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 14,349,971
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Other revenues	6,294
Depreciation	15,142,402
Decrease in receivables	293,276
(Increase) in prepaids	(152,236)
(Decrease) in accounts payable and accrued liabilities	(12,989,451)
Total Adjustments	<u>2,300,285</u>
Net Cash Provided by Operating Activities	<u>\$ 16,650,256</u>

SAN JACINTO RIVER AUTHORITY

SCHEDULE OF CAPITAL ASSETS **LAKE CONROE DAM, RESERVOIR AND RELATED EQUIPMENT**

August 31, 2016

Dam and Appurtenances:

Dam and appurtenances - joint	\$ 20,115,058
Dam and appurtenances - San Jacinto River Authority	1,169,194
Total Dam and Appurtenances	<u>21,284,252</u>

Buildings and Residences:

Office building - joint	113,242
Warehouse building - joint	31,342
Residences - joint	190,356
Boat house - joint	108,347
Storage building - San Jacinto River Authority	23,404
Total Buildings and Residences	<u>466,691</u>

Equipment:

Construction and maintenance equipment - joint	210,790
Transportation equipment - joint	366,407
Transportation equipment - San Jacinto River Authority	7,370
Office furniture and fixtures - joint	14,547
Computer software - joint	436,278
Computer hardware - joint	95,332
Telephone system - joint	23,148
Laboratory equipment - joint	98,673
Miscellaneous equipment - joint	157,006
Construction and maintenance equipment - San Jacinto River Authority	45,919
Total Equipment	<u>1,455,470</u>

Land:

Land easements and improvements - joint	7,579,154
Land acquisition and administration - joint	5,863,768
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>14,434,010</u>

Total Lake Conroe Dam, Reservoir and Related Equipment	37,640,423
Less City of Houston Contribution	<u>(23,648,799)</u>
San Jacinto River Authority's Interest in Lake Conroe Dam, Reservoir and Related Equipment	13,991,624
Less Accumulated Depreciation on San Jacinto River Authority's Interest in Assets	<u>(3,744,003)</u>
Net Interest in Lake Conroe Dam, Reservoir and Related Equipment \$	<u>10,247,621</u>

SAN JACINTO RIVER AUTHORITY

INSURANCE COVERAGES

August 31, 2016

<u>Types of Coverages</u>	<u>Amount of Coverage</u>	<u>Insurer</u>	<u>Coverage to</u>
Property Coverages			
Buildings	\$213,123,600	TWCA Risk Management Fund	7/1/2017
Contents	6,162,192	TWCA Risk Management Fund	7/1/2017
EDP Equipment	1,418,435	TWCA Risk Management Fund	7/1/2017
Equipment/Contractors Equip	2,234,861	TWCA Risk Management Fund	7/1/2017
Miscellaneous Property & Equipment	5,256,733	TWCA Risk Management Fund	7/1/2017
Rented Equipment	200,000	TWCA Risk Management Fund	7/1/2017
Boiler and Machinery	151,396,140	TWCA Risk Management Fund	7/1/2017
Total Property Coverages	<u>\$379,791,961</u>		
Automobile:			
Bodily injury and property damage	Combined limit \$1,000,000	TWCA Risk Management Fund	7/1/2017
Excess auto liability	\$9,000,000	TWCA Risk Management Fund	7/1/2017
Physical damage	Actual cash value	TWCA Risk Management Fund	7/1/2017
General Liability	\$1,000,000 per occurrence	TWCA Risk Management Fund	7/1/2017
Excess General Liability	\$9,000,000	TWCA Risk Management Fund	7/1/2017
Public Officials:			
Errors and omissions	\$1,000,000	TWCA Risk Management Fund	7/1/2017
Excess errors and omissions	\$9,000,000	TWCA Risk Management Fund	7/1/2017
GRP Review Committee	\$1,000,000	AWAC - Darwin Select Insurance	6/3/2017
Workers' Compensation	Statutory	TWCA Risk Management Fund	7/1/2017
Fiduciary Liability - 457 Plan	\$2,000,000	Chubb - Federal Insurance Co.	3/1/2017

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, 2016

Directors

Lloyd B. Tisdale, President
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Ronnie Anderson, Member
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Jim Alexander, Member
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Jace Houston, General Manager
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Pam J. Steiger, Controller
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STATISTICAL SECTION



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

<u>Contents</u>	<u>Page</u>
Financial Trends	76-79
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	80-82
These schedules contain information to help the reader assess the Authority's most significant local revenue source, the water and sewer service.	
Debt Capacity	83-85
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	86-89
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	90-93
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 POSITION BY COMPONENT

Last Ten Fiscal Years

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Business-type activities				
Net Investment in capital assets	\$ 65,772,745	\$ 65,030,432	\$ 71,921,272	\$ 39,210,018
Restricted	18,254,369	34,936,170	28,654,942	65,464,657
Unrestricted	16,039,280	18,156,477	23,616,921	21,068,435
Total business-type activities net position	<u>\$ 100,066,394</u>	<u>\$ 118,123,079</u>	<u>\$ 124,193,135</u>	<u>\$ 125,743,110</u>
Primary government				
Net Investment in capital assets	\$ 65,772,745	\$ 65,030,432	\$ 71,921,272	\$ 39,210,018
Restricted	18,254,369	34,936,170	28,654,942	65,464,657
Unrestricted	16,039,280	18,156,477	23,616,921	21,068,435
Total primary government net position	<u>\$ 100,066,394</u>	<u>\$ 118,123,079</u>	<u>\$ 124,193,135</u>	<u>\$ 125,743,110</u>

Notes: The Authority can be involved in governmental activities and business-type activities which would be reported separately in this schedule. The Authority does not currently have any governmental activities.

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 93,493,165	\$ 81,039,024	\$ 34,279,471	\$ 52,304,682	\$ 81,417,800	\$ 76,461,833
7,778,815	27,079,260	68,491,559	59,550,621	52,279,716	54,932,005
<u>36,370,470</u>	<u>34,648,654</u>	<u>38,155,393</u>	<u>34,447,449</u>	<u>33,386,039</u>	<u>38,519,086</u>
<u>\$ 137,642,450</u>	<u>\$ 142,766,938</u>	<u>\$ 140,926,423</u>	<u>\$ 146,302,752</u>	<u>\$ 167,083,555</u>	<u>\$ 159,912,924</u>
\$ 93,493,165	\$ 81,039,024	\$ 34,279,471	\$ 52,304,682	\$ 81,417,800	\$ 76,461,833
7,778,815	27,079,260	68,491,559	59,550,621	52,279,716	54,932,005
<u>36,370,470</u>	<u>34,648,654</u>	<u>38,155,393</u>	<u>34,447,449</u>	<u>33,386,039</u>	<u>38,519,086</u>
<u>\$ 137,642,450</u>	<u>\$ 142,766,938</u>	<u>\$ 140,926,423</u>	<u>\$ 146,302,752</u>	<u>\$ 167,083,555</u>	<u>\$ 159,912,924</u>

SAN JACINTO RIVER AUTHORITY

CHANGES IN NET POSITION

Last Ten Fiscal Years

	2007	2008	2009	2010
Expenses				
Business-type activities:				
Salaries and wages	\$ 2,974,694	\$ 3,609,239	\$ 4,213,962	\$ 4,610,165
Employee insurance and other payroll benefits	1,777,904	1,802,280	2,057,484	2,316,454
Outside services employed	1,981,899	2,785,842	3,279,261	2,718,636
Operating supplies and expenses	3,871,080	4,717,992	4,499,020	5,437,305
Rentals	32,509	48,714	111,362	147,150
Maintenance, repairs and parts	2,495,369	3,456,995	4,174,346	2,446,618
Water planning study expenses	75,104	125,700	356,123	1,026,692
General and administrative expenses	830,749	949,078	1,370,683	1,971,681
Depreciation	4,619,949	5,747,453	5,219,499	5,823,940
Total business-type activities expenses	18,659,257	23,243,293	25,281,740	26,498,641
Total primary government expenses	\$ 18,659,257	\$ 23,243,293	\$ 25,281,740	\$ 26,498,641
Program Revenues:				
Business-type activities				
Water sales:				
Industrial	\$ 6,020,521	\$ 7,660,698	\$ 8,264,471	\$ 8,862,294
Irrigation	28,147	40,013	58,291	76,369
Water and sewer service fees	8,558,969	13,514,338	16,270,637	15,253,398
Permits, licenses, and fees	791,295	858,733	682,043	578,560
Contractual revenues				
Capacity charges	4,212,228	5,149,975	5,522,353	5,205,756
Water planning study	82,726	575,909	464,449	1,088,622
Total business-type activities revenues	19,693,886	27,799,666	31,262,244	31,064,999
Total primary government revenues	\$ 19,693,886	\$ 27,799,666	\$ 31,262,244	\$ 31,064,999
Net (Expenses) Revenue				
Business-type activities				
Interest income	\$ 1,874,487	\$ 1,549,570	\$ 482,664	\$ 229,489
Gain (Loss) on disposal of capital assets	7,716	11,706	22,746	161,336
Oil and gas royalty income	35,714	51,268	32,820	12,635
Other revenues	43,313	185,648	74,016	1,932
FEMA Grant	408,965		1,910,083	
Other expenses		(17,800)		
Amortization of bond premium or discounts	(631,922)	(641,709)	(646,329)	(683,725)
Interest expense on bonds	(3,344,542)	(3,814,792)	(3,875,334)	(3,527,175)
Total business-type activities	(1,606,269)	(2,676,109)	(1,999,334)	(3,805,508)
Total primary government	\$ (1,606,269)	\$ (2,676,109)	\$ (1,999,334)	\$ (3,805,508)
General Revenues and Other Change in Net Position				
Business-type activities:				
Capital Contributions	\$ 486,779	\$ 16,176,421	\$ 2,088,886	\$ 789,125
Total business-type activities	486,779	16,176,421	2,088,886	789,125
Total primary government	\$ 486,779	\$ 16,176,421	\$ 2,088,886	\$ 789,125
Change in Net Position				
Business-type activities	(84,861)	18,056,685	6,070,056	1,549,975
Total primary government	\$ (84,861)	\$ 18,056,685	\$ 6,070,056	\$ 1,549,975

Notes: The Authority can be involved in governmental activities and business-type activities which would be reported separately in this schedule. The Authority does not currently have any governmental activities.

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 6,702,971	\$ 7,958,296	\$ 8,392,601	\$ 8,872,719	\$ 10,720,810	\$ 11,724,348
2,783,051	2,772,375	3,476,905	3,443,181	4,255,143	4,715,723
5,053,638	3,908,048	4,072,695	4,943,193	3,759,083	5,042,298
7,595,490	7,388,455	7,797,323	9,405,454	6,754,835	11,252,100
124,643	352,479	234,674	118,467	69,320	85,327
4,133,285	4,550,249	4,538,373	3,773,308	4,113,761	5,279,400
157,071	197,815	257,465	520,071	802,042	17,877
<u>6,330,205</u>	<u>6,898,534</u>	<u>7,404,035</u>	<u>7,783,943</u>	<u>8,753,185</u>	<u>23,527,194</u>
<u>32,880,354</u>	<u>34,026,251</u>	<u>36,174,071</u>	<u>38,860,336</u>	<u>39,228,179</u>	<u>61,644,267</u>
<u>\$ 32,880,354</u>	<u>\$ 34,026,251</u>	<u>\$ 36,174,071</u>	<u>\$ 38,860,336</u>	<u>\$ 39,228,179</u>	<u>\$ 61,644,267</u>
\$ 9,037,794	\$ 9,223,102	\$ 10,125,269	\$ 11,070,653	\$ 10,550,443	\$ 12,622,941
134,341	108,342	109,004	129,878	141,375	139,677
33,257,666	33,360,551	44,863,366	52,090,243	60,607,860	67,391,878
763,503	1,007,532	1,002,670	1,070,828	1,131,372	1,125,274
				1,716,011	1,486,056
5,466,830	5,242,829	5,252,805	5,188,612	5,022,163	3,834,462
141,878	210,072	249,233	492,810	759,984	359,554
<u>48,802,012</u>	<u>49,152,428</u>	<u>61,602,347</u>	<u>70,043,024</u>	<u>79,929,208</u>	<u>86,959,842</u>
<u>\$ 48,802,012</u>	<u>\$ 49,152,428</u>	<u>\$ 61,602,347</u>	<u>\$ 70,043,024</u>	<u>\$ 79,929,208</u>	<u>\$ 86,959,842</u>
\$ 287,860	\$ 713,705	\$ 1,189,490	\$ 376,774	\$ 238,633	\$ 396,775
47,542	167,866	(144,605)	959,459	(33,748)	452,827
7,920	3,165				
6,305	220,754	117,973	87,035	40,825	39,697
(119,476)		(1,234,093)	(3,097,923)	(799,966)	(108,133)
(728,548)	(454,979)	77,657	166,343	278,431	278,666
<u>(5,367,553)</u>	<u>(11,489,309)</u>	<u>(22,414,786)</u>	<u>(25,688,916)</u>	<u>(25,183,782)</u>	<u>(24,954,257)</u>
<u>(5,865,950)</u>	<u>(10,838,798)</u>	<u>(22,408,364)</u>	<u>(27,197,228)</u>	<u>(25,459,607)</u>	<u>(23,894,425)</u>
<u>\$ (5,865,950)</u>	<u>\$ (10,838,798)</u>	<u>\$ (22,408,364)</u>	<u>\$ (27,197,228)</u>	<u>\$ (25,459,607)</u>	<u>\$ (23,894,425)</u>
\$ 1,843,632	\$ 837,109	\$ 3,300,933	\$ 1,390,869	\$ 4,030,000	\$ 1,408,219
1,843,632	837,109	3,300,933	1,390,869	4,030,000	1,408,219
<u>\$ 1,843,632</u>	<u>\$ 837,109</u>	<u>\$ 3,300,933</u>	<u>\$ 1,390,869</u>	<u>\$ 4,030,000</u>	<u>\$ 1,408,219</u>
<u>11,899,340</u>	<u>5,124,488</u>	<u>6,320,845</u>	<u>5,376,329</u>	<u>19,271,422</u>	<u>2,829,369</u>
<u>\$ 11,899,340</u>	<u>\$ 5,124,488</u>	<u>\$ 6,320,845</u>	<u>\$ 5,376,329</u>	<u>\$ 19,271,422</u>	<u>\$ 2,829,369</u>

SAN JACINTO RIVER AUTHORITY

WOODLANDS DIVISION WATER AND SEWER SERVICE FEES BY SOURCE

Last Ten 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>		
2007	\$ 3,665,615	\$ 4,893,355	\$ 8,558,970	\$ 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
2012	\$ 8,767,267	\$ 9,604,911	\$ 18,372,178	\$ 1.40	\$ 3.31
2013	\$ 10,903,899	\$ 10,265,798	\$ 21,169,697	\$ 1.64	\$ 3.64
2014	\$ 11,268,542	\$ 9,580,621	\$ 20,849,163	\$ 1.74	\$ 3.74
2015	\$ 10,144,585	\$ 11,578,793	\$ 21,723,378	\$ 1.99	\$ 3.95
2016	\$ 10,863,349	\$ 12,105,737	\$ 22,969,086	\$ 2.10	\$ 4.30

(1) Direct Rate based on per thousand gallons

SAN JACINTO RIVER AUTHORITY

PRINCIPAL WOODLANDS DIVISION WATER AND SEWER FEES PAYERS

August 31, 2016

<u>Customer</u>	<u>2016</u>			<u>2006</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	\$ 1,388,925	7	6%	\$ 552,479	8	6%
MUD 7	\$ 1,703,787	6	8%	\$ 742,742	6	8%
MUD 36	\$ 940,597	9	4%	\$ 459,118	9	5%
MUD 39	\$ 904,918	10	4%	\$ 345,272	10	4%
MUD 1*	\$ 989,894	8	4%	\$ 814,386	5	8%
MUD 46	\$ 5,106,406	1	23%	\$ 1,994,937	1	20%
MUD 47	\$ 3,942,849	2	18%	\$ 1,961,299	2	20%
MUD 60	\$ 2,471,089	4	11%	\$ 1,151,598	3	12%
MUD 67	\$ 1,991,696	5	9%	\$ 736,922	7	7%
Metro MUD	\$ 2,721,446	3	12%	\$ 1,084,608	4	11%

Note: The requirement for statistical data is ten years.

*Previously reported as MLD 2 & MUD 40

SAN JACINTO RIVER AUTHORITY

LIST OF PRINCIPAL CUSTOMERS

August 31, 2016

Raw Water Enterprise

ExxonMobil
Chevron Phillips Chemical Company
SJRA - GRP Division
Entergy
Newport Municipal Utility District
Crosby Municipal Utility District
ECO Services Operations, LLC
Harris County Municipal Utility District 50
LCY Elastomers, LP
Bentwater Yacht & Country Club

Woodlands Division

Municipal Utility District 1
Municipal Utility District 6
Municipal Utility District 7
Municipal Utility District 36
Municipal Utility District 39
Municipal Utility District 46
Municipal Utility District 47
Municipal Utility District 60
Municipal Utility District 67
Metro Municipal Utility District

Lake Conroe Division

Sports Harbour, LLC
Flagship Walden Marina
Waterpoint Marina, Inc.
Inland Discount Marina
The Palms Marina
Stow-A-Way Marina
Bentwater Yacht & Country Club
SHM Walden Marina
Seven Coves Association
WCTCB, LLC

Groundwater Reduction Plan Division

SJRA - Woodlands Division
City of Conroe
Quadvest, LP
Aqua Texas, Inc.
MSEC Enterprises
Rayford Road Municipal Utility District
Southern Mont. Co. Municipal Utility District
T&W Water Services
Montgomery Co. Municipal Utility District No. 89
New Caney MUD

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 Ten Fiscal Years

Fiscal Year	Business-Type Activities			Total Primary Government	Percentage of Revenue (1)	Percentage of Personal Income (2)	Debt per Population (2)
	Water Revenue Bonds	Special Project Revenue Bond	Loans				
2007	\$ 60,110,000	\$ 11,350,000	\$	\$ 71,460,000	372.93%	N/A	N/A
2008	\$ 58,355,000	\$ 24,860,000	\$	\$ 83,215,000	364.38%	N/A	N/A
2009	\$ 56,540,000	\$ 23,550,000	\$	\$ 80,090,000	305.67%	N/A	N/A
2010 (3)	\$ 86,240,000	\$ 36,860,000	\$ 1,947,767	\$ 125,047,767	260.05%	N/A	N/A
2011 (3)	\$ 84,910,000	\$ 118,625,000	\$ 3,926,810	\$ 207,461,810	417.02%	N/A	N/A
2012 (3)	\$ 81,160,000	\$ 360,330,000	\$ 3,723,667	\$ 445,213,667	426.35%	N/A	N/A
2013 (3)	\$ 46,860,000	\$ 561,830,000	\$ 3,414,305	\$ 612,104,305	902.61%	N/A	N/A
2014 (3)	\$ 45,060,000	\$ 589,770,000	\$ 3,148,703	\$ 637,978,703	1035.64%	N/A	N/A
2015 (4)	\$ 77,385,000	\$ 573,355,000	\$ 2,870,882	\$ 653,610,882	1061.02%	N/A	N/A
2016	\$ 75,285,000	\$ 559,405,000	\$ 2,597,001	\$ 637,287,001	732.85%	N/A	N/A

(1) Based on operating revenues.

(2) The Authority has no taxation authority, therefore relating the Authority's debt to personal income or population is not applicable. Further, certain of the Authority's customers are industrial or other non-municipal users such that relating the Authority's debt to personal income or population is not applicable.

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

(4) Increases are reflective of the Highlands bond issuances.

Note: 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 Ten Fiscal Years

Fiscal Year	Water Revenue Bonds						Cover Ratio
	Revenue	Less Operating Expenses	Net Available for Debt Service	Debt Service			
				Principal	Interest		
All Divisions Except the GRP Division							
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	
2012	\$ 9,017,529	\$ 3,621,077	\$ 5,396,452	\$ 1,670,000	\$ 1,617,041	1.64	
2013	\$ 9,338,000	\$ 3,363,471	\$ 5,974,529	\$ 1,715,000	\$ 1,616,962	1.79	
2014	\$ 10,928,913	\$ 4,135,993	\$ 6,792,920	\$ 1,800,000	\$ 1,711,799	1.93	
2015	\$ 12,456,148	\$ 4,208,932	\$ 8,247,216	\$ 2,035,000	\$ 1,677,115	2.22	
2016	\$ 15,253,673	\$ 5,122,763	\$ 10,130,910	\$ 2,100,000	\$ 2,796,584	2.07	
GRP Division							
2010	\$	\$	\$	\$	\$		
2011	\$	\$	\$	\$	\$		
2012	\$	\$	\$	\$	\$		
2013	\$	\$	\$	\$	\$		
2014	\$	\$	\$	\$	\$		
2015	\$	\$	\$	\$	\$		
2016	\$	\$	\$	\$	\$		

Special Project Revenue Bonds

Revenue	Less Operating Expenses	Net Available for Debt Service	Debt Service		Cover Ratio
			Principal	Interest	
\$ 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
\$ 5,242,829	\$ 5,400	\$ 5,237,429	\$ 2,925,000	\$ 2,484,830	0.97
\$ 5,252,805	\$ 5,350	\$ 5,247,455	\$ 2,815,000	\$ 2,326,974	1.02
\$ 5,188,612	\$ 6,550	\$ 5,182,062	\$ 2,935,000	\$ 2,433,327	0.97
\$ 5,022,163	\$ 13,450	\$ 5,008,713	\$ 3,525,000	\$ 1,450,666	1.01
\$ 3,834,462	\$ 3,750	\$ 3,830,712	\$ 3,245,000	\$ 725,139	0.96
\$ 1,089,476	\$ 2,447,677	\$ (1,358,201)	\$	\$ 238,064	(5.71)
\$ 10,826,665	\$ 5,450,870	\$ 5,375,795	\$	\$ 1,096,553	4.90
\$ 14,814,666	\$ 4,132,542	\$ 10,682,124	\$	\$ 7,208,592	1.48
\$ 23,955,203	\$ 6,139,654	\$ 17,815,549	\$	\$ 18,333,910	0.97
\$ 31,293,612	\$ 7,041,051	\$ 24,252,561	\$ 7,820,000	\$ 21,350,629	0.83
\$ 38,529,534	\$ 7,122,884	\$ 31,406,650	\$ 12,890,000	\$ 21,341,076	0.92
\$ 45,655,158	\$ 15,577,960	\$ 30,077,198	\$ 13,010,000	\$ 21,316,968	0.88

SAN JACINTO RIVER AUTHORITY

DISTRICT DEMOGRAPHICS

The SJRA's area comprises all of the territory within the watershed of the San Jacinto River and its tributaries, except the portion of the watershed that lies within the boundaries of Harris County. Such geographical areas consist of all of Montgomery County and parts of Waller, Grimes, Walker, San Jacinto, Liberty and Fort Bend Counties. The SJRA's service area includes all of six counties and part of four counties and more than 30 cities and communities. This geographic diversity in turn provides economic diversity with a combination of agriculture, oil and gas and industry.

The SJRA provides a variety of services to municipal utility districts, industries, and individuals within this service area. 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 service area.

<u>County/City</u>	<u>Population</u>
Barrett	3,199
Baytown	76,335
Crosby	5,977
Grimes County	27,512
Highlands	7,522
Liberty County	79,654
Montgomery County	537,559
San Jacinto County	27,413
Waller County	48,656
Walker County	70,699

Source US Census Bureau, Census 2010 & as estimated through 2015

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

Educational Attainment

<u>County/City</u>	<u>High School</u>	<u>College</u>
Barrett	83%	14%
Baytown	75%	14%
Crosby	70%	12%
Grimes County	80%	12%
Highlands	81%	8%
Liberty County	77%	9%
Montgomery County	86%	32%
San Jacinto County	81%	12%
Waller County	79%	18%
Walker County	83%	18%

Source US Census Bureau, Census 2015

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

<u>County/City</u>	<u>Median Age</u>	<u>Largest Employers</u>
Barrett	32	Texas Department of Criminal Justice
Baytown	32	Sam Houston State University
Crosby	38	Conroe Independent School District
Grimes County	39	Anadarko Petroleum
Highlands	32	Hewitt Associates
Liberty County	37	Memorial Hermann The Woodlands Hospital
Montgomery County	36	St. Luke's The Woodlands Hospital
San Jacinto County	44	Huntsville Independent School District
Waller County	31	Huntsman Company, LLC
Walker County	35	Woodforest National Bank

Source US Census Bureau, Census 2015

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

<u>County/City</u>	<u>Median Household Income (\$)</u>
Barrett	30,819
Baytown	46,776
Crosby	38,668
Grimes County	46,652
Highlands	55,455
Liberty County	47,722
Montgomery County	68,840
San Jacinto County	46,969
Waller County	50,939
Walker County	38,903

Source US Census Bureau, Census 2015

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

<u>County/City</u>	<u>Unemployment Rate</u>
Barrett	18.9%
Baytown	11.7%
Crosby	10.5%
Grimes County	6.7%
Highlands	13.2%
Liberty County	11.8%
Montgomery County	6.7%
San Jacinto County	12.5%
Waller County	9.0%
Walker County	5.2%

Source US Census Bureau, Census 2015

The SJRA serves parts of Walker County, but for the demographic and statistical section above, 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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Highlands	6	6	6	6	7
Lake Conroe	8	9	9	11	13
Woodlands	40	43	44	45	45
General & Administration	11	13	17	27	48
Groundwater Reduction Plan	-	-	-	1	4
Total	65	71	76	90	117

Note: This table reports the number of filled, full-time employees positions based on the division in which they are employed. Table does not include budgeted, unfilled positions. Employees in the General & Administration Division provide centralized services to all four operating divisions, and their time and salary costs are allocated to each division based on time worked.

Note: The majority of the growth occurring during and after 2007 has been directly related to the planning and implementation of a surface water program in response to regulations adopted by the Lone Star Groundwater Conservation District.

**Positions
Equivalent**

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
7	7	7	7	6
14	13	14	14	14
45	39	33	38	42
56	77	79	83	86
5	7	12	23	29
<hr/>				
127	143	145	165	177
<hr/>				

SAN JACINTO RIVER AUTHORITY

OPERATING STATISTICS

Last Ten Fiscal Years

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Raw Water Enterprise (Lake Conroe and Highlands Division)</u>					
Water Delivered (Thousand Gallons)	24,192,602	25,853,331	23,461,598	22,956,203	26,548,710
Water Rights (See detail below)	5	6	7	7	7
<u>Woodlands Division</u>					
Water Average Pumpage (Thousand Gallons)	5,083,736	6,333,984	6,832,883	5,789,840	7,674,492
Wastewater Average Flow (Thousand Gallons per Day)	7,682	7,624	7,756	7,643	7,557
Water Permits	1	1	1	1	1
Wastewater Permits	3	3	3	3	3
Storm Water Permits	2	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>	<u>Date Granted</u>
Lake Conroe	COA 10-4963	33,333	1987
Lake Houston - Run of River	COA 10-4964	55,000	1987
Lake Houston - Effluent Woodlands WWTP's	Permit 5809	14,944	2004
Lake Houston - Additional Storage	Permit 5807	14,100	2008
Lake Houston - Additional Run of River	Permit 5808	40,000	2009
Trinity River - Devers	Permit 5271	56,000	1995
Trinity River - CLCND	COA 08-4279	30,000	2005

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
22,813,154	22,634,039	23,192,114	23,611,611	24,583,145
7	7	7	7	7
7,036,323	6,628,769	6,115,812	5,529,976	6,015,090
7,742	7,315	7,677	7,746	7,960
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 Ten Fiscal Years

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Raw Water Enterprise, Highlands and General & Administration				
Land	\$	\$	\$	\$
Water permits and rights	35,235	50,330	42,536	4,737
Construction in progress	879,998	35,412	1,240,832	5,303,395
Furniture, fixtures and equipment			59,880	3,761
Other machinery and equipment	46,316	5,034	162,469	128,081
Automobiles and trucks	52,373	49,568	35,845	55,566
Buildings	22,535	11,971		3,025
Water systems	913,252		395,987	716,658
Lake Conroe Division				
Land				
Construction in progress	11,966	15,397	69,895	74,266
Furniture, fixtures and equipment	4,470		3,851	1,254
Other machinery and equipment	11,133	17,447	18,446	55,156
Automobiles and trucks		8,741		8,459
Buildings	2,320		23,933	6,936
Dams and appurtenances	2,613		17,676	7,528
Water systems				
Woodlands Division				
Land	29,840		42,394	25,364
Construction in progress	6,626,492	16,958,077	7,348,205	5,670,466
Furniture, fixtures and equipment		7,313	88,005	81,356
Other machinery and equipment	36,657	12,043	46,909	20,822
Automobiles and trucks	42,131	129,846	287,450	313,628
Buildings				13,293
Dams and appurtenances				
Water systems	3,457,408	787,524	21,084,196	2,665,510
Wastewater utility systems	446,691	8,586,424	613,969	2,716,115
Capital Improvement Plans				
Groundwater Reduction Plan Division				
Land				1,139,941
Construction in Progress				2,265,204
Furniture, fixtures and equipment				15,000
Other machinery and equipment				
Automobiles and trucks				
Buildings				
Water systems				
Total Capital Asset Additions	<u>\$ 12,621,430</u>	<u>\$ 26,675,127</u>	<u>\$ 31,582,478</u>	<u>\$ 21,295,521</u>

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 31,415	\$	\$	\$ 10,000	\$ 58,876	\$ 462,528
5,194	1,090				
7,743,714	5,804,413	13,887,890	9,772,503	7,427,025	12,317,956
888,915	130,150	18,540	160,680	134,167	52,201
102,666	223,889	300,528	361,139	70,271	178,617
102,171	369,830	131,621	100,878	65,171	86,271
5,215,813	41,360		1,484,025	774	147,491
3,308,871	2,173,361	17,875,400	2,802,551	8,574,076	1,378,675
28,372				2,596	1,833
53,589	15,062	63,109	501,722	642,080	64,925
75,846	292	1,134	7,055	39,036	56,850
10,774	12,721	1,828	10,864	43,014	
22,799	9,653	17,215	21,814	12,854	10,400
46,370	2,656				87
5,711	40,289	6,908		1,132,947	
6,747					
31	14,236	6,568		23,194	
6,398,484	7,841,826	7,662,672	6,548,527	5,020,431	7,941,930
77,986	42,559	196,702	71,413	386,203	14,261
91,258		9,849	372,450	49,496	337,314
	55,106	58,209	46,058	7,410	129,939
79,829	82,024		6,720		
			256,356		
4,854,789	3,798,904	5,458,285	3,783,083	3,296,024	1,758,450
542,695	827,430	2,511,040	3,020,956	1,801,043	1,660,236
	1,880,898	85,157		500,536	
10,163,648	40,586,454	81,722,501	218,135,401	111,689,168	25,045,377
78,463	320,489	104,586	139,621	534,634	1,088,875
189,557					342,658
26,575	58,551	19,529		206,776	113,450
	2,287,713	47,963		43,153	13,186,309
7,678					417,692,912
<u>\$ 40,169,960</u>	<u>\$ 66,621,956</u>	<u>\$ 130,187,334</u>	<u>\$ 247,713,816</u>	<u>\$ 141,760,955</u>	<u>\$ 484,069,545</u>



