

**COASTAL WATER AUTHORITY**

Management's Discussion and Analysis,  
Independent Auditor's Report,  
Financial Statements and Supplemental Schedules

December 31, 2015

# COASTAL WATER AUTHORITY

DECEMBER 31, 2015

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors of  
Coastal Water Authority

We have audited the accompanying basic financial statements of the Coastal Water Authority ("CWA"), as of and for the year ended December 31, 2015, as listed in the table of contents, and the related notes to the financial statements.

### 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.

### Auditor's Responsibility

Our responsibility is to express an opinion 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 of 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 auditor's judgment, including the assessment of the risks of material misstatements of the financial statement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to CWA'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 CWA'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 opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CWA, as of December 31, 2015, and the changes in financial position and cash flows for the year then 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 the schedule of funding progress for other postemployment benefits on pages 36 and 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information included in Supplemental Schedules I, II and III, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The information in Supplemental Schedules I and II is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information in Supplemental Schedules I and II has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in Supplemental Schedules I and II is fairly stated in all material respects in relation to the financial statements as a whole.

The information included in Supplemental Schedule III has 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 it.

*McConell & Jones LLP*

Houston, Texas  
April 15, 2016

# COASTAL WATER AUTHORITY

## Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2015

As management of the Coastal Water Authority ("CWA"), we offer readers of CWA's financial statements this narrative overview and analysis of the financial activities of CWA for the year ended December 31, 2015. Please read this discussion and analysis in conjunction with CWA's basic financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- Total assets exceeded total liabilities by \$223.6 million at the end of 2015.
- CWA's net position decreased by \$1.6 million primarily due to contributions from the City of Houston not being sufficient enough to cover the operations of CWA. Per the agreement the City is to subsidize certain expenses; however, these reimbursements are based on cash-basis expenditures, and therefore the effects of accrual items and non-cash expenses such as depreciation are not matched with cash amounts.
- During the year, revenues increased by \$1.1 million.
- Expenses were virtually unchanged during the year.
- Long-term liabilities increased by \$55 million as the net result of the closing of a loan commitment with the Texas Water Development Board for \$66.5 million plus a \$0.4 million increase in other postemployment benefits payable, slightly offset by repayments on bonds of \$3.4 million.
- During the year, CWA negotiated with the U.S. Department of Fish & Wildlife to exchange a property acquired at a cost of approximately \$8.6 million for the required environmental mitigation credits for the Project.
- CWA also completed the mitigation of the Gillette Street Property during 2015. The property was sold for \$39.1 million; CWA received \$14.8 million of the proceeds and the City of Houston received the remaining \$24.3 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of two parts: Management's Discussion and Analysis and the basic financial statements.

The financial statements provide both long-term and short-term information about CWA's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CWA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred.

The Statement of Net Position includes all assets and liabilities associated with the operations of CWA. The Statement of Revenues, Expenses, and Changes in Net Position (Equity) reports CWA's net position and how it has changed. Net position is the difference between the sum of CWA's assets and any deferred outflows of resources and the sum of liabilities and any deferred inflows of resources.

**COASTAL WATER AUTHORITY**  
Management's Discussion and Analysis (Unaudited)  
Year Ended December 31, 2015

**FINANCIAL ANALYSIS OF CWA**

**TABLE A-1**  
**Coastal Water Authority's Summarized Financial Information**

	2015	2014 (as restated)
Current Assets	\$ 148,535,787	\$ 78,489,305
Capital Assets, net	271,973,263	265,638,375
Other Noncurrent Assets	17,794,628	32,325,479
Total Assets	438,303,678	376,453,159
Current Liabilities	6,128,966	6,256,527
Long-Term Liabilities	208,578,350	144,963,291
Total Liabilities	214,707,316	151,219,818
Net Position:		
Net investment in capital assets	158,622,654	161,760,964
Restricted	19,419,130	27,973,298
Unrestricted	45,554,578	35,499,079
Total Net Position	\$ 223,596,362	\$ 225,233,341

During 2015, the increase in current assets is primarily due to the increase in cash resulting from a loan from the Texas Water Development Board related to the ongoing Luce Bayou Project. The decrease in other noncurrent assets is due to CWA's investment in Gillette Street Project that successfully closed in 2015, and the increase in long-term loan receivable from the City of Houston for the Luce Bayou Interbasin Transfer Project. The increase in long-term liabilities is primarily related to the Luce Bayou Project and the loan that closed in December.

Net position may, over time, serve as a useful indicator of a government's financial position. In the case of CWA, assets plus any deferred outflows of resources exceeded the liabilities and any deferred inflows of resources by \$223.6 million at the close of 2015. By far the largest portion of CWA's net position (71%) reflects its investment in capital assets (e.g., land, water systems, vehicles, equipment, and construction in progress). CWA utilizes these assets to deliver surface water (river water) to its end users, the City of Houston (the "City") and its contracted water customers.

The ratio of current assets to cover current liabilities is a strong indicator of an ability to manage day-to-day expenses. As of December 31, 2015, that ratio was approximately 24:1. The ratio of total assets to total liabilities, in the absence of any deferred outflows and deferred inflows of resources, was

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## Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2015

approximately 2:1. These strong ratios reflect CWA's stable financial condition both in the short-term as well as in the long-term outlook.

**TABLE A-2**  
**Changes in Coastal Water Authority's Net Position**

	2015	2014 (as restated)
Operating Revenues	\$ 28,401,465	\$ 26,583,591
Non - Operating Revenues	822,955	1,546,126
Total Revenues	29,224,420	28,129,717
Operating Expenses - Field and Administration	(25,824,533)	(25,582,243)
Operating Expenses - Depreciation	(6,936,942)	(7,196,921)
Total Operating Expenses	(32,761,475)	(32,779,164)
Non - Operating Expenses	(3,924,472)	(3,785,274)
Total Expenses	(36,685,947)	(36,564,438)
Loss	(7,461,527)	(8,434,721)
Contributions Provided by City of Houston	5,824,548	5,333,608
Change in Net Position	(1,636,979)	(3,101,113)
Net Position - Beginning of Year (as previously stated)	225,233,341	220,242,624
Prior Period Adjustment	-	8,091,830
Net Position - Beginning of Year	225,233,341	228,334,454
Net Position - End of Year (restated)	\$ 223,596,362	\$ 225,233,341

During 2015, the increase in operating revenues was primarily due to increased water demand from the Bayport System customers and an increase in water demand from the City of Houston. The decrease in non-operating revenues is due to a decrease in pipeline crossing fees compared to the similar activity in 2014. The increase in contributions provided by the City of Houston was primarily due to an increase in debt service payments made on CWA's behalf by the City of Houston.

### CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - CWA's net capital assets as of December 31, 2015, amounted to \$272 million, (net of accumulated depreciation). This investment in capital assets included land, water systems, vehicles, equipment, and construction in progress. Major capital asset events during the year included the following:

- Incremental construction in progress activities, including engineering, permitting and design, for

# COASTAL WATER AUTHORITY

## Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2015

the Luce Bayou Interbasin Transfer Project.

- Replacement of several vehicles and pieces of equipment for field operations.

Long-Term Debt: At the end of 2015, CWA had total long-term debt outstanding of \$205.7 million. A portion (\$77.3 million) of this amount is backed by the Trinity River Projects Contract with the City. The bonds are secured by a first lien on, and a pledge of gross revenues of, the City's water and wastewater systems. The remaining \$128.4 million is backed by the Luce Bayou Projects Contract with the City. These bonds (loans) are secured by a pledge on the City's Combined Utility System General Purpose Fund.

**TABLE A-3**  
**Outstanding Debt at Year-end**

	<u>2015</u>	<u>2014</u>
Revenue bonds	\$ 110,420,972	\$ 112,779,106
Long-term loans (TWDB)	<u>95,319,000</u>	<u>28,754,000</u>
Total	<u>\$ 205,739,972</u>	<u>\$ 141,533,106</u>

### ECONOMIC OUTLOOK

The demand for water delivered by the Coastal Water Authority has remained steady during the past few years and is expected to continue at the current rate for the next year or two. This steady water demand is occurring even as the regional overall economic situation is being negatively impacted by the oil and gas markets.

CWA continues to develop the final design and construction of a second Trinity River Conveyance System (the Luce Bayou Interbasin Transfer Project) that is scheduled to be completed in the summer of 2019. This will provide additional surface water for portions of the Houston Regional Area that are required to reduce their reliance on ground water sources.

### CONTACT INFORMATION

Questions concerning any of the information provided in this report or requests for additional information should be addressed to Coastal Water Authority, 1801 Main Street, Suite 800, Houston, Texas 77002.





## **Basic Financial Statements**

# COASTAL WATER AUTHORITY

## Statement of Net Position December 31, 2015

### ASSETS

#### Current Assets

Cash	\$ 5,608,756
Investments	32,441,729
Receivables:	
Accounts receivable from City of Houston	2,591,015
Accounts receivable from other customers	557,287
Compensable absences – current portion	131,863
Total receivables	<u>3,280,165</u>
Total current assets – unrestricted	<u>41,330,650</u>

#### Current Assets – Restricted:

Cash – restricted for capital projects	93,898
Investments – restricted for contingencies	5,002,117
Investments – restricted for debt service	7,793,299
Investments – restricted for capital projects	94,315,823
Total current assets – restricted	<u>107,205,137</u>

**Capital Assets, Net** 271,973,263

#### Other Assets:

Interest receivable from City of Houston	291,394
Compensable absences receivable – non-current portion	2,505,400
Long-term loan receivable from City of Houston	14,904,741
Deferred outflows of resources	93,093
Total other assets	<u>17,794,628</u>

Total assets \$ 438,303,678

*Continued*

*The accompanying notes are an integral part of the financial statements.*

# COASTAL WATER AUTHORITY

## Statement of Net Position (Continued)

December 31, 2015

### LIABILITIES

#### Current Liabilities - Unrestricted:

Accounts payable	\$ 1,178,620
Compensable absences payable – current portion	<u>131,863</u>
Total current liabilities – unrestricted	<u>1,310,483</u>

#### Current Liabilities - Restricted:

Accounts payable	887,235
Amount due to the City of Houston	443,278
Bonds payable – current portion	3,330,000
Bond interest payable	<u>157,970</u>
Total current liabilities – restricted	<u>4,818,483</u>

#### Long-Term Liabilities:

Bonds payable – non-current portion	107,090,972
Notes payable	95,319,000
Compensable absences payable – non-current portion	2,505,400
Other postemployment benefits payable	<u>3,662,978</u>
Total long-term liabilities	<u>208,578,350</u>
Total liabilities	<u>214,707,316</u>

### NET POSITION

Net investment in capital assets	158,622,654
Restricted for:	
Capital projects, net of restricted liabilities	462,311
Contingencies, net of restricted liabilities	5,002,117
Debt service	7,862,863
Operating reserves	6,091,839
Unrestricted	<u>45,554,578</u>
Total net position	<u>\$ 223,596,362</u>

*The accompanying notes are an integral part of the financial statements.*

# COASTAL WATER AUTHORITY

## Statement of Revenues, Expenses, and Changes in Fund Net Position

Year Ended December 31, 2015

### Operating Revenues:

Funds provided by City of Houston	\$ 23,932,373
Funds provided by San Jacinto River Authority	106,934
Service revenues	4,362,158
Total operating revenues	<u>28,401,465</u>

### Operating Expenses:

Utilities	7,689,636
Field salaries	5,362,317
Administrative	2,571,414
General operating	2,645,602
Materials and supplies	2,576,165
Engineering, legal, and other professional	1,010,167
Contract labor and equipment	3,969,232
Depreciation	6,936,942
Total operating expenses	<u>32,761,475</u>

Operating loss (4,360,010)

### Non-Operating Revenues/(Expenses):

Investment income	122,905
Interest income	700,050
Bond interest expense	(3,571,747)
Loan interest expense	(33,147)
Other (expense) income	(319,578)
Net non-operating revenues/(expenses)	<u>(3,101,517)</u>

Loss before contributions (7,461,527)

**Contributions Provided by City of Houston** 5,824,548

Change in net position (1,636,979)

**Net Position** - beginning of year (as previously stated) 217,141,511

**Prior period adjustment** 8,091,830

**Net Position** - beginning of year (restated) 225,233,341

**Net Position** - end of year \$ 223,596,362

*The accompanying notes are an integral part of the financial statements.*

# COASTAL WATER AUTHORITY

## Statement of Cash Flows

Year Ended December 31, 2015

**Cash Flows from Operating Activities:**

Cash received from municipalities	\$ 26,094,596
Cash received from customers	4,213,903
Cash payments to employees and suppliers for goods and services	<u>(25,805,824)</u>
Net cash provided by operating activities	<u>4,502,675</u>

**Cash Flows from Capital and Related Financing Activities:**

Purchase of capital assets	(13,137,266)
Proceeds from sale of capital assets	(748,099)
Cash restricted for capital projects and contingencies	204,157
Long-term debt	66,565,000
Principal paid on bonds payable	(2,260,000)
Payments for interest on bonds payable and loan	(3,486,131)
Payments for debt issuance expenses	(277,000)
Interest payment on Inter-fund loan	391,117
Capital Contribution	<u>5,746,151</u>
Net cash provided by capital and related financing activities	<u>52,997,929</u>

**Cash Flows from Investing Activities:**

Purchases of investment securities	(336,792,455)
Proceeds from maturities and sales of investment securities	281,239,230
Payments received on note receivable	(424,264)
Investment income	304,384
Other income	<u>172,907</u>
Net cash used in investing activities	<u>(55,500,198)</u>

Net increase in cash 2,000,406

Cash, beginning of year 3,702,248

Cash, end of year \$ 5,702,654

Cash, unrestricted \$ 5,608,756

Cash, restricted 93,898

Total cash: \$ 5,702,654

**Reconciliation of operating loss to net cash provided by operating activities:**

Operating loss	<u>\$ (4,360,010)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	6,936,942
Changes in assets and liabilities:	
Receivables, net	1,907,034
Accounts payable	(376,241)
Other post employment benefits payable	<u>394,950</u>
Net cash provided by operating activities	<u>\$ 4,502,675</u>

*The accompanying notes are an integral part of the financial statements.*

**COASTAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Reporting Entity**

In 1967, an act of the State of Texas Legislature (the “Act”) created Coastal Water Authority (“CWA”, or “the Authority”) as a conservation and reclamation district and political subdivision of the State of Texas covering a part of southwest Liberty County, southwest Chambers County, and most of Harris County. Under the Act, the primary purpose of creating CWA is to provide an agency to finance and construct a water conveyance and distribution system to transport surface water from Lake Livingston and the Trinity River into the above mentioned counties. CWA is also charged with conveying water to a point where it will be available for Galveston County. CWA is authorized to issue revenue bonds, improvement bonds, and special project bonds for the purpose of constructing or acquiring additional facilities that would enable CWA to distribute water to other customers.

In 2005, the Act was amended. Under the amended legislation, CWA may become involved in desalinization and reclamation projects, create a nonprofit corporation to aid and act on behalf of CWA in implementing a CWA project, and develop and generate electric energy with wind turbines or hydroelectric facilities to be used by CWA or the City of Houston, Texas. CWA may also incur indebtedness, such as bond anticipation notes, or other bonds, for the purpose of improving rivers, creeks, and streams to aid in and prevent overflows.

In 2011 the Act was further amended, clarifying CWA’s authority to participate in wetland mitigation under Chapter 221, Natural Resources Code.

**Related Organizations**

The City of Houston, Texas (the “City”) is incorporated under the laws of the State of Texas and provides governmental services as authorized or required by its charter. The City appoints a voting majority of CWA’s board members, but is not financially accountable for the actions of CWA. As a result, the City does not have a financial benefit in CWA and a burden relationship does not exist. All transactions with the City are evidenced by operating and construction project contracts for which the City compensates CWA for their services received pursuant to the contracts.

**Basis of Accounting**

The financial statements of CWA have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted primary standards-setting body for establishing accounting and financial reporting principles for state and local governments.

Under GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, CWA qualifies as a special-purpose government engaged only in business-type activities, and accordingly, only the financial statements required for an enterprise fund are presented as basic financial statements.

CWA’s activities are accounted for on the flow of economic resources measurement focus with the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable. Expenses are recognized in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all

**COASTAL WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

liabilities associated with the operation of these funds are included on the Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net assets, and unrestricted net assets.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates included in the financial statements are depreciation expense which is based on the estimated useful lives of the underlying depreciable assets, annual Other Post Employment Benefits (OPEB) costs and related net OPEB obligations, and the assets and liabilities for compensable absences.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, CWA considers all deposits with a maturity of three months or less to be cash equivalents. Cash restricted by purpose is reported separately from unrestricted cash and cash equivalents.

**Accounts Receivable**

Accounts receivable at December 31, 2015 consisted of billings to customers for user charges and reimbursable expenses from the City. No allowance for doubtful accounts has been recorded because management deemed all receivables to be collectible.

**Capital Assets**

Capital expenditures for the acquisition, construction, or improvement of capital assets are recorded at cost. Management estimates water systems to have a 30% salvage value. Depreciation is provided on a straight-line basis over the estimated useful lives. The estimated useful lives of CWA's capital assets are as follows:

<u>Description</u>	<u>Useful Lives</u>
Water systems	15-50 years
Trucks, equipment, and other	5-10 years

The cost of normal maintenance and repairs that do not add value to the asset or materially extend its life are not capitalized. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations for the period. CWA continuously reviews the carrying value of its property and equipment for possible impairment. When applicable, the book amounts are reduced to fair values.

The balance of construction in progress represents costs incurred on the construction of assets which have not been completed or placed in service as of the end of the year (see Note 7).

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## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### **Unamortized Bond Premium**

Bond premium represents interest paid in advance to the issuer by the bondholders who receive a return of the premium in the form of larger periodic interest payments. The bond premium is amortized over the life of the bond with the amortized amount decreasing interest expense over each period. The bond premiums arising from issuances have been capitalized and amortized on a straight-line basis over the life of the bonds in accordance GAAP requirements. Balance outstanding as of December 31, 2015 on the premiums in the amount of \$5,877,670 has been recorded in the accompanying financial statements as an addition to the face value of the bonds to arrive at its carrying value.

### **Investments**

CWA is authorized to invest in direct obligations of, or obligations guaranteed by, the United States of America, obligations of certain Federal agencies, states, counties, cities, and other investment instruments as authorized by CWA's investment policy, certain obligations of public housing authorities and related institutions, fully collateralized repurchase agreements, and interest bearing time deposits. Any cash balances and time deposits are required to be collateralized and secured by pledges of direct obligations of, or obligations guaranteed by, the United States of America, obligations of such Federal agencies, and certain obligations of public housing authorities and related institutions. Repurchase agreements are required to be fully collateralized by such securities held in a safekeeping account subject to the control and custody of CWA. Investments are valued at amortized cost, which approximates fair value, typically mature in one year or less, and are held to maturity. CWA's Board of Directors reviewed and confirmed the investment policy on December 9, 2015.

### **Compensable Absences**

During fiscal year 2012, CWA amended its vacation policy and created two vacation leave plans ("A" and "B"). Under vacation leave plan A, applicable to employees hired on or before September 1, 2012, employees receive 10 days of vacation and 15 days of sick leave each year. After five years of service, employees receive one additional vacation day for each additional year of service up to a maximum of fifteen additional days. Employees may accumulate vacation leave from year to year and upon termination or resignation receive a lump sum vacation accrual payment up to a maximum of 720 hours. Upon termination or resignation, employees with two or more years of service may receive a lump-sum sick leave payment up to a maximum of 700 hours. Paid absences for employee vacation and sick leave are recorded as expenses when used. CWA's obligation for unused employee vacation and sick leave is reported as a long-term liability, net of current portion. Since these expenses are billable to customers when payable to the employees, CWA records an equal amount of receivable for these compensable absences.

Under vacation leave plan B, applicable to employees hired after September 1, 2012, employees receive 10 working days of vacation and 8 days of sick leave each year. Employees who have completed five years of continuous employment receive additional day of vacation for each additional year of service subject to a maximum of fifteen additional days. Employees are required to utilize their vacation time during the benefit year. Any accrued vacation days not utilized within the benefit year will not be allowed to be carried over to the next benefit year. However, employees may carry over to the next year accrued, unused sick leave hours. Upon termination of employment, employees under this plan will not be paid for any accrued, unused vacation or sick leave.



# COASTAL WATER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### Revenues and Expenses

Operating revenues are those revenues generated from the primary operations of CWA. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of CWA. All other expenses are reported as non-operating expenses. The principal operating revenues of CWA are revenues generated from transportation of surface water to its customers.

Contributions, which finance either capital or current operations, are reported based on GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In applying GASB Statement No. 33 to contributions, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources that qualify to be recorded by CWA as receivables and revenues, which are transmitted by the provider before the eligibility requirements are met, are reported as deferred revenue. At December 31, 2015, CWA had deferred revenues of \$0.

### Restricted Assets

Proceeds of CWA's contract revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited per applicable bond covenants. The investments held for the construction account is used to report those proceeds of revenue bond issuances that are restricted for use in construction projects.

Funds received for CWA's operation and maintenance is set aside to create a reserve for major maintenance, repairs, replacement, and obligatory replacement fund per the Trinity River Water Conveyance System contract and the Lake Houston Pump Station contract between CWA and the City of Houston. These funds are shown as restricted investments in the financial statements.

### Income Taxes

CWA is an organization described in Internal Revenue Code Section 115. Generally, no tax provision is necessary in regard to its excess revenue. Accordingly, none has been recorded in the accompanying financial statements.

### Recent Accounting Pronouncements

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding the application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. that The implementation of the provisions of this Statement did not have a significant impact on the Authority's pension plan financial statements.

**COASTAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. Management of CWA is evaluating the impact, if any, this Statement will have on the Authority's financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement will improve the usefulness of pension-related information for decisions made by the various users of the financial statements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. Management of CWA is evaluating the impact, if any, this Statement will have on the Authority's financial statements.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement will improve the usefulness of postemployment benefits-related information for decisions made by the various users of the financial statements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. Management of CWA is evaluating the impact, if any, this Statement will have on the Authority's financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits, or OPEB). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. Management of CWA is evaluating the impact, if any, this Statement will have on the Authority's financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement will establish a hierarchy of GAAP for state and local governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. Management of CWA is evaluating the impact, if any, this Statement will have on the Authority's financial statements.

**NOTE 2 – TRINITY RIVER WATER CONVEYANCE SYSTEM CONTRACTS**

**City of Houston**

CWA entered into a contract (the "Initial Contract") with the City in May 1968. The contract expires on the earlier date of June 15, 2035 or the date on which the debt service requirements have been paid in full. In consideration of CWA's agreement to construct the main water conveyance and distribution systems, the City agreed to pay, solely out of revenues received from the operation of the City's water and wastewater systems, all maintenance and operating costs and all debt service requirements for the Trinity River Water Conveyance System. Upon termination of the contract and upon payment of all bonds and other obligations issued by CWA for the Trinity River Water Conveyance System, CWA must assign and convey to the City, upon request, all of its rights, titles, and interest in the Trinity River Water Conveyance System.

# COASTAL WATER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED DECEMBER 31, 2015

In June 1995, CWA entered into an operating contract (the "Operating Contract") and a project financing and construction contract (the "Projects Contract") with the City. The Operating Contract expires on the earlier occurrence of the year 2035 or when both the Initial Contract and the Projects Contract terminate. The Projects Contract expires on the earlier occurrence of the year 2035 or when all bonds and other obligations issued by CWA pursuant to the Projects Contract to finance the cost of projects or refinance the cost of such projects are paid.

The Operating Contract amends, restates, and supersedes the Initial Contract relating to CWA's operation for the Trinity River Water Conveyance System. In the Operating Contract, CWA is required to operate and maintain the Trinity River Water Conveyance System and the facilities constructed and/or acquired ("Trinity River facilities") pursuant to the Projects Contract and acquire and/or construct improvements to such facilities or other City facilities. In return, the City pays CWA for maintenance, operation, construction, improvement, and repair of the City projects, including reasonable overhead and administrative costs, as set forth in the annual operating budget. The City is entitled to credits against its obligations under the Operating Contract to the extent that excess revenues, including proceeds from third-party insurers and grants from any Federal or state agency, received by CWA from the operation of the Trinity River facilities are available and are used to pay maintenance, operation, construction, improvement, and repair expenses of the facilities pursuant to the terms of the Operating Contract.

Under the Projects Contract, CWA is required to construct and/or acquire, improve, and repair certain water conveyance and distribution facilities. In return, the City pays, solely from the gross revenues received from the operation of the City's water and wastewater systems, all amounts necessary to pay debt service requirements and reserve fund requirements for such facilities. Upon termination of the Projects Contract and upon payment of all bonds and other obligations issued by CWA, CWA must assign and convey to the City, upon request, all of its rights, titles, and interest in and to such facilities.

In accordance with the terms of the various bond resolutions and City contracts, CWA is required to maintain, in the Trinity River Water Conveyance System operations account, an amount equal to three months average operating costs, as applicable to the City, estimated from its annual operating budget. At the beginning of each year, CWA makes an adjustment to the operating reserves to meet the requirements. This adjustment is either paid by or credited to the City. This amount is being shown in the statement of net assets as part of line item "restricted net position operating reserves." As of December 31, 2015, this reserve amounted to \$5,458,778.

#### **San Jacinto River Authority**

Effective February 10, 1998, CWA entered into a water conveyance contract with San Jacinto River Authority ("SJRA") whereas SJRA reserved 50 million gallons per day (MGD) of capacity in the CWA main canal system. In 1998, SJRA paid CWA a capital recovery fee of \$3,663,860 for this capacity reservation. SJRA paid \$796,087 for the costs of engineering, design, and construction of a diversion point to accommodate this conveyance of water from CWA's main canal to SJRA's canal. Upon completion of the construction project in February 2000, CWA began operating and maintaining this diversion point structure. In return, SJRA began paying a monthly operating charge to CWA for the conveyance of this water. Termination of the contract will occur on the earlier date of January 1, 2035 or the date the City acquires the CWA main canal system.

**COASTAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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In accordance with the terms of the contract with SJRA, CWA is required to maintain, in the Trinity River Water Conveyance System operations account, an amount equal to three months average operating costs, as applicable to SJRA, estimated from its annual operating budget. At the beginning of each year, CWA makes an adjustment to the operating reserves to meet the requirements. This adjustment is either paid by or credited to SJRA. This amount is being shown in the statement of net position as part of the line item "restricted net position operating reserves." As of December 31, 2015, this reserve amounted to \$27,324.

**NOTE 3 – LAKE HOUSTON FACILITIES**

Effective January 1, 1996, CWA entered into an operating contract with the City to assume the responsibility of operating, maintaining, and keeping the Lake Houston Pump Station, West Canal, and related facilities (the "Facilities") in good repair and to assume the responsibility of transporting water through the Facilities. The City pays, solely out of revenues received from the operation of the City's water and wastewater system, all maintenance and operating costs of the Facilities. The City is entitled to credits against obligations for interest received on Lake Houston Facilities fund investments. The contract has been renewed until 2020.

In accordance with the terms of this contract, CWA is required to maintain, in the Lake Houston operations account, an amount equal to three months average operating costs as estimated from its annual operating budget. At the beginning of each year, CWA makes an adjustment to the operating reserves to meet the requirements. This adjustment is either paid by or credited to the City. This amount is being shown in the statement of net position as part of the line item "restricted net position operating reserves. As of December 31, 2015, this reserve amounted to \$605,737.

Effective January 1, 2004, the Operating Contract with the City was amended to extend responsibility for operating, maintaining, performing inspections, and implementing security of Lake Houston and the Lake Houston Dam to CWA. Further, the work under the Operating Contract may be paid by the City either as a capital project or from revenues received from the operation of the City's water and wastewater systems.

**NOTE 4 – BAYPORT WATER SYSTEM**

In 1979, CWA acquired an existing water distribution system, the Bayport Water System, from the Friendswood Development Company and to extend the system to service additional customers. The Bayport Water System is attached to CWA's distribution system and its customers consist primarily of large national company chemical plants.

In 1985, CWA improved the Bayport Water System by the construction of crossover connections to interconnect the three CWA systems and bypass the Bayport reservoir and pump station. This change resulted in a more efficient and reliable system.

A Capital Improvement Fund was established through designation by the board of CWA in the Bayport Water System to provide funds for future renovations, improvements, and repairs to the system. Maintenance and operating costs are paid from revenues received from the operations of the Bayport Water System.

# COASTAL WATER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

### NOTE 5 – WATER TREATMENT PLANT

In 1979, CWA acquired an existing water treatment plant (“the Plant”) from Crown Central Petroleum Company. The Plant is connected to CWA’s distribution system and its customers consist of large chemical processing companies.

In November 2002, Air Products and Chemicals, Inc., (“Air Products”) entered into an agreement with CWA to receive and treat untreated surface water. The termination date for the agreement is December 31, 2017; thereafter, the agreement may be renewed for two additional five-year periods. In return, Air Products will take delivery of the treated surface water and make monthly payments to CWA for water treatment services.

In January 2005, Pasadena Refining Systems, Inc. (“PRSI”) entered into an agreement with CWA to receive and treat 1.15 to 6.0 million gallons of untreated surface water per day for PRSI’s production requirements. In return, PRSI will take delivery of the treated surface water and make monthly payments to CWA for water treatment services. The termination date for the agreement is December 2017. The agreement may be renewed for two additional five-year periods.

In 2010, a supplemental internal loan of \$524,135 was added to the original \$2.3 million loan approved in 2009 to finance the design and construction of a major repair to the Water Treatment Plant facility. The primary objective of the construction project is to replace the filtering equipment and install improved control mechanisms in the plant. Construction work on the project was completed and accepted by CWA’s Board in March 2013. As of December 31, 2015, the loan balance was \$325,067.

### NOTE 6 – LUCE BAYOU PROJECT

In 2009, CWA entered into another project financing and construction contract with the City to plan, design, acquire property, construct and finance a project known as the Luce Bayou Interbasin Transfer Project (the ‘Luce Bayou Project’), which includes infrastructure sized to transfer approximately 450,000 acre feet per year of the City’s permitted surface water from the Trinity River to Lake Houston. The Preliminary Project Costs of the Luce Bayou Project was financed and paid through the issuance of CWA contract revenue bonds which were purchased by the Texas Water Development Board (the “TWDB”) through its Water Infrastructure Fund (“WIF”) loan program, under which the TWDB loaned funds (the “WIF Bonds”) to CWA. The WIF Bonds are secured by the City’s pledge under the Projects Contract to pay Debt Service on the WIF Bonds from the City’s Net Revenues held in the General Purpose Fund.

Under the Luce Bayou Project, CWA advanced funds in the amount of \$9,705,000 to pay for the City’s share of Land and Mitigation Costs. The funds were obtained from CWA’s revenues derived from the sale of certain Certificates of Participation, Series 1993A-J with respect to the City of Houston Water Conveyance System Contract. The City shall repay the advance to CWA along with interest, at a rate equal to the prime rate published by the Wall Street Journal on the respective January 1<sup>st</sup> or July 1<sup>st</sup> for the period June 15, 2009 through December 15, 2016 and the 10- year Bond Buyer Revenue Bond Index from December 15, 2016 for the period December 15, 2016 through December 15, 2038. The City’s payment schedule will start on June 15, 2019 and its repayment term is 20 years with one principal payment and two interest payments each year.

**COASTAL WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

On March 13, 2012, CWA Board authorized an additional sum amounting to \$5 million to be used for acquisition of right-of-way for the Luce Bayou thereby increasing the total estimated costs of the Land and Mitigation project to \$20 million. In accordance with the provisions of the contract agreement, CWA received \$1,765,000 from the City and CWA transferred the amount of \$3,235,000 from its Special Project Equity Fund (SEALS) to cover the City’s portion of the acquisition costs. Accordingly this amount has been recorded as a receivable from the City in the financial statements.

Pursuant to a Master Agreement (the “Agreement”) dated February 21, 2013, between CWA and TWDB, TWDB during the year, made available to CWA a funding in the amount \$28,754,000. The funding is to enable TWDB to purchase an initial 35% undivided interest in the Luce Bayou Project. In accordance with the provisions of the agreement, TWDB may purchase up to 80% of an undivided interest in the Luce Bayou Project. The proceeds of the fund are held in a construction fund created for such purpose and held by CWA. Funds in the construction fund including interest and investment earnings are to be used only for the Luce Bayou Project costs or for CWA’s purchase of TWDB’s interest in the Project. In conjunction with the Agreement, CWA and the City entered into a first supplement to the Luce Bayou project contract to incorporate the City’s pledge for payment of debt service of the loan.

Pursuant to a Master Agreement (the “Agreement”) dated November 20, 2015, between CWA and TWDB, TWDB, during the year, made available to CWA funding in the amount of \$66,565,000. This funding is to enable TWDB to purchase an initial 35% undivided interest in the Luce Bayou Project. In accordance with the provisions of the Agreement, TWDB may purchase up to 80% of an undivided interest in the Luce Bayou Project. The proceeds are held in a construction fund created for such purpose and held by CWA. Funds in this construction fund including interest and investment earnings are to be used only for the Luce Bayou Project costs or for CWA’s purchase of TWDB’s interest in the Project. In conjunction with the Agreement, CWA and the City entered into a second supplement to the Luce Bayou Project contract to incorporate the City’s pledge for payment on debt service of the loan.

**NOTE 7 – DEPOSITS AND INVESTMENTS**

As of December 31, 2015, CWA had the following deposits and investments:

<u>Deposits</u>	<u>Fair Value</u>	<u>Average Maturity in Days</u>
Cash and cash equivalent	\$ 5,608,756	
Cash restricted	93,898	
Total Value	\$ 5,702,654	
<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Maturity in Days</u>
U.S. government and agency securities	\$ 135,527,524	83
Investment pool	4,025,444	98
Total Value	\$ 139,552,968	

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, CWA’s deposits may not be returned to it. As of December 31, 2015, CWA’s bank balances were fully collateralized in accordance with CWA’s investment policy.

# COASTAL WATER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Interest Rate Risk: CWA's formal investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Financial assets are invested only in authorized investments whose maturities do not exceed one year at the time of purchase.

Texas Short Term Asset Reserve Program Cash Reserve Fund ("TexStar") is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code ("Code"), and the Public Funds Investment Act (PFIA), Chapter 2256 of the Code. TexStar was created in April 2002 through a contract among its participating governmental units, and is governed by a board of directors ("board"), to provide for the joint investment of participant's public funds and funds under their control. It is the policy of TexStar to invest pooled assets in a manner that will provide for preservation and safety of principal and competitive investment returns while meeting the daily liquidity needs of its participants. Portfolio of TexStar is a government-repo fund, utilizing primarily U.S. treasury securities, U.S. agency securities both fixed and floating, and repurchase agreements collateralized by such obligations. In order to meet the liquidity needs of the pool's shareholder base and limit its exposure to significant market price fluctuations occurring during the periods of volatile interest rate movement, the weighted average maturity of the pool's assets is limited to 60 days or less. TexStar is rated AAAM by Standard and Poor's. J.P. Morgan Fleming Asset Management and First Southwest Asset Management serve as co-administrators for TexStar under an agreement with the TexStar board.

TexStar is not registered with the SEC as an investment company but has a conservative investment policy which is consistent with the SEC's Rule 2a7 of the Investment Company Act 1940. GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net assets to compute share price. As of December 31, 2015, investments in TexStar amounted to \$4,025,444.

The prior year's long-term investments represented CWA's interest in property (the 'Gillette Street Project'). In 2012, CWA entered into a contract agreement with the City for the purchase of 11/16<sup>th</sup> of the City's interest in the Gillette Street Project for a sum of \$11,000,000 (the "CWA Cash Contribution"). The City held the balance of interest on the property. In accordance with the contract agreement, CWA incurred additional costs (the 'CWA In-Kind Contribution') for remediation and mitigation of certain environmental matters on the property. Total contribution of CWA ("CWA Contribution") towards the property was the amount equal to the CWA Cash Contribution and CWA In-Kind Contribution. The City was required to pay to CWA an amount equal to interest accrued on the CWA Contribution from the closing date and payable on each semi-annual payment date until CWA's ownership share was sold to a third party in accordance with the provisions of the contract agreement. The interest rate was a variable rate which reset on each semi-annual payment date based on the six-month London Interbank Offered Rate (Libor) as published by a commercially available source providing Libor as selected by CWA from time-to-time. Interest on the CWA Contribution was calculated on the basis of the actual number of days elapsed. The closing on the sale of the property occurred in fiscal year 2015. A gain on the sale of \$199,596 has been included in interest income on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

**COASTAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 8 – CAPITAL ASSETS**

Capital assets consisted of the following at December 31, 2015:

	<u>Balance December 31, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance December 31, 2015</u>
Land	\$ 16,702,042	\$ 31,701	\$	\$ 10,136,681	\$ 26,870,424
Intangibles				8,669,664	8,669,664
Water systems	381,212,077		(780,261)	2,074,868	382,506,684
Trucks, equipment, and other	8,997,023	771,916	(299,437)		9,469,502
Construction in progress	45,853,483	13,185,552	(163,695)	(20,881,213)	37,994,127
	<u>452,764,625</u>	<u>13,989,169</u>	<u>(1,243,393)</u>		<u>465,510,401</u>
Accumulated depreciation:					
Water systems	(179,771,014)	(6,379,078)	259,447		(185,890,645)
Trucks, equipment, and other	(7,355,236)	(565,657)	274,400		(7,646,493)
	<u>(187,126,250)</u>	<u>(6,944,735)</u>	<u>533,847</u>		<u>(193,537,138)</u>
Total capital assets, net	<u>\$ 265,638,375</u>	<u>\$ 7,044,434</u>	<u>\$ (709,546)</u>	<u>\$</u>	<u>\$ 271,973,263</u>

Depreciation expense for the year ended December 31, 2015 was \$6,936,942.



**COASTAL WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

**NOTE 9 – LONG-TERM LIABILITIES**

The following is a summary of long-term liabilities for the year ended December 31, 2015:

<b>Description</b>	<b>Balance as of December 31, 2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance as of December 31, 2015</b>	<b>Due within One Year</b>
<b>Bonds:</b>					
Series 2009 Contract Revenue Bonds (Maturing 12/15/2028)	\$ 28,000,000	\$	\$	\$ 28,000,000	\$
Series 2010 Contract Revenue Bonds (Maturing 6/15/2030)	5,115,000			5,115,000	
Series 2010 Contract Revenue Refunding Bonds (Maturing 12/15/2025)	34,930,000		(1,405,000)	33,525,000	2,450,000
Series 2014 Contract Revenue Refunding Bonds (Maturing 12/15/2034)	38,415,000		(855,000)	37,560,000	880,000
Texas Water Development Board Long-Term Loan- 2013 (Maturing 12/15/2046)	28,754,000			28,754,000	
Texas Water Development Board Long-Term Loan- 2015 (Maturing 6/15/2050)		66,565,000		66,565,000	
Sub-total	135,214,000	66,565,000	(2,260,000)	199,519,000	3,330,000
Add: Unamortized premium	6,319,106		(441,436)	5,877,670	
	141,533,106	66,565,000	(2,701,436)	205,396,670	3,330,000.00
<b>Other liabilities:</b>					
Compensated absences Other postemployment benefit payable	2,509,866	127,397		2,637,263	131,863
	3,268,028	394,950		3,662,978	
Total long-term liabilities	\$ 147,311,000	\$ 67,087,347	\$ (2,701,436)	\$ 211,696,911	\$ 3,461,863

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The annual debt service requirements for bonds payable as of December 31, 2015 are as follows:

Year Ending December 31,	Principal	Interest
2016	\$ 3,330,000	\$ 3,404,281
2017	3,455,000	3,346,619
2018	3,590,000	3,609,483
2019	6,255,000	4,532,318
2020-2024	37,210,000	26,394,536
2025-2029	34,485,000	34,213,539
2030-2034	18,685,000	36,585,639
2035-2039	22,090,000	18,648,456
2040-2044	31,225,000	11,559,310
2045-2049	33,309,000	4,371,872
2050	5,885,000	117,112
Total	<u>\$ 199,519,000</u>	<u>\$ 146,783,165</u>

Series 2009 bonds carry a fixed interest rate of 2%-3%, Series 2010 Contract Revenue Bonds carry a fixed interest rate of 1.64%-2.82%, and Series 2010 Contract Revenue Refunding Bonds carry a fixed interest rate of 2%-5%. The TWDB 2013 loan carries a fixed interest rate of 4.44% - 4.69%. Series 2014 Contract Revenue Refunding Bonds carry a fixed interest rate of 3%-5% and are payable on June 15 and December 15 of each year. The TWDB 2015 loan carries a fixed interest rate of 3.98% - 4.11%.

**Source of Repayment**

The Series 2009, 2010, 2010 Refunding Bonds, and 2014 Refunding Bonds (the "Bonds") as well as the 2013 and 2015 loans are special limited obligations of CWA which are payable as to principal and interest solely from certain payments to be made by the City of Houston (the "City") to CWA under certain project contracts.

**Prior Defeasance of Debt**

CWA has at various times entered into transactions to refund certain issues of its bonded debt. Generally, these transactions involve putting funds in a trust to be used to purchase securities to meet all the debt service requirements of the refunded debt, until that debt either matures or is redeemed. The liability for such refunded bonds and the related securities and escrow accounts were not included in the accompanying financial statements, as CWA defeased its obligations for payment of the refunded debt upon completion of the refunding transactions.

At December 31, 2015, refunded bond issues and the related principal payable from escrow accounts were as follows:

	Principal Balance Outstanding
Series 1986	\$ 730,000

COASTAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

NOTE 10 – EMPLOYEE BENEFIT PLANS

CWA has a single-employer defined contribution plan (the “Plan”) under which all full-time employees are eligible to participate upon completion of 90 days of service. All employees are required to contribute 4% of their annual compensation and may make additional voluntary contributions up to a maximum of 10% of that compensation received during all years of plan participation when added to their prior employee contributions.

CWA contributes 11.8% of each employee's gross compensation, which is 18% less a fixed rate of 6.2%, until eligible compensation is no longer subject to the Federal Insurance Contribution Act (FICA). When CWA is not required to contribute to FICA, with respect to each employee, CWA contributes the additional 6.2% to the employee's account. Maximum annual employee contributions are limited to 100% of the employee's compensation. Participants are 100% vested in their contributions and earnings thereon. For the employer contributions, participants are vested at the rate of 20% per year, beginning subsequent to the completion of one year of service, allowing 100% vesting after five years. Participants also become 100% vested upon death, disability, or reaching 65 years of age. In the event of termination of the plan, the vested interest of each participant shall be 100% and no part of the plan's assets will revert to CWA.

Total payroll expense for the year ended December 31, 2015 (100% covered by the plan) was \$6,306,595. Accordingly, the 2015 required contributions for employees were \$253,945 and CWA's requirement, net of forfeitures, was \$749,139. Actual contributions from employees and CWA during 2015 were \$382,695 and \$757,340, respectively. Below is the Statement of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits derived from the Plan's financial statements for the year ended December 31, 2015.

**Statement of Net Assets Available for Benefits**

	Year Ended September 30, 2015
<b>Assets</b>	
Investments in U.S government and agency securities, at fair value	\$ 12,130,252
Employer's contribution receivable	20,856
<b>Net Assets Available for Benefits</b>	<b>\$ 12,151,108</b>

COASTAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Statement of Changes in Net Assets Available for Benefits

	Year Ended September 30, 2015
<b>Additions to Net Assets</b>	
<b>Investment Income</b>	
Net Appreciation in fair value of investments	\$ 91,336
<b>Contributions</b>	
Employer	778,624
Participants	389,774
Total Contributions	1,168,398
Total additions to net assets	1,259,734
<b>Deductions from Net Assets</b>	
Benefits paid	(139,274)
Total deductions from net assets	(139,274)
Change in net assets	1,120,460
<b>Net Assets Available for Benefits</b>	
Beginning of year	11,030,648
End of year	\$ 12,151,108

The Plan's investments at September 30, 2015 were as follows:

September 30, 2015	Face Value	Fair Value	Amortized Cost
Federal Home Loan Mortgage Corp dated 3/26/2013 1.00% due 3/26/2018 Callable on 3/26/2014 @100	\$ 1,500,000	\$ 1,501,785	\$ 1,500,246
Federal National Mortgage Assoc dated 5/30/2013 1.125% due 5/25/2018 Callable Quarterly Starting 11/25/2013 @ 100	1,500,000	1,499,475	1,505,964
Federal National Mortgage Assoc dated 11/14/2012 0.90% due 11/14/2017 Callable Quarterly Starting 5/14/2013 @100	1,000,000	999,490	1,003,406
Federal Home Loan Banks dated 1/6/2015 0.240% due 1/06/2016	1,300,000	1,299,545	1,299,159
Federal Home Loan Banks dated 4/8/2015 0.270 due 4/08/2016	1,250,000	1,248,488	1,248,219
Federal Home Loan Banks dated 10/7/2014 0.080% due 10/07/2015	600,000	599,994	599,992

**COASTAL WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

<u>September 30, 2015</u>	<u>Face Value</u>	<u>Fair Value</u>	<u>Amortized Cost</u>
Federal Home Loan Banks dated 10/9/2014 0.145% due 10/09/2015	500,000	499,995	499,984
Federal Home Loan Banks dated 7/13/2015 0.290% due 7/12/2016	1,250,000	1,247,375	1,247,130
Cash Equivalents; SEI Daily Income TR Treasury II	3,234,105	3,234,105	3,234,105
	<u>\$ 12,134,105</u>	<u>\$ 12,130,252</u>	<u>\$ 12,138,205</u>

Employees of CWA may also participate in a deferred compensation plan, created in accordance with Internal Revenue Code Section 457, which permits the deferral of a portion of their salaries until future years. The deferred compensation is not available to employees until retirement, termination, death, or an unforeseeable emergency. All assets and income of the plan shall be held for the exclusive benefit of the plan's participants and their beneficiaries. The plan is administered by an independent contractor using the investment programs selected by the participants.

**NOTE 11 – POSTEMPLOYMENT BENEFITS**

**Plan Description:** CWA administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The Retiree Health Plan provides healthcare insurance for eligible retirees and their spouses through CWA’s group health insurance plan, which covers both active and retired members. Substantially all of CWA’s employees become eligible for these benefits if they reach normal retirement age while working for CWA. CWA issues a publicly available financial report that includes financial statements and required supplementary information for the Retiree Health Plan. The report may be obtained by writing to CWA, 1801 Main Street, Suite 800, Houston, Texas 77002.

**Funding Policy:** The contribution requirements of plan members are established and may be amended by the CWA’s Board of Directors. These costs are funded on a pay-as-you-go basis. Contributions are recognized in the year paid. The cost of retiree health care premiums incurred by CWA amounted to \$ 51,951 for the year ended December 31, 2015.

**Annual OPEB Cost and Net OPEB Obligation:** CWA's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer. CWA has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. CWA had its OPEB actuarial valuation performed as of December 31, 2014 as required by GASB Statement No. 45. CWA’s annual cost for the current year is as follows:

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**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

Annual required contribution	\$ 557,820
Interest on OPEB obligation	81,701
Adjustment to ARC	(144,668)
Annual OPEB cost (expense)	494,853
Age Adjusted Contributions Made	(99,903)
Increase in net OPEB obligation	394,950
Net OPEB obligation – beginning of year	3,268,028
Net OPEB obligation – end of year	\$ 3,662,978

CWA’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2015 and the preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$615,186	18%	\$2,944,144
2014	\$490,155	34%	\$3,268,028
2015	\$494,852	20%	\$3,662,978

**Funded Status and Funding Progress:** As of December 31, 2015, the actuarial accrued liability for benefits was \$5,388,236, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$6,348,632, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 84.87 percent.

**Methods and Assumptions:** The entry age actuarial cost method is used to calculate the ARC for the CWA's retiree health care plan. Under this method, the actuary calculates the present value of expected benefits for each employee. These calculations include estimated future salary increases and estimated future service. The total cost arrived at is amortized over the employee’s anticipated career using the ‘level percentage of payroll’ method. If experience is in accordance with the assumptions used, the cost will be paid as a constant percentage of payroll over the employee’s whole career, and ARC as a percentage of payroll will remain basically level on a year to year basis.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 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. Significant actuarial methods and assumptions were as follows:

**COASTAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**Actuarial Methods and Assumptions:**

Average retirement age for active employees	65 years
Marital assumption	Marital status of members at the calculation date was assumed to continue throughout retirement.
Investment rate of return	2.5%
Salary increases	2%
Mortality	RP 2000 Mortality Table for Males and Females projected 10 years
Healthcare cost trend rate	5%
Health insurance premiums	2015 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.
Inflation rate	3%
Turnover	Non-group-specific age-based turnover data from GASB Statement No. 45 was used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Amortization period	30 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of CWA's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**NOTE 12 – COMMITMENTS**

**Lease Commitments**

CWA leases its office space and equipment under non-cancelable operating leases. On June 15, 2011 CWA signed a new ten (10) year office space lease agreement commencing March 1, 2012 and ending June 30, 2022. The future minimum lease rental payments under non-cancelable operating leases are as follows:

**COASTAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

For the Year Ending December 31,	Amount
2016	\$ 183,420
2017	187,496
2018	191,572
2019	191,572
2020	199,724
2021 and thereafter	398,448
Total	\$ 1,352,232

Total lease expense for the year ended December 31, 2015, including any related taxes and other fees, and was approximately \$193,290.

**NOTE 13 – CONCENTRATIONS**

The Trinity River Water Conveyance System and Lake Houston Facilities have one major customer, the City of Houston (the “City”). Revenues from the City represent approximately 100% of total revenues in the Trinity River Water Conveyance System and Lake Houston Facilities combined. The Water Treatment Plant currently has only two customers. In addition, the Bayport Water System has two major customers. Revenues from these customers represent approximately 78% of total revenues in the Bayport Water System. CWA believes that the possibility of losing any one of these customers is remote.

**NOTE 14 – RESTATEMENT OF BEGINNING NET POSITION**

In accordance with its various operating agreements, CWA has established various operating and contingency reserves. As of December 31, 2014, the balances in these reserves were incorrectly recorded as liabilities instead of restricted fund balance. This adjustment has resulted in the restatement of beginning net position as of January 1, 2015 as follows:

	Amount
Net position previously reported as of December 31, 2014	\$ 217,141,511
Adjustment for:	
Reclassification of operating reserves	6,091,830
Reclassification of contingency reserves	2,000,000
Net position as of January 1, 2015, restated	\$ 225,233,341

**NOTE 14 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through April 15, 2016, the date financial statements were available to be issued. No changes were made, or are necessary to be made, to the financial statements, as a result of this evaluation.





## **Supplemental Schedules**

**COASTAL WATER AUTHORITY**  
 Schedule of Net Position by System  
 December 31, 2015

	<b>Luce Bayou Interbasin Transfer Project</b>	<b>Trinity River Water Conveyance System Project</b>	<b>Lake Houston Facilities Project</b>	<b>Bayport Water System Project</b>	<b>Red Bluff Water Treatment Plant Project</b>	<b>Totals</b>
<b>ASSETS</b>						
<b>Current Assets – Unrestricted</b>						
Cash	\$	\$ 3,459,312	\$ 407,910	\$ 1,352,690	\$ 388,844	\$ 5,608,756
Investments		28,176,447		4,074,851	190,431	32,441,729
<b>Receivables:</b>						
Accounts receivable from City of Houston		2,352,556	238,459			2,591,015
Accounts receivable from other customers				256,208	301,079	557,287
Compensable absences – current portion		98,801	17,444	8,370	7,248	131,863
<b>Total Current Assets – Unrestricted:</b>		<b>34,087,116</b>	<b>663,813</b>	<b>5,692,119</b>	<b>887,602</b>	<b>41,330,650</b>
<b>Current Assets – Restricted</b>						
Cash – restricted for capital projects	24,334	69,564				93,898
Investments – restricted for contingencies		3,001,270	2,000,847			5,002,117
Investments – restricted for debt service		7,793,299				7,793,299
Investments – restricted for capital projects	94,315,823					94,315,823
<b>Total Current Assets – Restricted</b>	<b>94,340,157</b>	<b>10,864,133</b>	<b>2,000,847</b>			<b>107,205,137</b>
<b>Capital Assets, Net</b>	<b>54,693,013</b>	<b>201,615,711</b>	<b>1,561,509</b>	<b>10,240,228</b>	<b>3,862,802</b>	<b>271,973,263</b>
<b>Other Assets:</b>						
Interest receivable from City of Houston		291,394				291,394
Obligation for comp. absences		1,877,227	331,427	159,036	137,710	2,505,400
Long-term loan receivable from City of Houston		14,904,741				14,904,741
Deferred outflows of resources		93,093				93,093
<b>Total Other Assets</b>		<b>17,166,455</b>	<b>331,427</b>	<b>159,036</b>	<b>137,710</b>	<b>17,794,628</b>
<b>Total Assets</b>	<b>\$149,033,170</b>	<b>\$ 263,733,415</b>	<b>\$ 4,557,596</b>	<b>\$ 16,091,383</b>	<b>\$ 4,888,114</b>	<b>\$ 438,303,678</b>

*Continued*

SCHEDULE I (continued)

COASTAL WATER AUTHORITY  
 Schedule of Net Position by System  
 December 31, 2015

	Luce Bayou Interbasin Transfer Project	Trinity River Water Conveyance System Project	Lake Houston Facilities Project	Bayport Water System Project	Red Bluff Water Treatment Plant Project	Totals
<b>LIABILITIES:</b>						
<b>Current Liabilities - Unrestricted:</b>						
Accounts payable	\$	\$ 1,015,939	\$ 58,165	\$ 53,204	\$ 51,312	\$ 1,178,620
Intercompany transfer	820,736	(1,173,110)	11,608	9,536	331,230	
Compensable absence – current portion		98,801	17,444	8,370	7,248	131,863
<b>Total Current Liabilities - Unrestricted</b>	<b>820,736</b>	<b>(58,370)</b>	<b>87,217</b>	<b>71,110</b>	<b>389,790</b>	<b>1,310,483</b>
<b>Current Liabilities - Restricted:</b>						
Accounts payable	887,235					887,235
Amount due to City of Houston	443,278					443,278
Current portion of bonds payable		3,330,000				3,330,000
Bond interest payable	12,398	145,572				157,970
<b>Total Current Liabilities - Restricted</b>	<b>1,342,911</b>	<b>3,475,572</b>				<b>4,818,483</b>
<b>Long-Term Liabilities:</b>						
Bonds payable	33,115,000	67,755,000				100,870,000
Long-term loan	95,319,000					95,319,000
Unamortized bond premium		6,220,972				6,220,972
Comp. absences payable		1,877,227	331,427	159,036	137,710	2,505,400
Other postemployment benefits		2,234,414	476,188	476,188	476,188	3,662,978
<b>Total Long-Term Liabilities</b>	<b>128,434,000</b>	<b>78,087,613</b>	<b>807,615</b>	<b>635,224</b>	<b>613,898</b>	<b>208,578,350</b>
<b>Total Liabilities</b>	<b>130,597,647</b>	<b>81,504,815</b>	<b>894,832</b>	<b>706,334</b>	<b>1,003,688</b>	<b>214,707,316</b>
<b>Net Position</b>	<b>\$ 18,435,523</b>	<b>\$ 182,228,600</b>	<b>\$ 3,662,764</b>	<b>\$ 15,385,049</b>	<b>\$ 3,884,426</b>	<b>\$ 223,596,362</b>

SCHEDULE II

**COASTAL WATER AUTHORITY**  
 Schedule of Revenues, Expenses, and Changes in Net Position by System  
 For the Year Ended December 31, 2015

	Luce Bayou Interbasin Transfer Project	Trinity River Water Conveyance System Project	Lake Houston Facilities Project	Bayport Water System Project	Red Bluff Water Treatment Plant Project	Totals
<b>Operating Revenues:</b>						
Funds provided by City	\$	\$ 21,715,609	\$ 2,216,764	\$	\$	\$ 23,932,373
Funds by San Jacinto		106,934				106,934
Service revenues				2,306,763	2,055,395	4,362,158
<b>Total Operating Revenues</b>		<b>21,822,543</b>	<b>2,216,764</b>	<b>2,306,763</b>	<b>2,055,395</b>	<b>28,401,465</b>
<b>Operating Expenses:</b>						
Utilities		7,308,536	129,745	75,933	175,422	7,689,636
Field salaries		3,498,915	878,894	493,135	482,823	5,353,767
Administrative		1,516,226	392,369	364,631	298,188	2,571,414
General operating		1,775,763	313,050	288,885	267,904	2,645,602
Material and supplies		1,862,369	152,256	150,720	410,820	2,576,165
Engineering, legal, and professional		744,347	85,426	148,553	31,841	1,010,167
Contract labor and equipment	2,257	3,481,842	277,822	137,343	69,968	3,969,232
SJRA Expenditures		8,550				8,550
Depreciation		6,384,538	68,021	367,071	117,312	6,936,942
<b>Total Operating Expenses</b>	<b>2,257</b>	<b>26,581,086</b>	<b>2,297,583</b>	<b>2,026,271</b>	<b>1,854,278</b>	<b>32,761,475</b>
<b>Operating (loss) Income</b>	<b>(2,257)</b>	<b>(4,758,543)</b>	<b>(80,819)</b>	<b>280,492</b>	<b>201,117</b>	<b>(4,360,010)</b>
<b>Non-Operating Revenues (Expenses):</b>						
Investment income	43,439	66,529	6,162	6,038	737	122,905
Interest income		700,050				700,050
Bond interest expense, net of amortization of bond issue costs	(543,881)	(3,027,866)				(3,571,747)
Gain (loss) on sale of capital assets		(494,448)	4,308	(2,345)		(492,485)
Loan interest expense					(33,147)	(33,147)
Other income	236	172,671				172,907
<b>Total Non-Operating Revenues (expenses)</b>	<b>(500,206)</b>	<b>(2,583,064)</b>	<b>10,470</b>	<b>3,693</b>	<b>(32,410)</b>	<b>(3,101,517)</b>
<b>(Loss) income Before Contributions:</b>	<b>(502,463)</b>	<b>(7,341,607)</b>	<b>(70,349)</b>	<b>284,185</b>	<b>168,707</b>	<b>(7,461,527)</b>
Contributions	345,367	5,479,181				5,824,548
<b>Changes in Net Position</b>	<b>\$ (157,096)</b>	<b>\$ (1,862,426)</b>	<b>\$ (70,349)</b>	<b>\$ 284,185</b>	<b>\$ 168,707</b>	<b>\$ (1,636,979)</b>

**COASTAL WATER AUTHORITY**  
Schedule of Revenues, Expenses,  
And Changes in Net Position –  
Budgetary and Actual (Cash Basis) – All Systems (Unaudited)  
For the Year Ended December 31, 2015

	<b>Trinity River Water Conveyance System Project</b>		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating Revenues:</b>			
Funds provided by City of Houston	\$ 29,230,603	\$ 29,150,507	\$ (80,096)
Funds provided by San Jacinto River Authority	100,000	106,934	6,934
Interest on investments	1,000	20,744	19,744
Service revenues	-		
Other	50,000	172,671	122,671
	<u>29,381,603</u>	<u>29,450,856</u>	<u>69,253</u>
<b>Operating Expenses:</b>			
Utilities	7,684,022	7,455,967	228,055
Field salaries	3,240,913	3,484,915	(244,002)
Administrative	1,616,697	1,511,119	105,578
General operating	1,654,111	1,534,845	119,266
Materials and supplies	2,124,800	1,975,451	149,349
Engineering, legal, and professional	557,470	757,567	(200,097)
Contract labor and equipment	4,957,100	4,363,294	593,806
	<u>21,835,113</u>	<u>21,083,158</u>	<u>751,955</u>
<b>Non-Operating Revenues / (Expenses):</b>			
SJRA expenditures		(8,550)	(8,550)
Bond interest expense	(3,433,265)	(3,219,181)	214,084
Bond principal retirement	(2,215,000)	(2,260,000)	(45,000)
Paying agent fees	-	(3,080)	(3,080)
Construction program	(2,195,000)	(971,737)	1,223,263
	<u>(7,843,265)</u>	<u>(6,462,548)</u>	<u>1,380,717</u>
<b>Change in Net Position</b>	<u>\$ (296,775)</u>	<u>\$ 1,905,150</u>	<u>\$ 2,201,925</u>

SCHEDULE III (Continued)

**COASTAL WATER AUTHORITY**  
 Schedule of Revenues, Expenses,  
 And Changes in Net Position –  
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited)  
 For the Year Ended December 31, 2015

	<b>Lake Houston Facilities Project</b>		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating Revenues:</b>			
Funds provided by City of Houston	\$ 2,427,257	\$ 2,316,340	\$ (110,917)
Interest on investments	1,135	5,314	4,179
	2,428,392	2,321,654	(106,738)
<b>Operating Expenses:</b>			
Utilities	125,014	131,414	(6,400)
Field salaries	903,502	873,894	29,608
Administrative	382,546	389,369	(6,823)
General operating	266,704	261,707	4,997
Materials and supplies	168,900	151,385	17,515
Engineering, legal, and professional	93,280	85,426	7,854
Contract labor and equipment	483,000	328,885	154,115
	2,422,946	2,222,080	200,866
<b>Non-Operating Revenues / (Expenses):</b>			
<b>Change in Net Position</b>	\$ 5,446	\$ 99,574	\$ 94,128

**SCHEDULE III (Continued)**

**COASTAL WATER AUTHORITY**  
 Schedule of Revenues, Expenses,  
 And Changes in Net Position –  
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited)  
 For the Year Ended December 31, 2015

	<b>Bayport Water System Project</b>		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating Revenues:</b>			
Service revenues	\$ 2,095,529	\$ 2,294,673	\$ 199,144
Interest on investments	750	5,804	5,054
	2,096,279	2,300,477	204,198
<b>Operating Expenses:</b>			
Utilities	86,526	76,217	10,309
Field salaries	783,418	484,135	299,283
Administrative	359,190	361,631	(2,441)
General operating	263,688	237,541	26,147
Materials and supplies	119,500	142,550	(23,050)
Engineering, legal, and professional	98,080	148,553	(50,473)
Contract labor and equipment	322,300	187,097	135,203
	2,032,702	1,637,724	394,978
<b>Non-Operating Revenues / (Expenses):</b>			
Construction Program	(2,525,000)	-	2,525,000
	(2,525,000)	-	2,525,000
<b>Change in Net Position</b>	<b>\$ (2,461,423)</b>	<b>\$ 662,753</b>	<b>\$ 3,124,176</b>

SCHEDULE III (Continued)

**COASTAL WATER AUTHORITY**  
 Schedule of Revenues, Expenses,  
 And Changes in Net Position –  
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited)  
 For the Year Ended December 31, 2015

	<b>Red Bluff Water Treatment Plant Project</b>		
	Budget	Actual	Variable Favorable (Unfavorable)
<b>Operating Revenues:</b>			
Service revenues	\$ 2,119,920	\$ 2,034,116	\$ (85,804)
Interest on investments	244	679	435
	2,120,164	2,034,795	(85,369)
<b>Operating Expenses:</b>			
Utilities	196,798	178,665	18,133
Field salaries	535,900	480,823	55,077
Administrative	295,137	297,188	(2,051)
General operating	265,913	216,560	49,353
Materials and supplies	365,400	397,297	(31,897)
Engineering, legal, and professional	80,720	31,841	48,879
Contract labor and equipment	61,000	31,841	29,159
	1,800,868	1,634,215	166,653
<b>Non-Operating Revenues/(Expenses):</b>			
Loan interest expense	(33,147)	(33,147)	
Loan retirement principal	(424,264)	(424,264)	
	(457,411)	(457,411)	-
<b>Change in Net Position</b>	<b>\$ (138,115)</b>	<b>\$ (56,831)</b>	<b>\$ 81,284</b>



**COASTAL WATER AUTHORITY**  
Schedule of Funding Progress for Other Postemployment Benefits  
(Unaudited)  
December 31, 2015

Actuarial Valuation date	Actuarial Value of Assets {a}	Actuarial Accrued Liability (AAL)* {b}	Unfunded (Funded) AAL (UAAL) {b-a}	Funded Ratio {a/b}	Covered Payroll {c}	UAAL as a percentage of Covered Payroll {(b-a)/c}
Dec 31, 2013		\$ 6,537,909	\$ 6,537,909	0%	\$ 5,563,024	110.82%
Dec 31, 2014		\$ 5,388,236	\$ 5,388,236	0%	\$ 5,869,691	91.80%
Dec 31, 2015		\$ 5,388,236	\$ 5,388,236	0%	\$ 6,348,632	85.00%

\*The aggregate actuarial cost method is used for funding purposes. However, because this method does not identify or separately amortize unfunded actuarial liabilities, the entry age actuarial cost method has been used to provide required information about funded status and funding progress. The information presented in this schedule is intended to approximate the funding progress of the plan based on the use of the aggregate actuarial cost method.



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