COASTAL WATER AUTHORITY PENSION PLAN

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

September 30, 2015 and 2014

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COASTAL WATER AUTHORITY PENSION PLAN
Management's Discussion and Analysis
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As management of the Coastal Water Authority Pension Plan (the Plan), we offer readers of the Plan's financial statements this narrative overview and analysis of the financial activities of the Plan for the fiscal years ended September 30, 2015 and 2014. Please read this discussion and analysis in conjunction with the Plan's basic financial statements, which follow this section.

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 information about the Plan's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The Plan's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as applied to governmental units on an accrual basis. Under this basis, contributions and investment income are recognized in the period in which they are earned, expenses and investment losses are recognized in the period in which they are incurred, and benefit payments are recognized in the period in which payments are made.

The Statements of Net Assets Available for Benefits include all assets and liabilities associated with the operations of the Plan. The Statements of Changes in Net Assets Available for Benefits report the Plan's net assets and how they have changed. Net assets are the differences between the Plan's assets and liabilities.

FINANCIAL ANALYSIS OF THE PLAN

TABLE A-1

Coastal Water Authority Pension Plan's Financial Information

	2015	2014
Assets		
Investments in U.S. government and agency securities, at fair value	$ 12,130,252	$ 11,015,108
Employer's contribution receivable	20,856	15,540
Net assets available for benefits	$ 12,151,108	$ 11,030,648

TABLE A-2

Changes in Coastal Water Authority Pension Plan's Net Assets

	2015	2014
Additions		
Investment income		
Net appreciation in fair value of investments	$ 91,336	$ 114,013
Contributions		
Employer	778,624	708,128
Participants	389,774	354,627
	1,168,398	1,062,755
Total additions	1,259,734	1,176,768
Deductions		
Benefits paid directly to participants	139,274	156,491
Total deductions	139,274	156,491
Net increase	1,120,460	1,020,277
Net assets available for benefits, beginning of year	11,030,648	10,010,371
Net assets available for benefits, end of year	$ 12,151,108	$ 11,030,648

During 2015, the increase in net assets was due to the excess of contributions and investment income over benefit payments. Benefit payments remained fairly consistent in 2015 compared to 2014.

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McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of Coastal Water Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Coastal Water Authority Pension Plan (the Plan), a component unit of Coastal Water Authority, which comprise the Statements of Net Assets Available for Benefits as of September 30, 2015 and 2014, and the related Statements of Changes in Net Assets Available for Benefits for the years then ended, and the related Notes to Financial Statements.

Plan Management's Responsibility for the Financial Statements

Plan 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 (US GAAP); 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with the auditing standards generally accepted in the United States of America (US GAAS). Those standards require that we plan and perform the audits 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan'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 Plan'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 Plan 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 net assets available for benefits of the Plan as of September 30, 2015 and 2014, and the

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changes in net assets available for benefits for the years then ended, in accordance with US GAAP.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis on pages 1 through 2 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by US GAAP. Such information is the responsibility of Plan management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of Plan management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the supplementary information and express no opinion on it.

McConnell & Jones LLP

Houston, Texas
January 12, 2016

Coastal Water Authority Pension Plan
Statements of Net Assets Available for Benefits
September 30, 2015 and 2014

	2015	2014
Assets		
Investments in U.S. government and agency securities, at fair value	$ 12,130,252	$ 11,015,108
Employer's contribution receivable	20,856	15,540
Net Assets Available for Benefits	$ 12,151,108	$ 11,030,648

Coastal Water Authority Pension Plan
Statements of Changes in Net Assets Available for Benefits
Years Ended September 30, 2015 and 2014

	2015	2014
Additions		
Investment income		
Net appreciation in fair value of investments in U.S. government and agency securities	$ 91,336	$ 114,013
Contributions		
Employer	778,624	708,128
Participants	389,774	354,627
	1,168,398	1,062,755
Total additions	1,259,734	1,176,768
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Note 1. Description of the Plan

The following description of Coastal Water Authority Pension Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan is a single-employer defined contribution pension plan for the benefit of Coastal Water Authority (the Authority) employees. The Authority is the Plan sponsor and a governmental organization. Accordingly, the Plan is not subject to the requirements of the Employee Retirement Income Security Act of 1974.

Employees are eligible to participate in the Plan on the entry date coincident with or next following the completion of 90 days of service. The entry date is the first day of the subsequent pay period following eligibility.

Contributions

Participants are required to contribute 4% of their annual compensation and may make additional voluntary contributions up to a maximum of 10% of compensation. All newly eligible participants may contribute an additional contribution in an amount equal to 4% of the compensation received during their initial 90 days of service. Pursuant to the Plan document, the Authority contributed 11.8% of a participant's gross compensation to the Plan for Plan years' 2015 and 2014. For a participant that reaches the Federal Insurance Contributions Act (FICA) salary limit of $118,500 and $117,000 for 2015 and 2014, respectively, during a Plan year, an additional 6.2% of the participant's gross wages in excess of the FICA salary limit is contributed by the Authority to the participant's account. The Plan is not participant directed.

Participant Accounts

At the end of each Plan quarter, earnings on contributions and prior earnings are allocated to participant accounts based on the quarter's beginning account balance for the participant to the quarter's total beginning Plan balance. Each participant account is credited with the participant's contribution, the Authority's contribution, and the allocation of the Plan's earnings. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Vesting

Participants are at all times fully vested in their contributions and the appreciation or depreciation thereon. For vesting purposes, a participant must be credited with at least 1,000 hours of service during the Plan year to qualify as one year of service. Vesting in the Authority's contributions plus earnings thereon is based on years of continuous service. Participants vest 20% per year after one year of service and are 100% vested after five years of service. Participants are immediately vested upon death, retirement, or termination of employment due to permanent disability. Normal retirement age under the Plan is 65.

Forfeited Accounts

Forfeitures of non-vested Authority contributions are used to reduce the Authority's contributions in the pay period subsequent to the date a participant received the distribution of his or her vested interest. For the year ended September 30, 2015 and 2014, employer contributions were reduced by $21,121 and $9,570, respectively. There are no outstanding forfeitures at September 30, 2015 and 2014.

Payment of Benefits

Benefits are payable to participants or to a designated beneficiary upon the occurrence of a participant's retirement, disability, death, termination of service, or voluntary contribution withdrawal election.

A voluntary contribution withdrawal election is requested from the Plan's administrative committee. Upon approval and disbursement, a participant may not make another voluntary contribution withdrawal election for twenty-four months, but may continue to make voluntary contributions to the Plan.

Distributions, other than voluntary contribution withdrawals, are made in a lump-sum amount or a two to ten year annuity amount equivalent to the vested value of the participant's account.

Plan Termination

Although it has not expressed any intent to do so, the Authority has the right to terminate the Plan at any time. In the event of termination, all participants become fully vested in their accounts. No part of the Plan's assets will revert to the Authority.

Note 2: Significant Accounting Policies

Basis of Accounting

The financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires Plan management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Reporting Entity

The Plan is a component unit of the Authority. In evaluating how to define the Plan for financial reporting purposes, management determined there are no component units for which the Plan has financial accountability. As such, these financial statements present only the Plan and are not intended to present the financial position and results of operations of the Authority in conformity with US GAAP

Investment Valuation and Income Recognition

The Plan's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Payment of Benefits

Benefits paid directly to participants are recorded when paid.

Administrative Expenses

For the years ended September 30, 2015 and 2014, Plan administrative expenses of $20,274 and $29,022, respectively, were paid by the Authority.

Recently Issued Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value (NAV) per Share (or its equivalent) (ASU 2015-07). ASU 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value per share practical expedient under Accounting Standards Codification (ASC) 820. ASU 2015-07 is effective for the Plan retrospectively for the year beginning after December 15, 2016 with early adoption permitted. Plan management believes the adoption of this guidance concerns disclosure only and will not have an impact on the Plan's financial statements.

In July 2015, the FASB issued ASU No. 2015-12, "(Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient" — consensuses of the Emerging Issues Task Force (ASU No. 2015-12). ASU 2015-12 (1) requires a pension plan to use contract value as the only measure for fully benefit-responsive investment contracts, (2) simplifies and increases the effectiveness of the investment disclosure requirements for employee benefit plans, and (3) provides benefit plans with a measurement-date practical expedient similar to the practical expedient provided to employers in ASU 2015-04, Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets. ASU 2015-12 is effective for fiscal years beginning after December 31, 2015, with early application permitted. The Plan is required to apply the amendments retrospectively for all statements presented except for Part III which requires a prospective application. Plan management believes the adoption of this guidance concerns disclosure only and will not have an impact on the Plan's financial statements.

Plan Management's Review of Subsequent Events

In preparing the accompanying financial statements, Plan management has reviewed all known events that have occurred after September 30, 2015, and through January 12, 2016, the date when these financial statements were available to be issued, for inclusion in the financial statements and footnotes.

Note 3: Investments

The Plan's investments in U.S., local government and agency securities were held by Frost National Bank. The following tables present the Plan's investments as of September 30, 2015 and 2014:

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
Federal Home Loan Banks Dated10/9/2014 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
	$ 12,134,105	$ 12,130,252	$ 12,138,205

*Represents 5% or more of the Plan's net assets

September 30, 2014	Face Value	Fair Value	Amortized Cost
Federal Home Loan Banks dated 4/16/2014 0.090% due 1/16/2015*	$ 1,000,000	$ 999,870	$ 1,000,328
Federal Home Loan Banks dated 1/17/2014 0.120% due 10/17/2014*	1,250,000	1,250,000	1,250,317
Federal Home Loan Mortgage Corp dated 3/26/2013 1.000% due 3/26/2018 Callable on 3/26/2014 @ 100*	1,500,000	1,477,365	1,500,267
Federal Home Loan Mortgage Corp dated 6/20/2012 1.000% due 6/20/2017 Callable Quarterly Starting 6/20/2014 @100*	3,000,000	2,994,390	3,008,428
Federal National Mortgage Assoc dated 5/30/2013 1.125% due 5/25/2018 Callable Quarterly Starting 11/25/2013 @ 100*	1,500,000	1,474,620	1,505,964
Federal National Mortgage Assoc dated 11/14/2012 0.900% due 11/14/2017 Callable Quarterly Starting 5/14/2013 @ 100*	1,000,000	987,390	1,003,406
Federal National Mortgage Assoc Discount Note dated 4/14/2014 0.100% due 4/9/2015*	1,501,000	1,500,685	1,500,208
Cash Equivalents; SEI Daily Income TR Treasury II	330,788	330,788	330,788
	$ 11,081,788	$ 11,015,108	$ 11,099,706

*Represents 5% or more of the Plan's net assets

The Plan is authorized to invest in direct obligations of, or obligations guaranteed by, the United States of America, obligations of certain Federal agencies, certain obligations of public housing authorities and related institutions, 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. Investments typically mature in three years or less, and are held to maturity or to the stated call date if such action is taken by the issuer.

Note 4: Fair Value Measurements

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures,* (FASB ASC 820) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in an active market for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1
Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities.

Level 2
Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3
Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used at September 30, 2015 and 2014.

U.S. government and agency securities – SEI Daily Income Fund is valued at fair value using the closing price reported on the active market on which the individual securities are traded. The fund invests exclusively in U.S. Treasuries and is categorized as Level 1 in the fair value hierarchy. Callable agency issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. Callable agency issued debt securities and mortgage pass-through certificates are generally categorized in Level 2 of the fair value hierarchy.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of September 30, 2015 and 2014:

	2015	2014
Level 1.		
SEI Daily Income	$ 3,234,105	$ 330,788
	3,234,105	330,788
Level 2:		
Federal Home Loan Mortgage Corporation	2,749,160	4,471,755
Federal National Mortgage Association	2,498,965	3,962,695
Federal Home Loan Banks	3,648,022	2,249,870
	8,896,147	10,684,320
Total investments at fair value	$ 12,130,252	$ 11,015,108

Note 5: Federal Income Taxes

The Plan obtained its latest determination letter dated June 24, 2014, in which the Internal Revenue Service (IRS) stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code (IRC).

US GAAP requires the Plan administrator to evaluate uncertain tax positions taken by the Plan. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the IRS. The Plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of September 30, 2015, there are no uncertain positions taken or expected to be taken. The Plan has recognized no interest or penalties related to uncertain tax positions. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2012.

Note 6: Risks and Uncertainties

The Plan invests in various investment securities that are exposed to various risks such as interest rates, market and credit risks. Market values of investments may decline for a number of reasons, including changes in prevailing market and interest rates, increases in defaults and credit rating downgrades. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that change in values of investment securities will occur in the near term and that some changes could materially affect participant account balances and the assets reported in the Statements of Net Assets Available for Benefits.

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