

San Jacinto River Authority
Comprehensive Annual Financial Report
For the Fiscal Year Ended
August 31, 2012



Prepared by the Accounting Department
Montgomery County, Texas



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

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Comprehensive Annual Financial Report for Fiscal Year Ended August 31, 2012

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INTRODUCTORY SECTION

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San Jacinto River Authority

ADMINISTRATIVE OFFICE
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December 5, 2012

Board of Directors
San Jacinto River Authority
Montgomery County, Texas

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the San Jacinto River Authority (SJRA or Authority) for the fiscal year ended August 31, 2012. The purpose of the CAFR is to provide reliable financial information about the SJRA to the SJRA's Board of Directors, customers, and other interested parties. The SJRA's Accounting Department has prepared the CAFR in accordance with generally accepted accounting principles (GAAP). Management assumes full responsibility for the completeness and reliability of the information contained in the CAFR, based upon a comprehensive framework of internal controls that are established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective of such internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Our auditor Sandersen, Knox & Co, L.L.P., Certified Public Accountants, has issued an unqualified ("clean") opinion on the SJRA's financial statements for the year ended August 31, 2012. The independent auditor's report is located at the front of the financial section of the CAFR. A single audit was not required this year since SJRA did not receive sufficient federal grant funds to require such an audit. Accordingly, a single audit report is not included with this CAFR.

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

Profiles of the Government

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

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

The SJRA is governed by a board of seven directors appointed to six-year terms by the Governor of the State of Texas. The SJRA has statutory power and responsibility for developing, conserving, and protecting the water resources of the San Jacinto River watershed. The SJRA provides a variety of services including water and wastewater treatment, municipal, industrial and agricultural raw water supply, water quality management and reservoir operations. These operations are accounted for in the following divisions.

The General & Administration Division, located in the general business office at Lake Conroe, consist of professional, technical, accounting, administrative, and support staff working under the direction of the General Manager. The General & Administration Division's primary function is to provide management and support services to the SJRA's four operating divisions (listed below). After year end, the SJRA's General Manager retired, and the Board appointed Jace A. Houston as the new General Manager. Also after year end, the SJRA's Controller resigned, and Pam J. Steiger was promoted to Controller.

The Highlands Division is located in East Harris County operates a pump station at Lake Houston. Raw water from the lake is diverted into the SJRA's extensive 27-mile system of canals and a 1400-acre reservoir for delivery to industrial, municipal, and agricultural customers. The Highlands System also includes a pump station to transfer raw water from the Trinity River via the Coastal Water Authority to the South Canal.

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

The Woodlands Division is located in southern Montgomery County and provides wholesale water supply and wastewater treatment services to the 90,000-person community of The Woodlands. To provide these services, the SJRA operates wastewater treatment plants, lift stations, water wells, water booster pump stations, elevated and ground storage tanks, and miles of wastewater conveyance and water transmission facilities.

The Groundwater Reduction Plan Division, with its office located at the Lake Conroe Dam, is responsible for implementing a countywide alternative water supply program that will meet the groundwater reduction requirements of the Lone Star

Groundwater Conservation District and ensure reliable, long-term water supplies for all public utilities in Montgomery County that choose to join the program. The GRP Division will design, construct, operate, maintain, and administer a water treatment plant and transmission lines that will withdraw raw surface water from Lake Conroe, treat it to meet or exceed drinking water standards, and then transmit it to customer cities and utilities within Montgomery County.

ECONOMIC CONDITION AND OUTLOOK

The Texas Economy. According to the Texas Comptroller of Public Accounts in the latest issue of “Texas Economy – Economic Outlook,” the state’s economy has been comparatively healthy as indicated by the U.S. Census Bureau report that Texas added more people (421,000) than any other state from 2010 to 2011. Texas has 8 percent of the nation’s population but added nearly 19 percent of the nation’s population growth for the year. “Job growth, sales tax collections — both from business and consumer purchases — as well as automobile sales, signal that the Texas economy has emerged from the recent recession. By December 2011, Texas employers replaced all 427,600 jobs shed during the recession as our economy rebounded more quickly than the U.S. as a whole, and continues to add jobs. Nationally, through August 2012 only 48 percent of recession-hit jobs have been recovered.”

The Local Economy. The SJRA’s boundaries include the entire watershed of the San Jacinto River and its tributaries excluding Harris County. The SJRA serves many customers in the Houston area and is authorized to operate in Harris County east of the San Jacinto River. The SJRA does not receive money from the state, nor does it collect any type of taxes. Income is primarily derived from the sale and distribution of water and treatment of wastewater. This revenue covers the cost of operation and maintenance as well as outstanding debt. Revenue bonds are sold to finance projects. The SJRA has weathered the effects of the recession and will continue to fare well in 2013 and beyond. In fact, the SJRA had a need to increase its staff by nine percent, bringing job opportunities to its surrounding areas. With continued population growth in the SJRA’s service area, the ability to provide increasing amounts of water is in great demand. With the SJRA’s service area located between two rapidly growing major metropolitan areas, the need for future water supplies and reliable planning is apparent, and as a result, the SJRA’s Board of Directors and staff are working diligently to plan for future water supplies in order to better assure the region’s future economic vitality.

FINANCIAL INFORMATION

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

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

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

MAJOR INITIATIVES

For the Year. One of the SJRA's major initiatives for Fiscal Year 2012 included planning for adequate, long-term water resources for the San Jacinto River Basin, including Montgomery County, along with the planning necessary for the development of additional future supplies of water. This initiative was evident in the work of SJRA staff with committees related to instream surface water flows, fresh water inflows for bays and estuaries, review of water quality standards, regional water planning, and desired future conditions for groundwater aquifers in Southeast Texas.

Another major initiative in Fiscal Year 2012 was the continued implementation of critical facility repairs to the SJRA's raw water delivery system in the Highlands. This multi-year project includes repair and replacement of numerous siphons, repairs to the Highlands Reservoir dam, improvements to the Highlands Division office, and installation of additional flow measuring equipment and SCADA components. This program will increase the reliability of the delivery system.

Another major initiative was to continue financing and construction activities for the Groundwater Reduction Plan (GRP) program. To that end, the SJRA had completed approximately 62 percent of the financing for the GRP program by the end of Fiscal Year 2012, and approximately 91 percent of the financing for the GRP program has been completed to date. During Fiscal Year 2012, a new Groundwater (GRP) Building No. 1 was constructed as part of the GRP water treatment plant. The new GRP Building No. 1 provides the SJRA with space for project/construction managers and staff to work to achieve timely completion of the water treatment plant which includes extensive planning, design and permitting of a raw water intake and pump station, 30 million gallons per day surface water treatment plant, ground storage tanks, high service pump station, and over 50 miles of transmission lines.

For the Future. In November 2009, the Lone Star Groundwater Conservation District (LSGCD) adopted final regulations that require certain groundwater users to prepare and submit a Groundwater Reduction Plan by April 1, 2010, outlining how the

user intends to meet a 2016 deadline for conversion to surface water supplies. The SJRA responded to this regulatory requirement with the development of a long-term countywide approach that will provide a compliance solution for all users in the county who choose to join. The SJRA plan was designed so that any large volume groundwater user in the county could join the SJRA's Joint Groundwater Reduction Plan (GRP) by executing a GRP Contract and paying the required monthly GRP Pumpage Fee. For 2012, the GRP Pumpage Fee was set at \$0.75 per thousand gallons of groundwater pumped by the participating entity and is billed monthly. It is anticipated that this fee will increase each year as costs are incurred for design and construction of the necessary infrastructure to deliver surface water by the 2016 deadline. Current studies suggest that the GRP Pumpage Fee could be close to \$2.35 per thousand gallons by 2016. The estimated cost of the entire surface water system that must be constructed to meet the 2016 deadline is \$480 million. To date, the cities and water utilities that have joined the SJRA GRP represent approximately 80 percent of the water use in Montgomery County. The GRP Division will be responsible for implementing the surface water program and constructing the necessary infrastructure to deliver water beginning in 2016.

Acknowledgements

Independent Audit. Section 49.191 of the Texas Water Code requires an annual audit of the SJRA's accounting records by a certified public accountant or public accountant holding a permit from the Texas State Board of Public Accountancy and selected by the Board of Directors. The firm Sandersen, Knox & Co., LLP was selected by the Board for the 2012 fiscal year. We appreciate their professionalism, timeliness and assistance in completing this report. Copies of this report will be filed with the TCEQ, State Comptroller, State Auditor, Texas Water Development Board, as well as with the county clerk of each county within the SJRA jurisdiction.

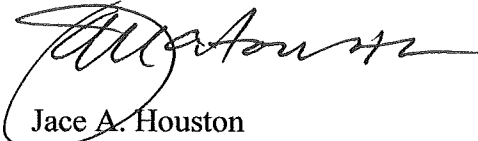
Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the SJRA for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended August 31, 2011. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

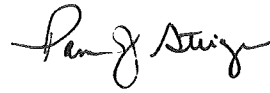
Acknowledgements. We congratulate our employees for another successful year of operation. Without their dedication and professionalism, we could not have provided such a high level of service to the customers of the SJRA service area. The preparation

of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated staff of the SJRA's Accounting Department.

Sincerely,



Jace A. Houston
General Manager



Pam J. Steiger, CPA
Controller

SAN JACINTO RIVER AUTHORITY

Certificate of Achievement for Excellence in Financial Reporting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jacinto River Authority
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2011

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



Christopher P. Moynell

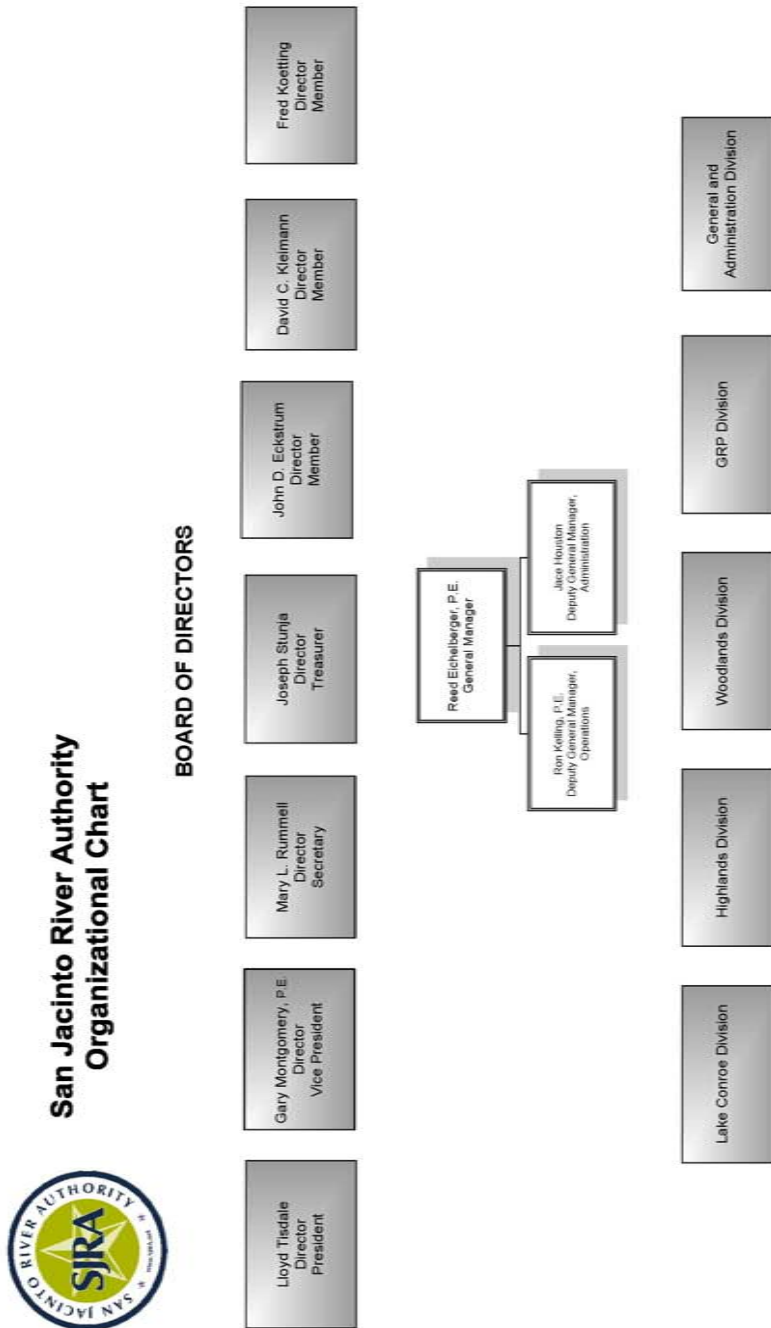
President

Jeffrey R. Enen

Executive Director

SAN JACINTO RIVER AUTHORITY

Organizational Chart



Revised 07/30/2012 by Human Resources

SAN JACINTO RIVER AUTHORITY

Board of Directors

| | <u>Term Expires</u> |
|------------------------------------|----------------------------|
| Lloyd B. Tisdale, President | 2013 |
| R. Gary Montgomery, Vice President | 2013 |
| Mary L. Rummell, Secretary | 2015 |
| Joseph L. Stunja, Treasurer | 2017 |
| John Eckstrum, Member | 2017 |
| Fredrick Koetting, Member | 2015 |
| David C. Kleimann, Member | 2013 |

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

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FINANCIAL SECTION

Independent Auditors' Report

Board of Directors
San Jacinto River Authority
Montgomery County, Texas

We have audited the accompanying financial statements of the business-type activities and each major fund of the San Jacinto River Authority, as of and for the year ended August 31, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the San Jacinto River Authority's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the San Jacinto River Authority as of August 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-12 and required supplementary information on pages 50 and 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

A handwritten signature in cursive script, appearing to read "San Jacinto River Authority & Co.", written in dark ink.

Sugar Land, Texas
November 30, 2012

SAN JACINTO RIVER AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

The management of the San Jacinto River Authority (the "Authority") offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended August 31, 2012. We encourage readers to consider the information presented here in conjunction with the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The Authority's total assets were \$606.8 million; of this amount, approximately \$226.5 million represents net capital assets and \$365.7 million represents cash and cash equivalents under both, current and restricted assets.
- Liabilities for the Authority totaled \$464.0 million of which \$438.8 million accounts for obligations under long-term debt.
- The Authority's total assets exceeded liabilities by approximately \$142.8 million. This amount represents net assets; of this amount, \$81.0 million is invested in capital assets – net of related debt. An additional \$27.1 million is under restricted net assets and the remaining \$34.6 million represents unrestricted net assets.
- Operating revenues for the Authority at year-end were \$49.2 million and exceeded operating expenses by \$15.1 million. The major revenue sources were capacity charges, water and wastewater treatment service fees to Woodlands' municipal utility districts of \$28.5 million; untreated water sales to industrial, municipal and agricultural customers of \$9.5 million; and Groundwater Reduction Plan fees of \$9.5 million.
- Operating expenses totaled \$34.0 million. Highlights within operating expenses were salaries, wages and employee benefits of \$10.8 million, operating supplies of \$7.3 million and depreciation of \$7.0 million.
- Non-operating expenses exceeded non-operating revenues by approximately \$10.8 million. This was primarily attributable to interest expense paid on bonds that totaled \$11.5 million as of year-end.
- Capital contributions from Woodlands municipal utility districts totaled \$0.8 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements include three components: 1) business-type financial statements, 2) notes to the financial statements, and 3) required supplemental information. This report also contains other supplemental information in addition to the basic financial statements.

ENTERPRISE FUNDS

Enterprise Funds are used to report the same functions presented as business-type activities in the basic financial statements. The Authority's major Enterprise Funds are presented by division as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS

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

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

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

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

FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a financial statement position. In the case of the Authority, assets exceeded liabilities by \$142.7 million at the close of the most recent fiscal year.

As of August 31, 2012 and 2011

| | 2012 | 2011 |
|---|-----------------------|-----------------------|
| Assets | | |
| Current assets | \$ 374,616,035 | \$ 171,914,889 |
| Noncurrent assets | 5,700,899 | 4,126,983 |
| Capital assets | 226,508,264 | 179,081,389 |
| Total Assets | <u>\$ 606,825,198</u> | <u>\$ 355,123,261</u> |
| Liabilities | | |
| Current liabilities | \$ 24,361,941 | \$ 15,845,393 |
| Noncurrent liabilities | 439,696,319 | 201,635,418 |
| Total Liabilities | <u>\$ 464,058,260</u> | <u>\$ 217,480,811</u> |
| Net Assets | | |
| Invested in capital assets - net of related debt | \$ 81,039,024 | \$ 93,493,165 |
| Restricted: | | |
| Debt service | 27,079,260 | 7,587,810 |
| Construction | | 191,005 |
| Unrestricted | 34,648,654 | 36,370,470 |
| Total Net Assets | <u>\$ 142,766,938</u> | <u>\$ 137,642,450</u> |

- Current assets increased by \$202.7 million which represents a 118% increase from the prior year primarily due to an increase in cash and cash equivalents from bond proceeds for the Groundwater Reduction Plan Division, restricted to engineering, construction, construction management and inspection.
- Noncurrent assets increased by \$1.5 million, a 36% increase due to bond issue costs from new bond issues.
- Total liabilities increased by \$246.6 million, a 113% increase from the prior year primarily due to bonds payable for the Groundwater Reduction Plan Division.
- Current liabilities from accounts payable increased by \$8.5 million, a 54% increase due to increased purchases and interest accruals on the long-term debt.
- Long term debt increased by \$238.1 million, primarily due to new bond issues for the Groundwater Reduction Plan Division.

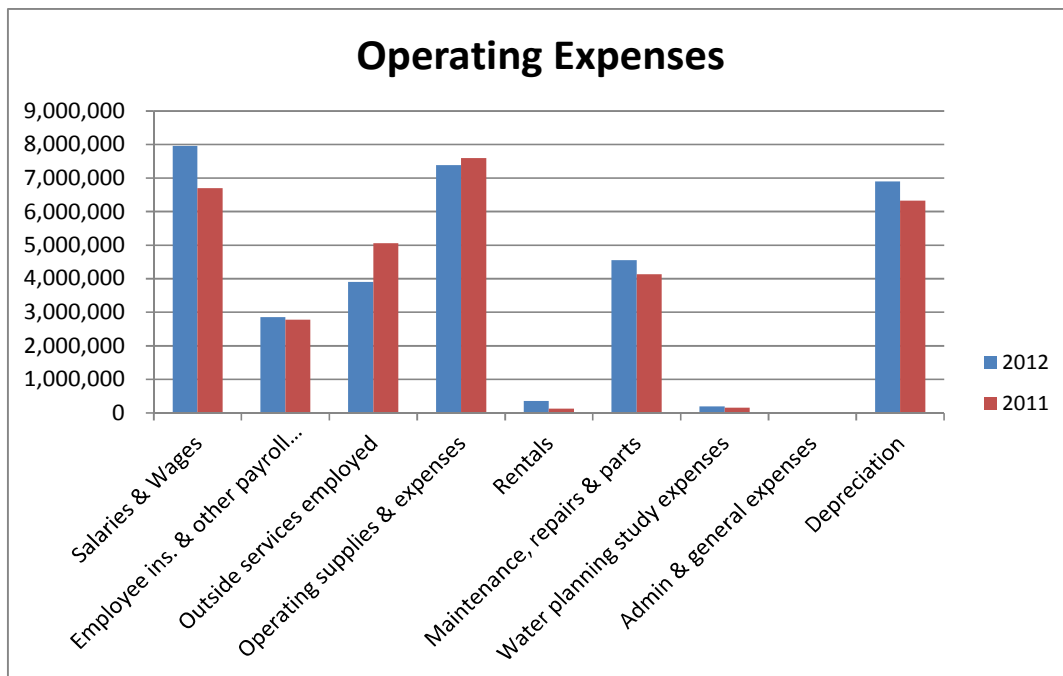
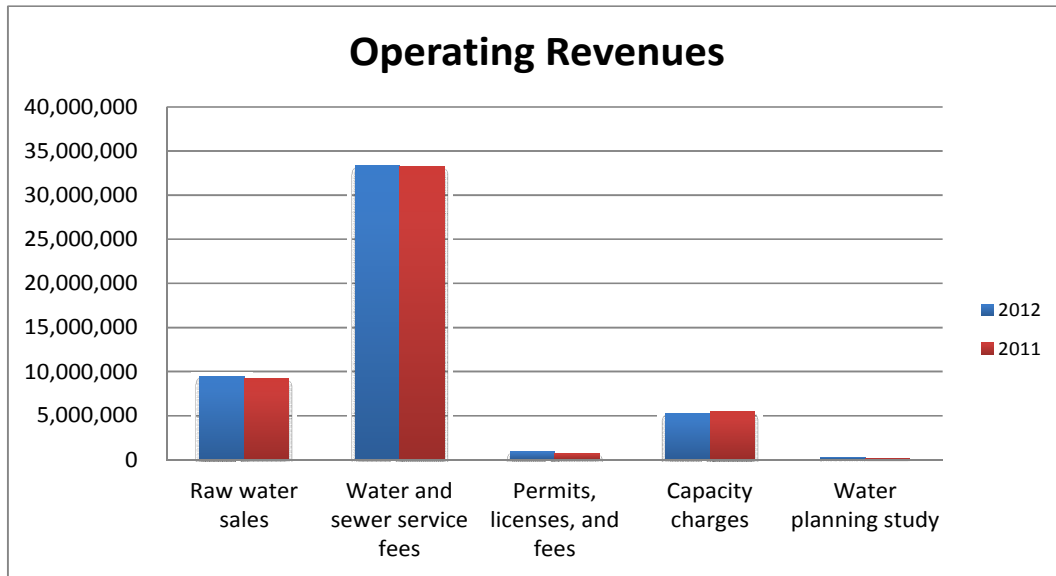
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

For the Years Ended August 31, 2012 and 2011

| | 2012 | 2011 |
|---|-----------------------|-----------------------|
| Operating Revenues: | | |
| Raw water sales | \$ 9,331,444 | \$ 9,172,135 |
| Water and sewer service fees | 33,360,551 | 33,257,666 |
| Permits, licenses and fees | 1,007,532 | 763,503 |
| Capacity charges | 5,242,829 | 5,466,830 |
| Water planning study | 210,072 | 141,878 |
| Total Operating Revenues | 49,152,428 | 48,802,012 |
| Operating Expenses: | | |
| Salaries and wages | 7,958,296 | 6,702,971 |
| Employee insurance and other payroll benefits | 2,772,375 | 2,783,051 |
| Outside services employed | 3,908,048 | 5,053,638 |
| Operating supplies & expenses | 7,388,455 | 7,595,490 |
| Rentals | 352,479 | 124,643 |
| Maintenance, repairs and parts | 4,550,249 | 4,133,285 |
| Water planning study expenses | 197,815 | 157,071 |
| Admin and general expenses | | |
| Depreciation | 6,898,534 | 6,330,205 |
| Total Operating Expenses | 34,026,251 | 32,880,354 |
| Operating Income | 15,126,177 | 15,921,658 |
| Nonoperating Revenues (Expenses) | (10,838,798) | (5,865,950) |
| Contributed Capital | 837,109 | 1,843,632 |
| Net Income | 5,124,488 | 11,899,340 |
| Net assets at beginning of year | 137,642,450 | 125,743,110 |
| Net Assets at End of Year | \$ 142,766,938 | \$ 137,642,450 |

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



- Salaries and wages increased by \$1.3 million, a 19% increase from the prior year which was primarily due to additional employees.
- Depreciation expense increased by \$.7 million, an increase of 11% from the previous year. Most of this increase was due to the purchase of capital assets.

CAPITAL ASSETS AND LONG-TERM DEBT

The Authority's investment in net capital assets as of August 31, 2012 totaled \$226.5 million. This investment in capital assets includes land; water permits and rights; office furniture, fixtures and equipment; other machinery and equipment; automobiles and trucks; buildings; dams and appurtenances; water systems; wastewater utility systems; capital improvement plans; and construction in progress. The total increase in the Authority's investment in net capital assets for the current fiscal year was 26%.

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

- The Authority added \$42 million to the construction in progress for the water treatment facility and transmission lines of the Groundwater Reduction Plan Division, electrical upgrades, numerous rehabilitations and a water well.
- The Authority completed Siphon 38 at capital costs of \$2.2 million.
- The Authority completed the entrance to the Groundwater Reduction Plan Division at Longmire Road at a capital cost of \$1.9 million.
- The Authority completed Building 1 for the Groundwater Reduction Plan Division at capital costs of \$2.3 million.
- The Authority completed Ground Storage Tank No. 2 at Water Plant No. 1 at capital costs of \$1.5 million.

| | 2012 | 2011 |
|------------------------------------|------------------------------|------------------------------|
| Capital Assets - at cost | | |
| Land | \$ 12,308,644 | \$ 10,413,707 |
| Water permits and rights | 30,947,801 | 30,946,712 |
| Office furniture, fixtures & equip | 2,102,525 | 1,642,977 |
| Other machinery and equipment | 1,952,580 | 1,709,443 |
| Automobiles and trucks | 2,083,108 | 1,735,586 |
| Buildings | 11,446,680 | 9,042,538 |
| Dams and appurtenances | 8,228,966 | 8,188,676 |
| Water systems | 102,534,075 | 96,561,810 |
| Wastewater utility systems | 84,905,679 | 84,078,249 |
| Capital improvement plans | 376,882 | 376,882 |
| Construction in progress | 60,942,456 | 18,973,969 |
| Less accumulated depreciation | <u>(91,321,132)</u> | <u>(84,589,160)</u> |
| Total Capital Assets | <u><u>\$ 226,508,264</u></u> | <u><u>\$ 179,081,389</u></u> |

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

LONG-TERM DEBT

At the end of the current fiscal year, the Authority had long-term debt of \$438.8 million. The debt represents primarily bonds secured solely by specified revenue sources (i.e. revenue bonds).

As of August 31, 2012 and 2011

| | 2012 | 2011 |
|---------------------------------|------------------------------|------------------------------|
| Long-Term Debt | | |
| First Lien Water Revenue Bonds- | | |
| less current maturities | \$ 436,960,000 | \$ 198,940,000 |
| Notes payable less current | 3,416,627 | 3,668,528 |
| Deferred amount of refunding | <u>(1,529,397)</u> | <u>(1,679,438)</u> |
| Total Long-Term Debt | <u><u>\$ 438,847,230</u></u> | <u><u>\$ 200,929,090</u></u> |

The Authority's total long-term debt increased by \$238 million from the previous year, due to the sale of the Special Project Revenue Bonds (GRP), Series 2011A, and Special Project Revenue Bonds (GRP), Series 2012.

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

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

SAN JACINTO RIVER AUTHORITY

STATEMENT OF NET ASSETS

August 31, 2012

| | Business Type Activities - | | | | |
|-----------------------------------|---|--------------------------|-----------------------|----------------------------|---------------------------|
| | General and Administration Division | Highlands Division | Region H | Lake Conroe Division | Woodlands Division |
| <u>Assets</u> | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | | | | | |
| Unrestricted | \$ 3,237,893 | \$ 4,725,147 | \$ 222,045 | \$ 3,636,933 | \$ 13,193,507 |
| Restricted: | | | | | |
| Debt service | | 4,574,405 | | | 4,232,897 |
| Construction | | 17,902,297 | | | 9,251,639 |
| Accounts receivable | 3,009,514 | 98,937 | | 722,392 | 2,963,328 |
| Prepaid expenses | 272,264 | 30,643 | | 28,524 | 439,328 |
| Total Current Assets | <u>6,519,671</u> | <u>27,331,429</u> | <u>222,045</u> | <u>4,387,849</u> | <u>30,080,699</u> |
| Noncurrent Assets | | | | | |
| Debt issuance costs - net | 21,748 | 444,702 | | | 1,202,209 |
| Net pension asset | 80,996 | | | | |
| Total Noncurrent Assets | <u>102,744</u> | <u>444,702</u> | | | <u>1,202,209</u> |
| Capital Assets - at cost | | | | | |
| Land | | 1,112,402 | | 5,477,172 | 1,827,399 |
| Water permits and rights | 8,851,122 | 22,096,679 | | | |
| Furniture, fixtures and equipment | 1,113,516 | 104,677 | | 90,165 | 387,984 |
| Other machinery and equipment | | 1,360,517 | | 161,203 | 423,091 |
| Automobiles and trucks | 562,659 | 169,757 | | 109,185 | 1,156,381 |
| Buildings | 5,789,461 | 179,161 | | 201,029 | 2,807,420 |
| Dams and appurtenances | | | | 6,699,573 | |
| Water systems | 178,674 | 14,046,362 | | 6,747 | 88,294,614 |
| Wastewater utility systems | | | | | 84,905,679 |
| Capital improvement plans | | | | | 376,882 |
| Construction in progress | 6,741 | 7,541,157 | | 17,528 | 7,099,277 |
| Accumulated depreciation | (1,183,483) | (5,221,671) | | (3,176,757) | (81,342,242) |
| Total Capital Assets | <u>15,318,690</u> | <u>41,389,041</u> | | <u>9,585,845</u> | <u>105,936,485</u> |
| Total Assets | <u>\$ 21,941,105</u> | <u>\$ 69,165,172</u> | <u>\$ 222,045</u> | <u>\$ 13,973,694</u> | <u>\$ 137,219,393</u> |

| Enterprise Funds | | | |
|-------------------------|--|---------------------|----------------|
| | Groundwater Reduction Plan Division | | |
| Bear Branch | | Eliminations | Total |
| \$ 585,168 | \$ 8,369,193 | \$ | \$ 33,969,886 |
| | 23,880,394 | | 32,687,696 |
| | 271,844,156 | | 298,998,092 |
| | 2,888,752 | (1,526,871) | 8,156,052 |
| 1,818 | 31,732 | | 804,309 |
| 586,986 | 307,014,227 | (1,526,871) | 374,616,035 |
| | 3,951,244 | | 5,619,903 |
| | | | 80,996 |
| | 3,951,244 | | 5,700,899 |
| 870,832 | 3,020,839 | | 12,308,644 |
| | | | 30,947,801 |
| | 406,183 | | 2,102,525 |
| | 7,769 | | 1,952,580 |
| | 85,126 | | 2,083,108 |
| | 2,469,609 | | 11,446,680 |
| 1,529,393 | | | 8,228,966 |
| | 7,678 | | 102,534,075 |
| | | | 84,905,679 |
| | | | 376,882 |
| 40,622 | 46,237,131 | | 60,942,456 |
| (213,869) | (183,110) | | (91,321,132) |
| 2,226,978 | 52,051,225 | | 226,508,264 |
| \$ 2,813,964 | \$ 363,016,696 | \$ (1,526,871) | \$ 606,825,198 |

SAN JACINTO RIVER AUTHORITY

STATEMENT OF NET ASSETS

August 31, 2012

| | Business - Type Activities - | | | | |
|--|--|-------------------------------|-------------------|-------------------------------------|-------------------------------|
| | General and Administration Division | Highlands Division | Region H | Lake Conroe Division | Woodlands Division |
| <u>Liabilities</u> | | | | | |
| Current Liabilities | | | | | |
| Accounts payable and accrued liabilities - unrestricted | \$ 528,037 | \$ 2,113,484 | \$ 2,250 | \$ 207,847 | \$ 3,734,154 |
| Restricted for Debt service: | | | | | |
| Current portion of bonds | 1,060,000 | 655,000 | | | 2,815,000 |
| Current portion of notes | 307,040 | | | | |
| Accrued interest payable | 245,247 | 402,097 | | | 1,011,596 |
| Restricted for Construction: | | | | | |
| Accounts payable | | | | | 2,100 |
| Retainage payable | | 291,074 | 10,193 | | 471,083 |
| Deferred revenue | 1,833 | | 59,611 | 156,481 | 12,282 |
| Total Current Liabilities | 2,142,157 | 3,461,655 | 72,054 | 364,328 | 8,046,215 |
| Noncurrent Liabilities | | | | | |
| Net OPEB obligation | 61,610 | 162,087 | | 303,846 | 321,546 |
| Total Noncurrent Liabilities | 61,610 | 162,087 | | 303,846 | 321,546 |
| Long-Term Debt | | | | | |
| First lien water revenue bonds - less current maturities | 16,040,000 | 24,090,000 | | | 49,705,000 |
| Notes payable less current | 3,416,627 | | | | |
| Deferred refunding | (661,160) | | | | (868,237) |
| Total Long-Term Debt | 18,795,467 | 24,090,000 | | | 48,836,763 |
| Total Liabilities | 20,999,234 | 27,713,742 | 72,054 | 668,174 | 57,204,524 |
| <u>Fund Equity</u> | | | | | |
| Net Assets | | | | | |
| Invested in capital assets - net of related debt | (4,843,817) | 34,255,264 | (10,193) | 9,585,845 | 63,063,178 |
| Restricted: | | | | | |
| Debt service | | 4,172,308 | | | 3,221,301 |
| Unrestricted | 5,785,688 | 3,023,858 | 160,184 | 3,719,675 | 13,730,390 |
| Total Net Assets | 941,871 | 41,451,430 | 149,991 | 13,305,520 | 80,014,869 |
| Total Liabilities and Fund Equity | \$ 21,941,105 | \$ 69,165,172 | \$ 222,045 | \$ 13,973,694 | \$ 137,219,393 |

See Notes to Financial Statements.

| Enterprise Funds | | | |
|------------------|---|----------------|----------------|
| Bear Branch | Groundwater Reduction Plan Division | Eliminations | Total |
| \$ 50,583 | \$ 7,548,465 | \$ (1,526,871) | \$ 12,657,949 |
| | | | 4,530,000 |
| | | | 307,040 |
| | 4,194,743 | | 5,853,683 |
| | | | 2,100 |
| | 8,612 | | 780,962 |
| | | | 230,207 |
| 50,583 | 11,751,820 | (1,526,871) | 24,361,941 |
| | | | 849,089 |
| | | | 849,089 |
| | 347,125,000 | | 436,960,000 |
| | | | 3,416,627 |
| | | | (1,529,397) |
| | 347,125,000 | | 438,847,230 |
| 50,583 | 358,876,820 | (1,526,871) | 464,058,260 |
| 2,226,978 | (23,238,231) | | 81,039,024 |
| | 19,685,651 | | 27,079,260 |
| 536,403 | 7,692,456 | | 34,648,654 |
| 2,763,381 | 4,139,876 | | 142,766,938 |
| \$ 2,813,964 | \$ 363,016,696 | \$ (1,526,871) | \$ 606,825,198 |

SAN JACINTO RIVER AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended August 31, 2012

| | Business - Type Activities - | | | | |
|---|--|-------------------------------|-------------------|-------------------------------------|-------------------------------|
| | General and Administration Division | Highlands Division | Region H | Lake Conroe Division | Woodlands Division |
| Operating Revenues: | | | | | |
| Water sales: | | | | | |
| Industrial | \$ 8,134,416 | \$ | \$ | \$ 1,088,686 | \$ |
| Irrigation | 108,342 | | | | |
| Water and sewer service fees | 602,225 | | | | 23,214,726 |
| Permits, licenses and fees | | | | 1,007,532 | |
| Capacity charges | | | | | 5,242,829 |
| Water planning study | | | 210,072 | | |
| Total Operating Revenues | 8,844,983 | | 210,072 | 2,096,218 | 28,457,555 |
| Operating Expenses: | | | | | |
| Salaries and wages | 1,377,875 | 627,818 | | 1,034,796 | 3,500,406 |
| Employee insurance and other payroll benefits | 335,342 | 262,921 | | 454,074 | 1,304,757 |
| Outside services employed | 799,522 | 186,188 | 5,000 | 378,998 | 2,068,958 |
| Operating supplies and expenses | 786,144 | 292,257 | 35 | 257,469 | 9,496,074 |
| Rentals | 25,849 | 154,897 | | 99,786 | 61,144 |
| Maintenance, repairs & parts | 175,870 | 247,326 | | 141,397 | 3,838,289 |
| Water planning study expenses | | | 197,815 | | |
| General and admin. expenses allocated | (1,710,136) | | | 353,943 | 575,660 |
| Depreciation | 409,027 | 515,747 | | 146,415 | 5,653,974 |
| Total Operating Expenses | 2,199,493 | 2,287,154 | 202,850 | 2,866,878 | 26,499,262 |
| Operating Income (Loss) | 6,645,490 | (2,287,154) | 7,222 | (770,660) | 1,958,293 |
| Nonoperating Revenues (Expenses) | | | | | |
| Interest income | 24,332 | 31,664 | | | 31,578 |
| Gain (Loss) on disposal of assets | 15,512 | 24,439 | | 56,338 | 10,132 |
| Oil and gas royalty income | 3,165 | | | | |
| Other revenues | 214,401 | | | 800 | 4,079 |
| Amortization of debt issuance costs | (53,713) | (19,167) | | | (254,447) |
| Interest expense | (867,936) | (966,886) | | | (2,445,895) |
| Total Nonoperating Revenues (Expenses) | (664,239) | (929,950) | | 57,138 | (2,654,553) |
| Income (Loss) Before Contributions and Transfers | 5,981,251 | (3,217,104) | 7,222 | (713,522) | (696,260) |
| Transfers | (5,268,224) | 915,879 | 180 | 4,326,612 | (2,871,599) |
| Capital Contributions | | | | | 770,766 |
| Change in Net Assets | 713,027 | (2,301,225) | 7,402 | 3,613,090 | (2,797,093) |
| Net Assets at Beginning of Year | 228,844 | 43,752,655 | 142,589 | 9,692,430 | 82,811,962 |
| Net Assets at End of Year | \$ 941,871 | \$ 41,451,430 | \$ 149,991 | \$ 13,305,520 | \$ 80,014,869 |

See Notes to Financial Statements.

| Enterprise Funds | | | |
|-------------------------|----------------------------------|---------------------|----------------|
| | Groundwater Reduction | | |
| Bear Branch | Plan Division | Eliminations | Total |
| \$ | \$ | \$ | \$ |
| | | | 9,223,102 |
| | | | 108,342 |
| | 14,814,666 | (5,271,066) | 33,360,551 |
| | | | 1,007,532 |
| | | | 5,242,829 |
| | | | 210,072 |
| | 14,814,666 | (5,271,066) | 49,152,428 |
| 11,538 | 1,405,863 | | 7,958,296 |
| 3,299 | 411,982 | | 2,772,375 |
| | 469,382 | | 3,908,048 |
| 2,604 | 1,824,938 | (5,271,066) | 7,388,455 |
| | 10,803 | | 352,479 |
| 137,793 | 9,574 | | 4,550,249 |
| | | | 197,815 |
| 26,637 | 753,896 | | |
| 19,141 | 154,230 | | 6,898,534 |
| 201,012 | 5,040,668 | (5,271,066) | 34,026,251 |
| (201,012) | 9,773,998 | | 15,126,177 |
| 715 | 625,416 | | 713,705 |
| | 61,445 | | 167,866 |
| | | | 3,165 |
| | 1,474 | | 220,754 |
| | (127,652) | | (454,979) |
| | (7,208,592) | | (11,489,309) |
| 715 | (6,647,909) | | (10,838,798) |
| (200,297) | 3,126,089 | | 4,287,379 |
| 2,897,335 | (183) | | |
| 66,343 | | | 837,109 |
| 2,763,381 | 3,125,906 | | 5,124,488 |
| | 1,013,970 | | 137,642,450 |
| \$ 2,763,381 | \$ 4,139,876 | \$ | \$ 142,766,938 |

SAN JACINTO RIVER AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended August 31, 2012

| | Business - Type Activities - | | | | |
|---|--|-------------------------------|-----------------|-------------------------------------|-------------------------------|
| | General and Administration Division | Highlands Division | Region H | Lake Conroe Division | Woodlands Division |
| Cash Flows from Operating Activities | | | | | |
| Cash received from customers | \$ 11,499,913 | \$ (19,303) | \$ 235,690 | \$ 2,076,135 | \$ 31,755,608 |
| Cash payments to suppliers for goods and services | (1,490,318) | 570,681 | (204,830) | (1,289,322) | (14,639,323) |
| Cash paid for employee services | (1,794,213) | (890,739) | | (1,488,870) | (4,805,163) |
| Other revenues & expenses | 214,401 | | | 800 | 4,079 |
| Net Cash Provided (Used) by Operating Activities | <u>8,429,783</u> | <u>(339,361)</u> | <u>30,860</u> | <u>(701,257)</u> | <u>12,315,201</u> |
| Cash Flows from Noncapital Financing Activities | | | | | |
| Oil and gas royalty income | 3,165 | | | | |
| Transfers | (5,268,224) | 915,879 | 180 | 4,326,612 | (2,871,599) |
| Net Cash Provided (Used) by Noncapital Finance Activities | <u>(5,265,059)</u> | <u>915,879</u> | <u>180</u> | <u>4,326,612</u> | <u>(2,871,599)</u> |
| Cash Flows from Capital and Related Financing Activities | | | | | |
| Principal paid on bonds | (955,000) | (635,000) | | | (2,925,000) |
| Principal paid on notes | (264,936) | | | | |
| Interest paid | (903,110) | (895,492) | | | (2,398,395) |
| Proceeds from bond sales | | | | | |
| Bond issue expenses | | | | | |
| Acquisition of facilities and equipment | (461,436) | (5,810,719) | | (44,760) | (5,787,278) |
| Capital contributions | | | | | 770,766 |
| Proceeds from asset sales | 15,512 | 24,439 | | 56,338 | 10,132 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(2,568,970)</u> | <u>(7,316,772)</u> | <u></u> | <u>11,578</u> | <u>(10,329,775)</u> |

| Enterprise Funds | | | |
|-------------------------|----------------------------------|---------------------|---------------|
| | Groundwater Reduction | | |
| Bear Branch | Plan Division | Eliminations | Total |
| \$ | \$ 13,462,061 | \$ (5,271,066) | \$ 53,739,038 |
| (118,269) | (2,263,794) | 5,271,066 | (14,164,109) |
| (14,837) | (1,817,845) | | (10,811,667) |
| | 1,474 | | 220,754 |
| (133,106) | 9,381,896 | | 28,984,016 |
| | | | 3,165 |
| 2,897,335 | (183) | | |
| 2,897,335 | (183) | | 3,165 |
| | | | (4,515,000) |
| | | | (264,936) |
| | (10,442,154) | | (14,639,151) |
| | 242,470,000 | | 242,470,000 |
| | (1,732,421) | | (1,732,421) |
| (2,246,119) | (34,044,509) | | (48,394,821) |
| 66,343 | | | 837,109 |
| | 61,445 | | 167,866 |
| (2,179,776) | 196,312,361 | | 173,928,646 |

SAN JACINTO RIVER AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended August 31, 2012

| | Business Type Activities - | | | | |
|--|--|-------------------------------|-------------------|-------------------------------------|-------------------------------|
| | General and Administration Division | Highlands Division | Region H | Lake Conroe Division | Woodlands Division |
| Cash Flows from Investing Activities | | | | | |
| Interest earned | 24,332 | 31,664 | | | 31,578 |
| Net Cash Provided by Investing Activities | 24,332 | 31,664 | | | 31,578 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 620,086 | (6,708,590) | 31,040 | 3,636,933 | (854,595) |
| Cash and equivalents at beginning of year | 2,617,807 | 33,910,439 | 191,005 | | 27,532,638 |
| Cash and Equivalents at End of Year | <u>\$ 3,237,893</u> | <u>\$ 27,201,849</u> | <u>\$ 222,045</u> | <u>\$ 3,636,933</u> | <u>\$ 26,678,043</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | | | | |
| Operating Income (Loss) | \$ 6,645,490 | \$ (2,287,154) | \$ 7,222 | \$ (770,660) | \$ 1,958,293 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | |
| Other revenues and expenses | 214,401 | | | 800 | 4,079 |
| Depreciation | 409,027 | 515,747 | | 146,415 | 5,653,974 |
| (Increase) decrease in receivables | 944,794 | (19,303) | 1,653 | (58,850) | 3,363,920 |
| (Increase) decrease in prepaid expenses and deposits | 245,166 | (2,081) | | 2,179 | 7,013 |
| (Increase) decrease in net pension asset | (80,996) | | | | |
| Increase (decrease) in accounts payable and accrued liabilities | 51,901 | 1,453,430 | (327) | (59,908) | 1,393,789 |
| Increase (decrease) in deferred revenue | | | 22,312 | 38,767 | (65,867) |
| Total Adjustments | <u>1,784,293</u> | <u>1,947,793</u> | <u>23,638</u> | <u>69,403</u> | <u>10,356,908</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 8,429,783</u> | <u>\$ (339,361)</u> | <u>\$ 30,860</u> | <u>\$ (701,257)</u> | <u>\$ 12,315,201</u> |

| Enterprise Funds | | | |
|-------------------------|--|---------------------|-----------------------|
| Bear Branch | Groundwater Reduction Plan Division | Eliminations | Total |
| 715 | 625,416 | | 713,705 |
| 715 | 625,416 | | 713,705 |
| 585,168 | 206,319,490 | | 203,629,532 |
| | 97,774,253 | | 162,026,142 |
| <u>\$ 585,168</u> | <u>\$ 304,093,743</u> | <u>\$</u> | <u>\$ 365,655,674</u> |
| | | | |
| \$ (201,012) | \$ 9,773,998 | \$ | \$ 15,126,177 |
| | | | |
| | 1,474 | | 220,754 |
| 19,141 | 154,230 | | 6,898,534 |
| | (1,352,605) | 1,526,871 | 4,406,480 |
| (1,818) | (26,264) | | 224,195 |
| | | | (80,996) |
| 50,583 | 831,063 | (1,526,871) | 2,193,660 |
| | | | (4,788) |
| <u>67,906</u> | <u>(392,102)</u> | <u></u> | <u>13,857,839</u> |
| <u>\$ (133,106)</u> | <u>\$ 9,381,896</u> | <u>\$</u> | <u>\$ 28,984,016</u> |

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SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the San Jacinto River Authority (the "Authority"), a governmental agency and political subdivision of the State of Texas, conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The following is a summary of the more significant policies consistently applied in the preparation of the accompanying financial statements:

A. Reporting Entity

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

B. Business-Type Activities

The business-type activities and the related accounts of the Authority are organized on the basis of Enterprise Funds, each of which is considered a separate accounting entity. The operations of each Enterprise Fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses, as appropriate. These Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to customers on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Enterprise Funds maintained by the Authority are described below:

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

The General and Administration Division, located in the general business office at Lake Conroe, consists of professional, technical, accounting, administrative and support staff working under the direction of the General Manager. The General and Administration Division provides management and support services to the SJRA's four operating divisions, Region H and Bear Branch.

Highlands Fund ("Highlands Division")

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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

water available from the Authority from the San Jacinto River through the Reservoir and Canal System is committed to such customers through sales contracts expiring through 2031. Most of the sales contracts contain provisions for the quantities of water, which must be paid for, whether or not the water is used by the customers. Some of the sales contracts contain options for the additional purchases of water by customers.

Region H Fund ("Region H")

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

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

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

The accompanying financial statements include only the costs of the Authority's ownership interest in Lake Conroe; therefore, the costs of the City of Houston's ownership interest of \$20,971,005 in Lake Conroe are excluded from the capital asset totals presented.

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

Woodlands Division Fund ("Woodlands Division")

This fund accounts for the water and wastewater treatment plants (Central Plants) and major water production, storage and distribution facilities and wastewater collection and conveyance equipment (Central Lines) located in The Woodlands, Texas. As described below, the Central Plants and Central Lines (collectively, the Central Facilities) are provided to this fund through purchases at actual costs of reserve capacity rights in such Central Facilities by the twelve municipal utility districts located in The Woodlands, Texas, with a small portion of such capacity rights being reserved to The Woodlands Development Company (Company). A portion of such costs of reserve capacity is reduced by federal grants received by the Authority for the initial cost of construction

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

and expansion of wastewater treatment facilities comprising a part of the Central Facilities.

All activities necessary to provide water and sewer services from such assets are accounted for in this fund, including operations, maintenance, financing and related debt service, and billings to and collections from the participating municipal utility districts. The basic agreement with the municipal utility districts provides for water and wastewater service billings based upon the recovery of the actual expenses incurred for the operations, maintenance and contingency reserves for the Central Facilities, exclusive of depreciation of such assets, as well as capacity charges for the purchase of reserved capacity rights. As of August 31, 2012, the following municipal utility districts have purchased reserve capacity in such Central Facilities: Montgomery County Municipal Utility District Nos. 6, 7, 36, 39, 40, 46, 47, 60 and 67, The Woodlands Municipal Utility District No. 2, The Woodlands Metro Center Municipal Utility District and Harris Montgomery Counties Municipal Utility District No. 386.

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

Bear Branch Fund ("Bear Branch")

The Authority also owns and operates the Bear Branch Reservoir System (Bear Branch) which provides elements of a storm water management system within The Woodlands, Texas service area. The Authority purchased the assets of Bear Branch from the Woodlands Land Development Company, LP in April 2000. All activities necessary to maintain and improve Bear Branch assets are accounted for in this fund. As of August 31, 2012, contracts have been signed with Montgomery County Municipal Utility Districts Nos. 7, 46, 47, 60 and 67 to purchase reserve capacity rights for storm water detention resulting from the construction and operation of Bear Branch.

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

As authorized by the Board of Directors, the Authority is developing a Groundwater Reduction Plan (GRP) on behalf of all large volume groundwater users (LVGU's) within Montgomery County who choose to join. Individual LVGU's in Montgomery County will be able to comply with the Lone Star Groundwater Conservation District (LSGCD) regulatory requirements to submit a GRP by participating in the Authority's GRP. The

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projected water demand of all participating LVGU's is included in the planning for the Authority's regionalized water supply and distribution system. The specific requirements for this planning are set forth in the LSGCD's District Regulatory Plan. In order to join the Authority's GRP, individual LVGU's would execute a GRP contract with the Authority obligating them to pay groundwater pumpage fees and/or surface water fees. The revenues from participant fees cover all costs associated with implementing the program.

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

C. Measurement Focus and Basis of Accounting

The Enterprise Funds have a net income or economic resources measurement focus and are accounted for using the accrual basis of accounting, under which revenues are recognized when they are earned including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the Statement of Net Assets.

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

The Authority applies all GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Cash Equivalents

Cash and cash equivalents include amounts in checking, savings, money market accounts and Public Funds Investment Pools and securities per the Authority's Investment Policy.

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NOTES TO FINANCIAL STATEMENTS

E. Accounts Receivable

The allowance for doubtful accounts is established to provide an estimate of bad debts charged to revenues. Losses are charged against the allowance when management believes the collectibility of a receivable is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. As of August 31, 2012, the allowance for bad debts is \$172,546.

F. Depreciation

Depreciation is provided for in amounts sufficient to relate the cost of the depreciable property to operations on a straight-line basis over their estimated useful lives in the Enterprise Funds. The depreciation for the Lake Conroe Division is based only on the one-third ownership interest of the Authority in such assets. The Authority's policy is to capitalize assets with an initial cost exceeding \$5,000 and useful life of three years or greater.

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

| <u>Asset Class</u> | <u>Useful Life</u> |
|--|---------------------------|
| Office furniture, fixtures and equipment | 5 years |
| Other machinery and equipment | 5-10 years |
| Automobiles and trucks | 5-10 years |
| Buildings | 50 years |
| Dams and appurtenances | 100 years |
| Water systems | 30 years |
| Wastewater utility systems | 30 years |
| Capital improvement plans | 20 years |

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

G. Amortization of Other Assets

Included within other assets are debt issuance costs. The debt issuance costs, bond premiums and cost of surety bonds are being amortized over the life of the related obligation on the straight-line method.

H. Date of Management's Review

Subsequent events have been evaluated through November 30, 2012, which is the date the financial statements were available to be issued.

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NOTES TO FINANCIAL STATEMENTS

I. Net Assets

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

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

A summary of invested in capital assets – net of related debt as of August 31, 2012 follows:

| | Capital Assets - Net of Depreciation | Notes and Bonds Payable | Total |
|-------------------------------------|---|--|----------------------|
| General and Administration Division | \$ 15,318,690 | \$ (20,162,507) | \$ (4,843,817) |
| Highlands Division | 41,389,041 | (7,133,777) | 34,255,264 |
| Region H | | (10,193) | (10,193) |
| Lake Conroe Division | 9,585,845 | | 9,585,845 |
| Woodlands Division | 105,936,485 | (42,873,307) | 63,063,178 |
| Bear Branch Division | 2,226,978 | | 2,226,978 |
| Groundwater Reduction Plan Division | 52,051,225 | (75,289,456) | (23,238,231) |
| Total | \$ 226,508,264 | \$ (145,469,240) | \$ 81,039,024 |

A summary of net assets restricted for debt service as of August 31, 2012 follows:

| | Restricted Cash for Debt Service | Liabilities Payable from Restricted Cash for Debt Service | Total |
|-------------------------------------|---|--|----------------------|
| General and Administration Division | \$ | \$ | \$ |
| Highlands Division | 4,574,405 | (402,097) | 4,172,308 |
| Region H | | | |
| Lake Conroe Division | | | |
| Woodlands Division | 4,232,897 | (1,011,596) | 3,221,301 |
| Bear Branch Division | | | |
| Groundwater Reduction Plan Division | 23,880,394 | (4,194,743) | 19,685,651 |
| Total | \$ 32,687,696 | \$ (5,608,436) | \$ 27,079,260 |

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NOTES TO FINANCIAL STATEMENTS

A summary of net assets restricted for construction as of August 31, 2012 follows:

| | Restricted Cash for Construction | Bonds Payable | Liabilities Payable from Restricted Cash for Construction | Total |
|-------------------------------------|---|--------------------------|--|--------------|
| General and Administration Division | \$ | \$ | \$ | \$ |
| Highlands Division | 23,005,213 | (22,714,139) | (291,074) | |
| Region H | | | | |
| Lake Conroe Division | | | | |
| Woodlands Division | 9,251,639 | (8,778,456) | (473,183) | |
| Bear Branch Division | | | | |
| Groundwater Reduction Plan Division | <u>271,822,313</u> | <u>(271,813,701)</u> | <u>(8,612)</u> | <u></u> |
| Total | <u>\$ 304,079,165</u> | <u>\$ (303,306,296)</u> | <u>\$ (772,869)</u> | <u>\$</u> |

A summary of net assets – unrestricted as of August 31, 2012 follows:

| | Designated | | | | |
|-------------------------------|------------------------------|---------------------|--|----------------------|----------------------|
| | Operating Reserve | Contingency | Capital Repair/ Replace | Undesignated | Total |
| General & Administration Div. | \$ | \$ 1,782,553 | \$ 876,973 | \$ 3,126,162 | \$ 5,785,688 |
| Highlands Division | 416,955 | 1,378,588 | 2,783,864 | (1,555,549) | 3,023,858 |
| Region H | | | | 160,184 | 160,184 |
| Lake Conroe Division | 507,811 | 1,678,987 | 1,450,135 | 82,742 | 3,719,675 |
| Woodlands Division | 2,994,911 | 1,330,678 | | 9,404,801 | 13,730,390 |
| Bear Branch Division | | | | 536,403 | 536,403 |
| Groundwater Reduct. Plan Div. | | | | <u>7,692,456</u> | <u>7,692,456</u> |
| Total | <u>\$ 3,919,677</u> | <u>\$ 6,170,806</u> | <u>\$ 5,110,972</u> | <u>\$ 19,447,199</u> | <u>\$ 34,648,654</u> |

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NOTES TO FINANCIAL STATEMENTS

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

All cash, savings, money market accounts and Public Funds Investment Pools are in various financial institutions and are carried at cost. Marketable securities are held at the U.S. Bank and are carried at market value.

| | <u>Book Balance</u> | <u>Bank Balance</u> | <u>Insurance & Market Value of Collateral</u> |
|--|--------------------------------|--------------------------------|--|
| Collateral held by pledging banks in the Authority's name | \$ 616,495 | \$ 3,268,416 | \$ 9,679,584 |
| Cash equivalents, not requiring pledging by banks, money funds & Pools | <u>365,039,179</u> | <u>365,039,179</u> | N/A |
| Total Cash and Cash Equivalents | <u>\$ 365,655,674</u> | <u>\$ 368,307,595</u> | |

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

Investments

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

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

The Authority invested in obligations of the U.S. or its agencies as of August 31, 2012.

Public Funds Investment Pools

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

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

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NOTES TO FINANCIAL STATEMENTS

SEC's Rule 2a7 of the Investment Company Act of 1940. Investments in pools are deemed to have a weighted average maturity of one day.

At August 31, 2012, the Authority participated in TexPool (\$48,715,498) and TexStar (\$4,420,896).

Interest Rate Risk

In accordance with its investment policy, the Authority manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than two years to meet cash requirements for ongoing operation. The Authority's investments in the state investment pools via TexPool and TexStar were rated Aaa by Moody Investments and AAAM by Standard and Poor's. These investment pools are considered a '2a-7 like pools' under Governmental Accounting Standards Statement No. 31.

Credit Risk – Investments

In accordance with its investment policy, the Authority minimized credit risk losses due to default of a security issuer or backer, by limiting investments to the safest types of securities.

Investment Policy

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

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The individual interfund receivables/payables as of August 31, 2012 follow:

| | <u>Receivables</u> | <u>Payables</u> |
|-------------------------------------|---------------------------|------------------------|
| Enterprise Funds: | | |
| General and Administration Division | \$ 893,461 | \$ |
| Woodlands Division | | 1,153,451 |
| Groundwater Reduction Plan Division | 633,410 | 373,420 |
| | <u>\$ 1,526,871</u> | <u>\$ 1,526,871</u> |

Interfund balances and transfers primarily result from payroll transactions with related employee benefits and GRP pumpage fees. Payroll transactions and related employee benefits become the basis for expenses of the divisions and departments which use the services. Beginning in fiscal year 2010, interfund transactions record the monthly groundwater pumpage fee which is a source of revenue to the GRP Division and an expense of the Woodlands Division.

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NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS

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

| | Balance at Sept. 1, 2011 | Additions | Deletions | Balance at Aug. 31, 2012 |
|---|-------------------------------------|----------------------|------------------------|-------------------------------------|
| Business-Type Activities: | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 10,413,707 | \$ 1,895,132 | \$ (195) | \$ 12,308,644 |
| Water permits and rights | 30,946,712 | 1,089 | | 30,947,801 |
| Construction in progress | 18,973,969 | 54,222,229 | (12,253,742) | 60,942,456 |
| Total Capital Assets Not Being Depreciated | 60,334,388 | 56,118,450 | (12,253,937) | 104,198,901 |
| Capital Assets Being Depreciated: | | | | |
| Furniture, fixtures and equipment | 1,642,977 | 467,768 | (8,220) | 2,102,525 |
| Other machinery and equipment | 1,709,443 | 262,334 | (19,197) | 1,952,580 |
| Automobiles and trucks | 1,735,586 | 494,140 | (146,618) | 2,083,108 |
| Buildings | 9,042,538 | 2,413,752 | (9,610) | 11,446,680 |
| Dams and appurtenances | 8,188,676 | 40,290 | | 8,228,966 |
| Water systems | 96,561,810 | 5,972,265 | | 102,534,075 |
| Wastewater utility systems | 84,078,249 | 827,430 | | 84,905,679 |
| Capital improvement plans | 376,882 | | | 376,882 |
| Total Capital Assets Being Depreciated | 203,336,161 | 10,477,979 | (183,645) | 213,630,495 |
| Less Accumulated Depreciation for: | | | | |
| Furniture, fixtures and equipment | 558,080 | 309,581 | | 867,661 |
| Other machinery and equipment | 1,282,848 | 395,900 | (17,875) | 1,660,873 |
| Automobiles and trucks | 1,189,697 | 308,096 | (140,430) | 1,357,363 |
| Buildings | 908,017 | 212,171 | (8,261) | 1,111,927 |
| Dams and appurtenances | 2,929,755 | 109,922 | | 3,039,677 |
| Water systems | 36,087,147 | 2,597,514 | | 38,684,661 |
| Wastewater utility systems | 41,438,889 | 2,946,213 | | 44,385,102 |
| Capital improvement plans | 194,727 | 19,141 | | 213,868 |
| Total Accumulated Depreciation | 84,589,160 | 6,898,538 | (166,566) | 91,321,132 |
| Total Capital Assets Being Depreciated, Net | 118,747,001 | 3,579,441 | (17,079) | 122,309,363 |
| Business-Type Activities | | | | |
| Capital Assets, Net | \$ 179,081,389 | \$ 59,697,891 | \$ (12,271,016) | \$ 226,508,264 |

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NOTES TO FINANCIAL STATEMENTS

NOTE 5 – DEBT ISSUANCE COSTS – NET

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

| | Original Bond Issue Cost | Balance at Sept. 1, 2011 | Current Year Amortization | Balance at Aug. 31, 2012 |
|--|---|-------------------------------------|--------------------------------------|-------------------------------------|
| General and Administration Division | | | | |
| Water Revenue Refunding Bonds: | | | | |
| Series 2010 | (55,807) | (51,257) | (5,212) | (46,045) |
| Series 2012 | 69,017 | | 1,224 | 67,793 |
| Total General and Administration Division | 13,210 | (51,257) | (3,988) | 21,748 |
| Highlands Division | | | | |
| Water Revenue Bonds: | | | | |
| Series 2003 | \$ 171,646 | \$ 105,682 | \$ 105,009 | \$ 673 |
| Series 2010 | 482,706 | 463,196 | 19,167 | 444,029 |
| Total Highlands Division | 654,352 | 568,878 | 124,176 | 444,702 |
| Woodlands Division | | | | |
| Special Project Revenue Bonds: | | | | |
| Series 1998 | 338,564 | 34,260 | 7,029 | 27,231 |
| Surety Bond Series 1997 | 50,427 | 11,866 | 2,967 | 8,899 |
| Series 2004 | 436,669 | 321,535 | 16,850 | 304,685 |
| Series 2004 | 680,739 | 501,252 | 26,267 | 474,985 |
| Series 2007 | 617,961 | 527,988 | 23,999 | 503,989 |
| Refunding Bonds: | | | | |
| Series 2010 | (156,686) | (134,014) | (16,434) | (117,580) |
| Total Woodlands Division | 1,967,674 | 1,262,887 | 60,678 | 1,202,209 |
| GRP Division | | | | |
| Special Project Revenue Bonds: | | | | |
| Series 2009 | 479,337 | 430,516 | 25,813 | 404,703 |
| Series 2011 | 1,934,269 | 1,915,959 | 72,350 | 1,843,609 |
| Series 2011A | 760,195 | | 21,397 | 738,798 |
| Series 2012 | 970,519 | | 6,385 | 964,134 |
| Total GRP Division | 4,144,320 | 2,346,475 | 125,945 | 3,951,244 |
| Total Debt Issuance Costs | \$ 6,779,556 | \$ 4,126,983 | \$ 306,811 | \$ 5,619,903 |

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NOTES TO FINANCIAL STATEMENTS

NOTE 6 – LONG-TERM DEBT

A summary of changes in bonds payable follows:

| | <u>Interest Rates</u> | <u>Original Issuance</u> | <u>Balance at Sept. 1, 2011</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance at Aug. 31, 2012</u> | <u>Due Within One Year</u> |
|--|----------------------------------|-------------------------------------|--|-------------------------|--------------------------|--|---------------------------------------|
| General and Administration Division | | | | | | | |
| Water Revenue Bonds: | | | | | | | |
| Series 2003 | 3.77% | \$ 4,950,000 | \$ 4,055,000 | \$ | \$ 3,835,000 | \$ 220,000 | \$ 220,000 |
| Water Revenue Refunding Bonds: | | | | | | | |
| Series 2010 | 2-4% | 14,000,000 | 14,000,000 | | 830,000 | 13,170,000 | 840,000 |
| Series 2012 | 2-3% | 3,710,000 | | 3,710,000 | | 3,710,000 | |
| Total General and Administration Division | | | <u>18,055,000</u> | <u>3,710,000</u> | <u>4,665,000</u> | <u>17,100,000</u> | <u>1,060,000</u> |
| Highlands Division | | | | | | | |
| Water Revenue Bonds: | | | | | | | |
| Series 2010 | 3-4.375% | 25,380,000 | 25,380,000 | | 635,000 | 24,745,000 | 655,000 |
| Total Highlands Division | | | <u>25,380,000</u> | | <u>635,000</u> | <u>24,745,000</u> | <u>655,000</u> |
| Woodlands Division | | | | | | | |
| Special Project Revenue Bonds: | | | | | | | |
| Series 1999 | | 19,905,000 | 450,000 | | 450,000 | | |
| Series 2007 | 5.25-5.5% | 14,435,000 | 13,520,000 | | 315,000 | 13,205,000 | 335,000 |
| Water Revenue Refunding Bonds: | | | | | | | |
| Series 2004 | 4-5% | 21,310,000 | 16,585,000 | | 1,275,000 | 15,310,000 | 1,085,000 |
| Series 2004 | 3.50% | 18,970,000 | 18,085,000 | | 150,000 | 17,935,000 | 635,000 |
| Series 2010 | 3-5% | 4,440,000 | 4,440,000 | | 375,000 | 4,065,000 | 385,000 |
| Series 2010 | 3-4% | 2,365,000 | 2,365,000 | | 360,000 | 2,005,000 | 375,000 |
| Total Woodlands Division | | | <u>55,445,000</u> | | <u>2,925,000</u> | <u>52,520,000</u> | <u>2,815,000</u> |
| Groundwater Reduction Plan Division | | | | | | | |
| Special Project Revenue Bonds: | | | | | | | |
| Series 2009 | .85-2.66% | 21,500,000 | 21,500,000 | | | 21,500,000 | |
| Series 2011 | 3-5.25% | 83,155,000 | 83,155,000 | | | 83,155,000 | |
| Series 2011A | 1.22-4.97% | 67,470,000 | | 67,470,000 | | 67,470,000 | |
| Series 2012 | 1.17-4.62% | 175,000,000 | | 175,000,000 | | 175,000,000 | |
| | | | <u>104,655,000</u> | <u>242,470,000</u> | | <u>347,125,000</u> | |
| Total Bonds Payable | | | <u>\$ 203,535,000</u> | <u>\$ 246,180,000</u> | <u>\$ 8,225,000</u> | <u>\$ 441,490,000</u> | <u>\$ 4,530,000</u> |

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NOTES TO FINANCIAL STATEMENTS

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

- Debt Service Fund – No later than the fifth day preceding each maturity date, an amount sufficient to pay principal and interest on the outstanding Water Revenue Bonds.
- Debt Service Reserve Fund – On or before the fifth day of each month, such amounts in equal monthly installments, not less than one-sixtieth of the average annual sum payable in respect of the principal and interest scheduled to become due on the outstanding Water Revenue Bonds at the time of such computation.

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

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

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NOTES TO FINANCIAL STATEMENTS

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

| | Principal | Interest | Total |
|--|-----------------------|-----------------------|-----------------------|
| General and Administration Division | | | |
| 2013 | \$ 1,060,000 | \$ 577,060 | \$ 1,637,060 |
| 2014 | 1,120,000 | 550,000 | 1,670,000 |
| 2015 | 1,155,000 | 518,450 | 1,673,450 |
| 2016 | 1,190,000 | 485,925 | 1,675,925 |
| 2017 | 1,235,000 | 447,525 | 1,682,525 |
| 2018-2022 | 6,935,000 | 1,516,494 | 8,451,494 |
| 2023-2025 | 4,405,000 | 232,194 | 4,637,194 |
| | <u>\$ 17,100,000</u> | <u>\$ 4,327,648</u> | <u>\$ 21,427,648</u> |
| Highlands Division | | | |
| 2013 | \$ 655,000 | \$ 953,571 | \$ 1,608,571 |
| 2014 | 680,000 | 930,208 | 1,610,208 |
| 2015 | 705,000 | 905,971 | 1,610,971 |
| 2016 | 730,000 | 880,859 | 1,610,859 |
| 2017 | 755,000 | 852,984 | 1,607,984 |
| 2018-2022 | 4,225,000 | 3,829,620 | 8,054,620 |
| 2023-2027 | 4,995,000 | 3,053,819 | 8,048,819 |
| 2028-2032 | 6,090,000 | 1,961,623 | 8,051,623 |
| 2033-2036 | 5,910,000 | 531,342 | 6,441,342 |
| | <u>\$ 24,745,000</u> | <u>\$ 13,899,997</u> | <u>\$ 38,644,997</u> |
| Woodlands Division | | | |
| 2013 | \$ 2,815,000 | \$ 2,372,818 | \$ 5,187,818 |
| 2014 | 2,935,000 | 2,260,430 | 5,195,430 |
| 2015 | 3,055,000 | 2,139,180 | 5,194,180 |
| 2016 | 3,185,000 | 2,002,530 | 5,187,530 |
| 2017 | 2,125,000 | 1,884,693 | 4,009,693 |
| 2018-2022 | 11,665,000 | 7,899,406 | 19,564,406 |
| 2023-2027 | 12,065,000 | 5,175,545 | 17,240,545 |
| 2028-2032 | 12,775,000 | 1,901,825 | 14,676,825 |
| 2033-2034 | 1,900,000 | 101,063 | 2,001,063 |
| | <u>\$ 52,520,000</u> | <u>\$ 25,737,490</u> | <u>\$ 78,257,490</u> |
| Groundwater Reduction Plan Division | | | |
| 2013 | \$ | \$ 11,668,881 | \$ 11,668,881 |
| 2014 | 6,820,000 | 12,826,022 | 19,646,022 |
| 2015 | 8,950,000 | 12,704,265 | 21,654,265 |
| 2016 | 9,120,000 | 12,643,787 | 21,763,787 |
| 2017 | 9,320,000 | 12,771,895 | 22,091,895 |
| 2018-2022 | 59,070,000 | 59,498,740 | 118,568,740 |
| 2023-2027 | 69,545,000 | 48,969,394 | 118,514,394 |
| 2028-2032 | 78,535,000 | 33,814,098 | 112,349,098 |
| 2033-2037 | 89,125,000 | 14,515,125 | 103,640,125 |
| 2038 | 16,640,000 | 395,224 | 17,035,224 |
| | <u>\$ 347,125,000</u> | <u>\$ 219,807,431</u> | <u>\$ 566,932,431</u> |

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Notes Payable

The General and Administration Division entered into a loan commitment in 2010. The commitment from the bank is for \$4,000,000 for a term of 120 months, interest only at 5.7% through April 2011 and 104 principal and interest payments of \$38,095 thereafter or until such time as all principal has been repaid and interest on the unpaid balance. As of August 31, 2012, the Authority had borrowed \$4,000,000 on this loan commitment and the balance of the note at August 31, 2012 was \$3,723,667.

Notes payable activity for the year ended August 31, 2012 follows:

| | |
|------------------------------|---------------------|
| Balance at beginning of year | \$ 3,926,810 |
| Additions | |
| Retirements | (203,143) |
| Balance at end of year | <u>\$ 3,723,667</u> |

Maturities of the loan commitments for the balances outstanding as of August 31, 2012 are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|---------------------|---------------------|---------------------|
| General and Administration Division | | | |
| 2013 | \$ 307,040 | \$ 204,883 | \$ 511,923 |
| 2014 | 326,217 | 185,706 | 511,923 |
| 2015 | 344,681 | 167,242 | 511,923 |
| 2016 | 364,851 | 147,072 | 511,923 |
| 2017 | 386,198 | 125,725 | 511,923 |
| 2018-2022 | 1,994,680 | 266,312 | 2,260,992 |
| | <u>\$ 3,723,667</u> | <u>\$ 1,096,940</u> | <u>\$ 4,820,607</u> |

NOTE 7 – ADMINISTRATIVE AND GENERAL EXPENSES

The administrative and general expenses represent the direct and related expenses incurred by and paid for the services of the administrative personnel and the expenses of the usage of the administrative plant and equipment of the Authority. Since the Authority is involved in different types of activities, and some of such activities are governed by contractual agreements, these types of expenses are accounted for separately from the different types of activities accounted for in the funds maintained by the Authority so that the Authority may comply with the contractual allocation of such expenses to the different activities of the funds maintained by the Authority for the year ended August 31, 2012.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – PENSION PLAN

Plan Description

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

The Plan is available to all active employees who have completed one year of service and attained age 21. Normal retirement age is 65. The Plan also provides benefits for early and late retirement. The retirement benefit at normal retirement is equal to 1.00% of average monthly compensation up to a participant's covered compensation level plus 0.55% of average monthly compensation in excess of the covered compensation level multiplied by the number of years of credited service not to exceed 40 years. The retirement benefit is payable monthly during the life of the retired participant. The Plan also provides death and disability benefits. A member is 100% vested in the accrued benefit upon completion of 5 years of service. At November 1, 2010, there were 107 plan members.

Lincoln National Life and Standard Insurance Co. are the trustees of the Plan. There is no stand alone pension plan report available, but a copy of the actuarial report, prepared by Milliman, is available upon request from the Authority. The Authority has contracted with Alliant Services to evaluate the Authority's pension plan and voluntary 457 plan and make recommendations regarding modernization, cost-control measures, and long-term strategies for retirement offerings.

Funding Policy

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

Annual Pension Cost and Net Pension Asset

For 2012, the Authority's annual pension cost of \$794,549 for the Plan was equal to the Authority's required and actual contribution plus a portion of the unfunded actuarial accrued liability applied on an accrual basis to the fiscal year. The annual required contribution for the current year was determined as a part of the November 1, 2011 actuarial valuation using the projected benefit method with aggregate level normal cost and frozen supplemental liability. Gains and losses are spread over the current year and future years in accordance with the funding method.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost and Net Pension Obligation

| | <u>Aug. 31, 2012</u> |
|--|-----------------------------|
| Annual Required Contribution (ARC) | \$ 798,954 |
| Interest on Net Pension Obligation | (4,405) |
| Adjustment to ARC | |
| Annual Pension Cost | <u>794,549</u> |
| Contributions made | (807,782) |
| Increase (decrease) in Net Pension Obligation | (13,233) |
| Net Pension Obligation (Asset) - beginning of year | <u>(67,763)</u> |
| Net Pension Obligation (Asset) - end of year | <u><u>\$ (80,996)</u></u> |

Three Year Trend Information

| <u>Year Ending</u> | <u>Annual Pension Cost</u> | <u>% of Annual Pension Contributed</u> | <u>Net Pension Asset</u> |
|---------------------------|---|---|-------------------------------------|
| Aug. 31, 2010 | \$ 561,092 | 104.0 % | \$ 42,751 |
| Aug. 31, 2011 | 645,829 | 103.9 | 67,763 |
| Aug. 31, 2012 | 794,549 | 101.7 | 80,996 |

Funded Status and Funding Progress

As of November 1, 2011, the most recent actuarial valuation date, the plan was 98.3% funded. The actuarial accrued liability for benefits was \$8.0 million, and the actuarial value of assets was \$7.9 million resulting in an unfunded actuarial accrued liability (UAAL) of \$0.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$5.9 million and the ratio of the UAAL to the covered payroll was 2.3%.

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

Actuarial Methods and Assumptions

Significant actuarial assumptions used in the valuation include (a) an assumed rate of return used in determining the actuarial present value of the accumulated benefits of 6.5%, (b) separations before normal retirement in accordance with T-1 of the Actuary's *Pension Handbook*, as modified for females, (c) mortality rates in accordance with the RP2000 Mortality Table with Projection Scale AA, (d) salary increases at an assumed 5% per annum, (e) cost of living increases [IRC Section 401(a)(17) compensation limit and IRC Section 415 benefit limit] at an assumed 2.75% increase per annum, (f) normal retirement at the later of age 65 or 5 years of participation, or attained age if later, (g)

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

no loading for expenses and (h) 80.0% of participants are assumed married with the husband 3 years older than the wife. The valuation is based on participants in the Plan as of the valuation date and does not take future participants into account. No provision has been made for contingent liabilities with respect to nonvested terminated participants who may be reemployed. The valuation assumptions include a future inflation rate of 2.75%. The actuarial value of the assets was the market value.

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

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

As of August 31, 2012, six former employees and their dependents are receiving OPEB healthcare benefits. Seven active employees and their dependents will receive this benefit if the employees' continue working for the Authority until reaching the normal retirement age of 65.

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

Funding Policy

The contribution required from OPEB plan members may be amended by the Authority's Board of Director's. As of the date of this report, The OPEB healthcare plan is 100% funded by the Authority on a pay-as-you-go-basis. The Authority paid \$43,828 for OPEB medical insurance coverage for retired employees covered under the OPEB plan during the year. After review, the Authority deems no reserve necessary for OPEB healthcare plan.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

| | <u>Sept. 1, 2009</u> | <u>Sept. 1, 2010</u> | <u>Sept. 1, 2011</u> |
|--|-----------------------------|-----------------------------|-----------------------------|
| Determination of Annual Required Obligation | | | |
| Normal Cost at year end | \$ N/A | \$ 48,911 | \$ 48,911 |
| Amortization of UAAL | N/A | 109,425 | 109,425 |
| Annual Required Contribution (ARC) | <u>\$ 340,400</u> | <u>\$ 158,336</u> | <u>\$ 158,336</u> |
| | | | |
| Expected Benefit Payments | <u>\$ (46,113)</u> | <u>\$ (41,303)</u> | <u>\$ (48,000)</u> |
| | | | |
| Determination of Net OPEB Obligation | | | |
| Annual required contribution | \$ 340,400 | \$ 158,336 | \$ 158,336 |
| Interest on prior year Net OPEB Obligation | | 22,665 | 28,253 |
| Adjustment to ARC | | | |
| Annual OPEB cost (expense) | <u>340,400</u> | <u>181,001</u> | <u>186,589</u> |
| Contributions made | <u>(46,113)</u> | <u>(41,303)</u> | <u>(43,828)</u> |
| Increase in net OPEB obligation | <u>294,287</u> | <u>139,698</u> | <u>142,761</u> |
| Net OPEB obligation - beginning of year | <u>272,343</u> | <u>566,630</u> | <u>706,328</u> |
| Net OPEB obligation - end of year | <u>\$ 566,630</u> | <u>\$ 706,328</u> | <u>\$ 849,089</u> |

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

| <u>Year Ending</u> | <u>Annual OPEB Cost</u> | <u>Estimated % of OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|---------------------------|--|--|---------------------------------------|
| Aug. 31, 2010 | \$ 340,400 | 14 % | \$ 566,630 |
| Aug. 31, 2011 | 181,001 | 23 | 706,328 |
| Aug. 31, 2012 | 186,589 | 26 | 849,089 |

Required Supplementary Information

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded Actuarial Accr. Liability (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a % of Covered Payroll</u> |
|--|---|---|---|--------------------------------|-----------------------------------|--|
| Aug. 31, 2010 | \$ 0 | \$ 3,282,370 | \$ 3,282,370 | 0 % | \$ 469,053 | 699.8 % |
| Sept. 1, 2010 | 0 | 1,892,176 | 1,892,176 | 0 | 463,099 | 408.6 |
| Sept. 1, 2011* | 0 | 1,967,814 | 1,967,814 | 0 | 474,846 | 414.4 |

* A full valuation was not performed for fiscal year ended August 31, 2012. All entries have been derived from the September 1, 2010 valuation.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Funded Status and Funding Progress

As of September 1, 2011, the plan was 0% percent funded. The estimated actuarial accrued liability for benefits was \$1,967,814. This value is based on a roll-forward of the September 1, 2010 liability as a full valuation was not performed as of September 1, 2011. The covered payroll (annual payroll of active employees covered by the plan) was \$474,846 and the ratio of the UAAL to the covered payroll was 414.4%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The valuation assumptions include a future inflation rate of 2.75%.

In the September 1, 2010 actuarial valuation, the projected unit credit method was used. The retirement age for an active employee was assumed to be 65, which is the first year an eligible employee would qualify for OPEB plan benefits. The probability for employees eligible for the OPEB plan separating from service before normal retirement is based on Table T-1 of the Actuary's Pension Handbook, modified for females. The marital status of eligible active employees was assumed to continue throughout retirement. Life expectancies were based on the RP2000 Mortality Table with Projection Scale AA. The actuarial assumptions also included an assumed investment rate of return of 4.0% for fiscal years 2012 and later.

The annual healthcare cost trend rate was 6.7% for fiscal 2011, 6.5% for fiscal 2012, 6.0% for fiscal 2013, 5.9% for fiscal 2014 and ultimately grade down to 4.2% per year after 2080.

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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – MAJOR CUSTOMERS

Industrial water sales totaling \$8,306,962 were invoiced to two primary customers. This accounts for 86% of the General Administration water sales revenues for the year ended August 31, 2012.

Revenues totaling \$1,088,686 accrued from the Authority's primary contractual partner in the Lake Conroe reservoir project. This accounts for 52% of the Lake Conroe Division's operating revenues for the year ended August 31, 2012.

Water pumpage fees totaling \$14,814,666 were invoiced to two primary customers. This accounts for 54% of Groundwater Reduction Plan Division's operating revenues for the year ended August 31, 2012.

Water and sewer service fees and capacity charges totaling \$11,811,814 accrued from three primary customers. This accounts for 57% of The Woodlands Division's operating revenues for the year ended August 31, 2012.

NOTE 11 – CONTINGENT LIABILITY

In the ordinary course of conducting its operations, the Authority is involved in various legal matters. These matters are in various stages of the process of resolution and the impact, if any, is not currently determinable. The Authority's management does not believe that any unfavorable decisions would have a material impact on the financial statements.

NOTE 12 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance.

NOTE 13 – FUNDING FOR REGION H WATER PLANNING STUDY

Under an agreement with the Texas Water Development Board ("TWDB"), the Authority is the contracting agency and designated representative of the Region H Water Planning Group. Under the contract, the TWDB provides financial assistance to develop a regional water plan for Region H, a 15 county area, which includes most of the San Jacinto River watershed. The TWDB, fulfilling the requirements set forth in Senate Bills 1, 2 and 3, defines the scope of work to be included in the plan and the time frame for completion of the various tasks in the plan. Senate Bill 1 was enacted by the 75th Texas Legislature in 1997, Senate Bill 2 was enacted by the 77th Texas Legislature in 2001 and Senate Bill 3 was enacted by the 80th Texas Legislature in 2007. The TWDB rules

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

provide that State funds will be used to pay 100% of the direct regional water plan costs. The Authority has received contributions from governments and other parties interested in the development of the plan that partially fund miscellaneous other costs.

NOTE 14 – COMPENSATED ABSENCES

Vacation

As of August 31, 2012, employees of the Authority accrue vacation quarterly based on their hire date. Vacation is accrued as follows:

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

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

Upon termination of employment, employees who have given proper notice, will normally be paid for unused vacation time that has been accrued through the date of termination. If the Authority terminates employment for any reason other than a lay-off or reduction in force, no payment will be made for accrued vacation. The liability and annual expense for accrued vacation was calculated based on the employees pay rate times the accrued vacation plus applicable employee benefits as of the end of the fiscal year.

Compensatory Time

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

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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Maximum Accruals:

General and Administration Employees – 40 actual hours = 60 compensatory time hours

Woodlands Employees – 20 actual hours = 30 compensatory time hours

Lake Conroe Employees – 40 actual hours = 60 compensatory time hours

Highlands Employees – 120 actual hours = 180 compensatory time hours

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

Payment of Compensatory Time

All employees who are reclassified from a non-exempt position to an exempt position will be paid all accrued compensatory time upon approval of the reclassification and will cease to be eligible for any additional overtime and/or compensatory time. Likewise, an employee who is promoted, transferred or demoted to another non-exempt position will be paid in full for any compensatory time accrued before the promotion or demotion becomes effective. Upon leaving employment with the Authority, a non-exempt employee will be paid for unused compensatory time at the employee's current hourly rate.

Sick Leave

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

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

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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

| | Sept. 1, 2011 | Additions | Reductions | Aug. 31, 2012 |
|----------------------------|----------------------|------------------|-------------------|----------------------|
| Lake Conroe Vacation | \$ 17,618 | \$ 1,366 | \$ | \$ 18,984 |
| Highlands Vacation | 12,434 | 5,438 | | 17,872 |
| General & Admin Vacation | 99,372 | 44,853 | | 144,225 |
| Woodlands Vacation | 91,827 | 29,944 | | 121,771 |
| GRP Vacation | 13,433 | 8,653 | | 22,086 |
| Vacation Total | <u>234,684</u> | <u>90,254</u> | | <u>324,938</u> |
| Lake Conroe Sick Leave | | | | |
| Highlands Sick Leave | | | | |
| General & Admin Sick Leave | 29,637 | 2,644 | | 32,281 |
| Woodlands Sick Leave | 23,102 | | 8,640 | 14,462 |
| GRP Sick Leave | 10,379 | | 10,379 | |
| Sick Leave Total | <u>63,118</u> | <u>2,644</u> | <u>19,019</u> | <u>46,743</u> |
| Lake Conroe Comp Time | 471 | 1,604 | | 2,075 |
| Highlands Comp Time | 10,941 | | 3,854 | 7,087 |
| General & Admin Comp Time | 3,760 | | 562 | 3,198 |
| Woodlands Comp Time | | | | |
| GRP Comp Time | 259 | | 5 | 254 |
| Compensatory Time Total | <u>15,431</u> | <u>1,604</u> | <u>4,421</u> | <u>12,614</u> |
| Total | <u>\$ 313,233</u> | <u>\$ 94,502</u> | <u>\$ 23,440</u> | <u>\$ 384,295</u> |

The current year expense and ending fiscal year 2012 liability for compensatory time is calculated based on the total employee hours accrued times the fiscal year 2012 pay rate plus applicable employee benefits.

NOTE 15 – SUBSEQUENT EVENT

Special Project Revenue Bonds (GRP), Series 2012A

On November 21, 2012, the Authority issued \$165,000,000 Special Project Revenue Bonds (GRP), Series 2012A for the Surface Water Program through the Texas Water Development Board (TWDB). These funds will be utilized to construct a surface water treatment plant and transmission system for the Authority's groundwater reduction plan participants. This project is necessary to meet the regulatory requirements of the Lone Star Groundwater Conservation District.

REQUIRED SUPPLEMENTARY INFORMATION

SAN JACINTO RIVER AUTHORITY

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

Year Ended August 31, 2012

Six Year Trend Information

Schedule of Contributions From the Employer

| <u>Fiscal Year Ended</u> | <u>Annual Required Contribution</u> | <u>Actual Contribution</u> | <u>Percentage Contributed</u> |
|---------------------------------|--|-----------------------------------|--------------------------------------|
| 10/31/2006 | \$ 325,357 | \$ 365,215 | 112.3 % |
| 10/31/2007 | 337,523 | 372,478 | 110.4 |
| 10/31/2008 | 397,109 | 437,482 | 110.2 |
| 10/31/2009 | 551,847 | 572,069 | 103.7 |
| 10/31/2010 | 562,406 | 583,621 | 103.8 |
| 10/31/2011 | 648,608 | 670,891 | 103.4 |

Schedule of Funding Progress - Frozen Initial Liability Actuarial Cost Method

| <u>(1)</u> | <u>(2)</u> | <u>(3)</u> | <u>(4)</u> | <u>(5)</u> | <u>(6)</u> |
|--|--|--|---|--|--|
| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Plan Assets</u> | <u>Frozen Initial Liability</u> | <u>Unfunded Frozen Initial Liab (UFIL) (2) - (1)</u> | <u>Funded Ratio (1) / (2)</u> | <u>UFIL as a % of Covered Payroll (3) / (5)</u> |
| 11/1/2006 | \$ 5,222,959 | \$ 5,460,671 | \$ 237,712 | 95.6 % | \$ 2,890,174 8.2 % |
| 11/1/2007 | 5,600,313 | 5,776,428 | 176,115 | 97.0 | 3,254,963 5.4 |
| 11/1/2008 | 6,042,141 | 6,375,231 | 333,090 | 94.8 | 4,013,370 8.3 |
| 11/1/2009 | 6,632,221 | 6,903,154 | 270,933 | 96.1 | 4,129,705 6.6 |
| 11/1/2010 | 7,225,943 | 7,432,242 | 206,299 | 97.2 | 4,728,214 4.4 |
| 11/1/2011 | 7,881,840 | 8,020,008 | 138,168 | 98.3 | 5,901,212 2.3 |

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

SAN JACINTO RIVER AUTHORITY

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

Year Ended August 31, 2012

Three Year Trend Information

Schedule of Contributions From the Employer

| Fiscal Year Ended | Annual OPEB Cost | Percentage Contributed | Net OPEB Obligation |
|------------------------------|---------------------------------|-----------------------------------|------------------------------------|
| 8/31/2010 | \$ 340,400 | 13.6% | \$566,630 |
| 8/31/2011 | 181,001 | 23.0% | 706,328 |
| 8/31/2012 | 186,589 | 25.7% | 849,089 |

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

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|--|--|--|---------------------------------------|----------------------------|---|
| Actuarial Valuation Date | Actuarial Value of Assets | AAL Actuarial Accrued Liability | UAAL Unfunded AAL (2) - (1) | Funded Ratio (1) / (2) | Covered Payroll | UAAL as a % of Covered Payroll (3) / (5) |
| 8/31/2010 | \$ 0 | \$ 3,282,370 | \$ 3,282,370 | 0.0 % | \$ 469,053 | 699.8 % |
| 9/1/2010* | 0 | 1,892,176 | 1,892,176 | 0.0 | 463,099 | 408.6 |
| 9/1/2011** | 0 | 1,967,814 | 1,967,814 | 0.0 | 474,846 | 414.4 |

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

** A full valuation was not performed for fiscal year ended August 31, 2012. All entries have been derived from the September 1, 2010 valuation.

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OTHER SUPPLEMENTARY INFORMATION

SAN JACINTO RIVER AUTHORITY

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

Year Ended August 31, 2012

| | Budgeted Amounts | | Actual | Variance |
|---|-------------------------|---------------------|--------------------------|---------------------|
| | Original | Final | (Budgetary Basis) | Over (Under) |
| <u>Operating Revenues</u> | | | | |
| Water and sewer service fees | \$ 24,218,352 | \$ 24,218,352 | \$ 23,214,726 | \$ (1,003,626) |
| Total Revenues | <u>24,218,352</u> | <u>24,218,352</u> | <u>23,214,726</u> | <u>(1,003,626)</u> |
| <u>Operating Expenses</u> | | | | |
| Current: | | | | |
| Salaries and wages | 4,026,722 | 4,026,722 | 3,500,406 | 526,316 |
| Employee insurance and other payroll benefits | 1,963,485 | 1,963,485 | 1,304,757 | 658,728 |
| Outside services employed | 1,814,798 | 1,814,798 | 2,068,958 | (254,160) |
| Operating supplies and expenses | 9,670,890 | 9,670,890 | 9,496,074 | 174,816 |
| Rentals | 63,098 | 63,098 | 61,144 | 1,954 |
| Maintenance, repairs and parts | 3,945,331 | 3,945,331 | 3,838,289 | 107,042 |
| General and administrative | 772,197 | 772,197 | 575,660 | 196,537 |
| Asset Purchases | | | | |
| Total Expenditures | <u>22,256,521</u> | <u>22,256,521</u> | <u>20,845,288</u> | <u>1,411,233</u> |
| Operating Net Income (Loss) | 1,961,831 | 1,961,831 | 2,369,438 | 407,607 |
| <u>Nonoperating Revenues</u> | | | | |
| Interest income | 14,205 | 14,205 | 31,578 | 17,373 |
| Other | | | 14,211 | 14,211 |
| Total Nonoperating Revenues | <u>14,205</u> | <u>14,205</u> | <u>45,789</u> | <u>31,584</u> |
| Change in Net Assets | <u>\$ 1,976,036</u> | <u>\$ 1,976,036</u> | <u>\$ 2,415,227</u> | <u>\$ 439,191</u> |

NOTE TO OTHER SUPPLEMENTARY INFORMATION

The Woodlands Division budget is prepared using a modified cash basis by the Woodlands Division management. The basic goal is to establish water/sewer rates for customers at a level that will provide funds to cover projected annual maintenance and operations expenses plus relatively minor capital asset purchases such as vehicles and office equipment. Since major infrastructure assets are acquired from other capital funds within the Woodlands Division, depreciation is excluded from the Woodlands Division rate calculation and budget.

SAN JACINTO RIVER AUTHORITY

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

Year Ended August 31, 2012

| | Budgeted Amounts | | | Variance Over (Under) |
|--|-------------------------|---------------------|---------------------|--------------------------------------|
| | Original | Final | Actual | |
| <u>Operating Revenues</u> | | | | |
| Water revenues | \$ 9,699,733 | \$ 9,699,733 | \$ 9,331,444 | \$ (368,289) |
| Permits, licenses and fees | 944,700 | 944,700 | 1,007,532 | 62,832 |
| Water planning study | 346,900 | 346,900 | 210,072 | (136,828) |
| Total Revenues | 10,991,333 | 10,991,333 | 10,549,048 | (442,285) |
| <u>Operating Expenses</u> | | | | |
| Current: | | | | |
| Salaries and wages | 2,828,293 | 2,828,293 | 3,052,027 | (223,734) |
| Employee insurance and other payroll benefits | 1,393,152 | 1,393,152 | 1,055,636 | 337,516 |
| Outside services employed | 1,655,320 | 1,655,320 | 1,369,708 | 285,612 |
| Operating supplies and expenses | 2,235,524 | 2,235,524 | 1,338,509 | 897,015 |
| Rentals | 295,300 | 295,300 | 280,532 | 14,768 |
| Maintenance, repairs and parts | 847,434 | 847,434 | 702,386 | 145,048 |
| Water planning study expenses | 344,400 | 344,400 | 197,815 | 146,585 |
| General and administrative | (1,785,476) | (1,785,476) | (1,329,556) | (455,920) |
| Depreciation | | | 1,090,330 | (1,090,330) |
| Total Expenditures | 7,813,947 | 7,813,947 | 7,757,387 | 56,560 |
| Operating Net Income | 3,177,386 | 3,177,386 | 2,791,661 | (385,725) |
| <u>Nonoperating Revenues (Expenses)</u> | | | | |
| Interest income | 100,039 | 100,039 | 56,711 | (43,328) |
| Interest expense on bonds | (2,198,590) | (2,198,590) | (1,834,822) | 363,768 |
| Other | 83,000 | 83,000 | 69,229 | (13,771) |
| Total Nonoperating Revenues (Expenses) | (2,015,551) | (2,015,551) | (1,708,882) | 306,669 |
| Change in Net Assets | \$ 1,161,835 | \$ 1,161,835 | \$ 1,082,779 | \$ (79,056) |

NOTE TO OTHER SUPPLEMENTARY INFORMATION

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

SAN JACINTO RIVER AUTHORITY

SCHEDULE OF REVENUE AND EXPENSES -

BUDGET AND ACTUAL

GROUNDWATER REDUCTION PLAN DIVISION

Year Ended August 31, 2012

| | Budgeted Amounts | | | Variance Over (Under) |
|--|-------------------------|--------------------|---------------------|--------------------------------------|
| | Original | Final | Actual | |
| <u>Operating Revenues</u> | | | | |
| Water revenues (GRP Pumpage Fees) \$ | 13,705,329 | \$ 13,705,329 | \$ 14,814,666 | \$ 1,109,337 |
| Total Revenues | <u>13,705,329</u> | <u>13,705,329</u> | <u>14,814,666</u> | <u>1,109,337</u> |
| <u>Operating Expenses</u> | | | | |
| Current: | | | | |
| Salaries and wages | 2,045,827 | 2,045,827 | 1,405,863 | 639,964 |
| Employee insurance and other payroll benefits | 859,297 | 859,297 | 411,982 | 447,315 |
| Outside services employed | 820,450 | 820,450 | 469,382 | 351,068 |
| Operating supplies and expenses | 838,807 | 838,807 | 192,049 | 646,758 |
| Raw water costs | 1,715,063 | 1,715,063 | 1,632,889 | 82,174 |
| Rentals | 10,000 | 10,000 | 10,803 | (803) |
| Maintenance, repairs and parts | 4,000 | 4,000 | 9,574 | (5,574) |
| General and administrative | 1,013,279 | 1,013,279 | 753,896 | 259,383 |
| Total Expenditures | <u>7,306,723</u> | <u>7,306,723</u> | <u>4,886,438</u> | <u>2,420,285</u> |
| Operating Net Income | 6,398,606 | 6,398,606 | 9,928,228 | 3,529,622 |
| <u>Nonoperating Revenues (Expenses)</u> | | | | |
| Interest income | 184,924 | 184,924 | 625,416 | 440,492 |
| Interest expense | (6,544,410) | (6,544,410) | (7,208,592) | (664,182) |
| Other | | | (64,733) | (64,733) |
| Total Nonoperating Revenues (Expenses) | <u>(6,359,486)</u> | <u>(6,359,486)</u> | <u>(6,647,909)</u> | <u>(288,423)</u> |
| Change in Net Assets | <u>\$ 39,120</u> | <u>\$ 39,120</u> | <u>\$ 3,280,319</u> | <u>\$ 3,241,199</u> |

SAN JACINTO RIVER AUTHORITY

SCHEDULE OF NET ASSETS

GROUNDWATER REDUCTION PLAN DIVISION

August 31, 2012

Assets

Current Assets

| | |
|----------------------------------|---------------------------|
| Cash and cash equivalents | |
| Unrestricted | \$ 8,369,193 |
| Restricted for debt service | 23,880,394 |
| Restricted for construction | 271,844,156 |
| Accounts receivable and prepaids | 2,920,484 |
| Total Current Assets | <u>307,014,227</u> |

Noncurrent Assets

| | |
|---------------------------|------------------|
| Debt issuance costs - net | <u>3,951,244</u> |
|---------------------------|------------------|

Capital Assets - at cost

| | |
|-------------------------------|-------------------|
| Land | 3,020,839 |
| Furniture and fixtures | 406,183 |
| Other machinery and equipment | 7,769 |
| Automobiles and trucks | 85,126 |
| Buildings | 2,469,609 |
| Water systems | 7,678 |
| Construction in progress | 46,237,131 |
| Accumulated Depreciation | (183,110) |
| Total Capital Assets | <u>52,051,225</u> |

| | |
|--------------------------------|-------------------|
| Total Noncurrent Assets | <u>56,002,469</u> |
|--------------------------------|-------------------|

| | |
|---------------------|------------------------------|
| Total Assets | <u>\$ 363,016,696</u> |
|---------------------|------------------------------|

Liabilities

Current Liabilities

| | |
|---|-------------------|
| Accounts payable and accrued liabilities - unrestricted | \$ 7,548,465 |
| Restricted for debt service - accrued interest payable | 4,194,743 |
| Restricted for construction - retainage payable | 8,612 |
| Total Current Liabilities | <u>11,751,820</u> |

Noncurrent Liabilities

| | |
|--|--------------------|
| First lien water revenue bonds - less current maturities | <u>347,125,000</u> |
|--|--------------------|

| | |
|-------------------------------------|--------------------|
| Total Noncurrent Liabilities | <u>347,125,000</u> |
|-------------------------------------|--------------------|

| | |
|--------------------------|--------------------|
| Total Liabilities | <u>358,876,820</u> |
|--------------------------|--------------------|

Net Assets

Net Assets

| | |
|--|----------------------------|
| Invested in capital assets - net of related debt | (23,238,231) |
| Restricted for debt service | 19,685,651 |
| Unrestricted | 7,692,456 |
| Total Net Assets | <u>\$ 4,139,876</u> |

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

Year Ended August 31, 2012

Operating Revenues

| | |
|-----------------------------------|--------------------------|
| Water revenues (GRP Pumpage Fees) | \$ 14,814,666 |
| Total Revenues | <u>14,814,666</u> |

Operating Expenses

Current:

| | |
|---|-------------------------|
| Salaries and wages | 1,405,863 |
| Employee insurance and other payroll benefits | 411,982 |
| Outside services employed | 469,382 |
| Operating supplies and expenses | 192,049 |
| Raw water costs | 1,632,889 |
| Rentals | 10,803 |
| Maintenance, repairs and parts | 9,574 |
| General and administrative expenses | 753,896 |
| Depreciation | 154,230 |
| Total Expenditures | <u>5,040,668</u> |

Operating Net Income (Loss) 9,773,998

Nonoperating Revenues (Expenses)

| | |
|-------------------------------------|-------------|
| Interest income | 625,416 |
| Amortization of debt issuance costs | (127,652) |
| Interest expense on bonds | (7,208,592) |
| Other | 62,919 |

Total Nonoperating Revenues (Expenses) **(6,647,909)**

Income (Loss) Before Operating Transfers 3,126,089

Transfers **(183)**

Change in Net Assets 3,125,906

Net Assets at Beginning of Year **1,013,970**

Net Assets at End of Year **\$ 4,139,876**

SAN JACINTO RIVER AUTHORITY

SCHEDULE OF CASH FLOWS

GROUNDWATER REDUCTION PLAN DIVISION

Year Ended August 31, 2012

Cash Flows from Operating Activities

| | |
|---|-------------------------|
| Cash received from customers | \$ 13,462,061 |
| Cash payments to suppliers for goods and services | (2,263,794) |
| Cash paid for employee services | (1,817,845) |
| Other revenues and expenses | 1,474 |
| Net Cash Provided by Operating Activities | <u>9,381,896</u> |

Cash Flows from Noncapital Financing Activities

| | |
|---|---------------------|
| Transfers | <u>(183)</u> |
| Net Cash (Used) by Noncapital Financing Activities | <u>(183)</u> |

Cash Flows from Capital and Related Financing Activities

| | |
|--|---------------------------|
| Interest paid on bonds | (10,442,154) |
| Proceeds from bond sales | 242,470,000 |
| Bond issue expenses | (1,732,421) |
| Acquisition of capital assets | (34,044,509) |
| Proceeds from asset sales | 61,445 |
| Net Cash Provided by Capital and Related Financing Activities | <u>196,312,361</u> |

Cash Flows from Investing Activities

| | |
|--|-----------------------|
| Interest earned | <u>625,416</u> |
| Net Cash Flows Provided by Investing Activities | <u>625,416</u> |

Net Increase in Cash and Cash Equivalents 206,319,673

Cash and equivalents at beginning of year 97,774,253

Cash and Equivalents at End of Year **\$ 304,093,926**

Reconciliation of Operating Income (Loss) to Net

Cash Provided by Operating Activities

| | |
|--|----------------------------|
| Operating Income (Loss) | \$ 9,773,998 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | |
| Other revenues | 1,474 |
| Depreciation | 154,230 |
| (Increase) in receivables | (1,352,605) |
| (Increase) in prepaids | (26,264) |
| Increase in accounts payable and accrued liabilities | 831,063 |
| Total Adjustments | <u>(392,102)</u> |
| Net Cash Provided by Operating Activities | <u>\$ 9,381,896</u> |

SAN JACINTO RIVER AUTHORITY

LAKE CONROE DAM, RESERVOIR AND RELATED EQUIPMENT

August 31, 2012

Dam and Appurtenances:

| | |
|---|-------------------|
| Dam and appurtenances - joint | \$ 16,594,471 |
| Dam and appurtenances - San Jacinto River Authority | <u>1,169,194</u> |
| Total Dam and Appurtenances | <u>17,763,665</u> |

Buildings and Residences:

| | |
|--|----------------|
| Office building - joint | 188,957 |
| Warehouse building - joint | 31,342 |
| Residences - joint | 190,356 |
| Boat house - joint | 108,347 |
| Storage building - San Jacinto River Authority | <u>23,404</u> |
| Total Buildings and Residences | <u>542,406</u> |

Equipment:

| | |
|--|------------------|
| Construction and maintenance equipment - joint | 187,269 |
| Transportation equipment - joint | 327,554 |
| Office furniture and fixtures - joint | 27,957 |
| Computer software - joint | 144,530 |
| Computer hardware - joint | 56,092 |
| Telephone system - joint | 41,713 |
| Laboratory equipment - joint | 69,939 |
| Miscellaneous equipment - joint | 101,557 |
| Construction and maintenance equipment - San Jacinto River Authority | <u>45,919</u> |
| Total Equipment | <u>1,002,530</u> |

Land:

| | |
|---|-------------------|
| Land easements and improvements - joint | 7,570,143 |
| Land acquisition and administration - joint | 5,863,771 |
| Ayer Island improvements - joint | 49,508 |
| Land easements - Newton Park | 312,928 |
| Water supply well rehabilitation - joint | 20,241 |
| Lake Conroe land - site prep - SJRA | 28,379 |
| Land acquisition and administration - San Jacinto River Authority | <u>580,032</u> |
| Total Land | <u>14,425,002</u> |

Total Lake Conroe Dam, Reservoir and Related Equipment 33,733,603

Less City of Houston Contribution (20,971,005)

**San Jacinto River Authority's Interest in Lake Conroe Dam, Reservoir
and Related Equipment** 12,762,598

**Less Accumulated Depreciation on San Jacinto River Authority's Interest
in Assets** (3,176,756)

Net Interest in Lake Conroe Dam, Reservoir and Related Equipment \$ 9,585,842

SAN JACINTO RIVER AUTHORITY

INSURANCE COVERAGE

August 31, 2012

| <u>Types of Coverages</u> | <u>Amount of Coverage</u> | <u>Insurer</u> | <u>Coverage to</u> |
|------------------------------------|----------------------------------|--------------------------------|---------------------------|
| Property Coverages | | | |
| Buildings | \$ 120,979,778 | TWCA Risk Management Fund | 7/1/2013 |
| Contents | \$ 5,402,924 | TWCA Risk Management Fund | 7/1/2013 |
| EDP Equipment | \$ 1,074,784 | TWCA Risk Management Fund | 7/1/2013 |
| Equipment/Contractors Equip | \$ 1,864,618 | TWCA Risk Management Fund | 7/1/2013 |
| Miscellaneous Property & Equipment | \$ 200,441 | TWCA Risk Management Fund | 7/1/2013 |
| Rented Equipment | \$ 200,000 | TWCA Risk Management Fund | 7/1/2013 |
| Total Property Coverages | <u>\$ 129,722,545</u> | | |
| Boiler and Machinery | \$ 47,558,986 | TWCA Risk Management Fund | 7/1/2013 |
| Automobile: | | | |
| Bodily injury and property damage | Combined limit \$ 1,000,000 | TWCA Risk Management Fund | 7/1/2013 |
| Excess auto liability | \$ 9,000,000 | TWCA Risk Management Fund | 7/1/2013 |
| Physical damage | Actual cash value | TWCA Risk Management Fund | 7/1/2013 |
| General Liability | \$ 1,000,000 per occurrence | TWCA Risk Management Fund | 7/1/2013 |
| Excess General Liability | \$ 9,000,000 | TWCA Risk Management Fund | 7/1/2013 |
| Public Officials: | | | |
| Errors and omissions | \$ 1,000,000 | TWCA Risk Management Fund | 7/1/2013 |
| Excess errors and omissions | \$ 9,000,000 | TWCA Risk Management Fund | 7/1/2013 |
| GRP Review Committee | \$ 1,000,000 | AWAC - Darwin Select Insurance | 6/3/2013 |
| Workers' Compensation | Statutory | TWCA Risk Management Fund | 7/1/2013 |
| Fiduciary Liability - 457 Plan | \$ 1,000,000 | Chubb - Federal Insurance Co. | 3/1/2013 |

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

SAN JACINTO RIVER AUTHORITY

PRINCIPAL OFFICIALS

August 31, 2012

Directors

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

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

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

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

Fredrick Koetting, Member
P.O. Box 329
Conroe, Texas 77305-0329

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

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

Staff

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

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

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

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

Consultants

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

Financial Advisor
Jan Bartholomew
RBC Capital Markets
1001 Fannin, Suite 1200
Houston, Texas 77002

STATISTICAL SECTION

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

| <u>Contents</u> | <u>Page</u> |
|------------------------|--------------------|
|------------------------|--------------------|

| | |
|-------------------------|-------|
| Financial Trends | 64-67 |
|-------------------------|-------|

These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.

| | |
|-------------------------|-------|
| Revenue Capacity | 68-70 |
|-------------------------|-------|

These schedules contain information to help the reader assess the Authority's most significant local revenue source, the water and sewer service.

| | |
|----------------------|-------|
| Debt Capacity | 71-73 |
|----------------------|-------|

These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future.

| | |
|---|-------|
| Demographic and Economic Information | 74-76 |
|---|-------|

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.

| | |
|------------------------------|-------|
| Operating Information | 78-81 |
|------------------------------|-------|

These schedules contain service and infrastructure data to help the reader understand how the information in the Authority's financial report relates to the services the Authority provides and the activities it performs.

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

SAN JACINTO RIVER AUTHORITY

NET ASSETS BY COMPONENT

Last Ten Fiscal Years

| | 2003 | 2004 | 2005 | 2006 |
|---|----------------------|----------------------|----------------------|-----------------------|
| Business-type activities | | | | |
| Invested in capital assets- | | | | |
| net of related debt | \$ 65,310,123 | \$ 48,547,804 | \$ 50,362,973 | \$ 60,374,586 |
| Restricted | 4,019,668 | 19,894,387 | 31,273,497 | 22,324,988 |
| Unrestricted | 15,112,280 | 14,332,693 | 15,446,458 | 17,451,681 |
| Total business-type activities net assets | <u>\$ 84,442,071</u> | <u>\$ 82,774,884</u> | <u>\$ 97,082,928</u> | <u>\$ 100,151,255</u> |
| Primary government | | | | |
| Invested in capital assets- | | | | |
| net of related debt | \$ 65,310,123 | \$ 48,547,804 | \$ 50,362,973 | \$ 60,374,586 |
| Restricted | 4,019,668 | 19,894,387 | 31,273,497 | 22,324,988 |
| Unrestricted | 15,112,280 | 14,332,693 | 15,446,458 | 17,451,681 |
| Total primary government net assets | <u>\$ 84,442,071</u> | <u>\$ 82,774,884</u> | <u>\$ 97,082,928</u> | <u>\$ 100,151,255</u> |

Notes: The Authority does not currently have any governmental activities.

| Fiscal Year | | | | | |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| \$ 65,772,745 | \$ 65,030,432 | \$ 71,921,272 | \$ 39,210,018 | \$ 93,493,165 | \$ 81,039,024 |
| 18,254,369 | 34,936,170 | 28,654,942 | 65,464,657 | 7,778,815 | 27,079,260 |
| 16,039,280 | 18,156,477 | 23,616,921 | 21,068,435 | 36,370,470 | 34,648,654 |
| <u>\$ 100,066,394</u> | <u>\$ 118,123,079</u> | <u>\$ 124,193,135</u> | <u>\$ 125,743,110</u> | <u>\$ 137,642,450</u> | <u>\$ 142,766,938</u> |
| | | | | | |
| \$ 65,772,745 | \$ 65,030,432 | \$ 71,921,272 | \$ 39,210,018 | \$ 93,493,165 | \$ 81,039,024 |
| 18,254,369 | 34,936,170 | 28,654,942 | 65,464,657 | 7,778,815 | 27,079,260 |
| 16,039,280 | 18,156,477 | 23,616,921 | 21,068,435 | 36,370,470 | 34,648,654 |
| <u>\$ 100,066,394</u> | <u>\$ 118,123,079</u> | <u>\$ 124,193,135</u> | <u>\$ 125,743,110</u> | <u>\$ 137,642,450</u> | <u>\$ 142,766,938</u> |

SAN JACINTO RIVER AUTHORITY

CHANGES IN NET ASSETS

Last Ten Fiscal Years

| | 2003 | 2004 | 2005 | 2006 |
|--|----------------|----------------|----------------|----------------|
| Expenses | | | | |
| Business-type activities: | | | | |
| Salaries and wages | \$ 2,280,689 | \$ 2,276,993 | \$ 2,365,528 | \$ 2,537,539 |
| Employee insurance and other payroll benefits | 1,039,212 | 1,056,883 | 1,166,323 | 1,352,771 |
| Outside services employed | 1,322,733 | 1,438,566 | 1,410,829 | 1,318,626 |
| Operating supplies and expenses | 2,489,217 | 2,923,444 | 3,355,259 | 4,238,291 |
| Rentals | 24,074 | 42,515 | 18,895 | 18,677 |
| Maintenance, repairs and parts | 2,223,585 | 2,069,226 | 1,867,411 | 2,966,070 |
| Water planning study expenses | 340,232 | 419,037 | 505,656 | 389,211 |
| General and administrative expenses | 717,041 | 712,106 | 677,448 | 643,248 |
| Depreciation | 3,691,444 | 3,971,573 | 4,241,197 | 4,501,769 |
| Total business-type activities expenses | 14,128,227 | 14,910,343 | 15,608,546 | 17,966,202 |
| Total primary government expenses | \$ 14,128,227 | \$ 14,910,343 | \$ 15,608,546 | \$ 17,966,202 |
| Program Revenues: | | | | |
| Business-type activities | | | | |
| Water sales: | | | | |
| Industrial | \$ 3,950,633 | \$ 3,997,431 | \$ 4,061,681 | \$ 3,973,539 |
| Irrigation | 13,200 | 14,800 | 18,249 | 25,752 |
| Water and sewer service fees | 8,524,518 | 7,880,999 | 9,574,736 | 11,488,378 |
| Permits, licenses, and fees | 169,136 | 252,942 | 140,832 | 157,742 |
| Capacity charges | 4,011,418 | 4,252,382 | 4,171,424 | 4,202,855 |
| Water planning study | 340,232 | 420,802 | 505,656 | 389,211 |
| Total business-type activities revenues | 17,009,137 | 16,819,356 | 18,472,578 | 20,237,477 |
| Total primary government revenues | \$ 17,009,137 | \$ 16,819,356 | \$ 18,472,578 | \$ 20,237,477 |
| Net (Expenses) Revenue | | | | |
| Business-type activities | | | | |
| Interest income | \$ 638,911 | \$ 367,633 | \$ 924,941 | \$ 1,666,911 |
| Gain (Loss) on disposal of capital assets | (434,576) | (109,568) | 6,500 | 10,826 |
| Oil and gas royalty income | 67,231 | 52,551 | 57,689 | 82,420 |
| Other revenues | 5,502 | 4,699 | 3,584 | 57,313 |
| FEMA Grant | | | | 1,262,964 |
| Other expenses | | | | |
| Amortization of debt issuance costs | (106,704) | (486,268) | (736,681) | (663,089) |
| Interest expense on bonds | (4,298,316) | (3,990,520) | (3,445,937) | (3,445,006) |
| Total business-type activities | (4,127,952) | (4,161,473) | (3,189,904) | (1,027,661) |
| Total primary government | \$ (4,127,952) | \$ (4,161,473) | \$ (3,189,904) | \$ (1,027,661) |
| General Revenues and Other Change in Net Assets | | | | |
| Business-type activities: | | | | |
| Capital Contributions | \$ 1,403,036 | \$ 585,273 | \$ 14,633,916 | \$ 1,824,713 |
| Total business-type activities | 1,403,036 | 585,273 | 14,633,916 | 1,824,713 |
| Total primary government | \$ 1,403,036 | \$ 585,273 | \$ 14,633,916 | \$ 1,824,713 |
| Change in Net Assets | | | | |
| Business-type activities | 155,994 | (1,667,187) | 14,308,044 | 3,068,327 |
| Total primary government | \$ 155,994 | \$ (1,667,187) | \$ 14,308,044 | \$ 3,068,327 |

Notes: The Authority does not currently have any governmental activities.

| Fiscal Year | | | | | |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| \$ 2,974,694 | \$ 3,609,239 | \$ 4,213,962 | \$ 4,610,165 | \$ 6,702,971 | \$ 7,958,296 |
| 1,777,904 | 1,802,280 | 2,057,484 | 2,316,454 | 2,783,051 | 2,772,375 |
| 1,981,899 | 2,785,842 | 3,279,261 | 2,718,636 | 5,053,638 | 3,908,048 |
| 3,871,080 | 4,717,992 | 4,499,020 | 5,437,305 | 7,595,490 | 7,388,455 |
| 32,509 | 48,714 | 111,362 | 147,150 | 124,643 | 352,479 |
| 2,495,369 | 3,456,995 | 4,174,346 | 2,446,618 | 4,133,285 | 4,550,249 |
| 75,104 | 125,700 | 356,123 | 1,026,692 | 157,071 | 197,815 |
| 830,749 | 949,078 | 1,370,683 | 1,971,681 | | |
| 4,619,949 | 5,747,453 | 5,219,499 | 5,823,940 | 6,330,205 | 6,898,534 |
| 18,659,257 | 23,243,293 | 25,281,740 | 26,498,641 | 32,880,354 | 34,026,251 |
| <u>\$ 18,659,257</u> | <u>\$ 23,243,293</u> | <u>\$ 25,281,740</u> | <u>\$ 26,498,641</u> | <u>\$ 32,880,354</u> | <u>\$ 34,026,251</u> |
| | | | | | |
| \$ 6,020,521 | \$ 7,660,698 | \$ 8,264,471 | \$ 8,862,294 | \$ 9,037,794 | \$ 9,223,102 |
| 28,147 | 40,013 | 58,291 | 76,369 | 134,341 | 108,342 |
| 8,558,969 | 13,514,338 | 16,270,637 | 15,253,398 | 33,257,666 | 33,360,551 |
| 791,295 | 858,733 | 682,043 | 578,560 | 763,503 | 1,007,532 |
| 4,212,228 | 5,149,975 | 5,522,353 | 5,205,756 | 5,466,830 | 5,242,829 |
| 82,726 | 575,909 | 464,449 | 1,088,622 | 141,878 | 210,072 |
| 19,693,886 | 27,799,666 | 31,262,244 | 31,064,999 | 48,802,012 | 49,152,428 |
| <u>\$ 19,693,886</u> | <u>\$ 27,799,666</u> | <u>\$ 31,262,244</u> | <u>\$ 31,064,999</u> | <u>\$ 48,802,012</u> | <u>\$ 49,152,428</u> |
| | | | | | |
| \$ 1,874,487 | \$ 1,549,570 | \$ 482,664 | \$ 229,489 | \$ 287,860 | \$ 713,705 |
| 7,716 | 11,706 | 22,746 | 161,336 | 47,542 | 167,866 |
| 35,714 | 51,268 | 32,820 | 12,635 | 7,920 | 3,165 |
| 43,313 | 185,648 | 74,016 | 1,932 | 6,305 | 220,754 |
| 408,965 | | 1,910,083 | | | |
| | (17,800) | | | (119,476) | |
| (631,922) | (641,709) | (646,329) | (683,725) | (728,548) | (454,979) |
| (3,344,542) | (3,814,792) | (3,875,334) | (3,527,175) | (5,367,553) | (11,489,309) |
| (1,606,269) | (2,676,109) | (1,999,334) | (3,805,508) | (5,865,950) | (10,838,798) |
| <u>\$ (1,606,269)</u> | <u>\$ (2,676,109)</u> | <u>\$ (1,999,334)</u> | <u>\$ (3,805,508)</u> | <u>\$ (5,865,950)</u> | <u>\$ (10,838,798)</u> |
| | | | | | |
| \$ 486,779 | \$ 16,176,421 | \$ 2,088,886 | \$ 789,125 | \$ 1,843,632 | \$ 837,109 |
| 486,779 | 16,176,421 | 2,088,886 | 789,125 | 1,843,632 | 837,109 |
| <u>\$ 486,779</u> | <u>\$ 16,176,421</u> | <u>\$ 2,088,886</u> | <u>\$ 789,125</u> | <u>\$ 1,843,632</u> | <u>\$ 837,109</u> |
| | | | | | |
| (84,861) | 18,056,685 | 6,070,056 | 1,549,975 | 11,899,340 | 5,124,488 |
| <u>\$ (84,861)</u> | <u>\$ 18,056,685</u> | <u>\$ 6,070,056</u> | <u>\$ 1,549,975</u> | <u>\$ 11,899,340</u> | <u>\$ 5,124,488</u> |

SAN JACINTO RIVER AUTHORITY

WATER AND SEWER SERVICE FEES BY SOURCE

Last Ten Fiscal Years

| Fiscal Year | Water and Sewer Fees | | | Total Water Direct Rate | Total WasteWater Direct Rate (1) |
|--------------------|-----------------------------|--------------|--------------|------------------------------------|---|
| | Water | Sewer | Total | | |
| 2003 | \$ 3,485,909 | \$ 5,038,609 | \$ 8,524,518 | \$ 0.76 | \$ 1.25 |
| 2004 | 3,219,745 | 4,661,254 | 7,880,999 | 0.76 | 1.25 |
| 2005 | 3,932,639 | 5,642,097 | 9,574,736 | 0.76 | 1.25 |
| 2006 | 4,746,910 | 6,741,468 | 11,488,378 | 0.76 | 1.25 |
| 2007 | 3,665,615 | 4,893,355 | 8,558,969 | 0.85 | 1.32 |
| 2008 | 5,945,121 | 7,569,217 | 13,514,338 | 1.01 | 1.50 |
| 2009 | 7,798,389 | 8,472,248 | 16,270,637 | 1.21 | 1.57 |
| 2010 | 7,068,137 | 7,497,114 | 14,565,251 | 1.26 | 1.63 |
| 2011 | 10,227,673 | 12,286,754 | 22,514,427 | 1.40 | 1.99 |
| 2012 | 8,767,267 | 9,604,911 | 18,372,178 | 1.40 | 1.79 |

(1) Direct Rate based on per thousand gallons

SAN JACINTO RIVER AUTHORITY

PRINCIPAL WATER AND SEWER FEES PAYERS

August 31, 2012

| <u>Customer</u> | <u>2012</u> | | | <u>2004</u> | | |
|-----------------|--------------------------------------|-------------|---|--|-------------|---|
| | <u>Revenue Base Attributable</u> | <u>Rank</u> | <u>% Base of The total Revenue Base</u> | <u>Revenue Base Attributable</u> | <u>Rank</u> | <u>% Base of The total Revenue Base</u> |
| MUD 6 | \$ 878,129 | 8 | 5% | \$ 573,356 | 8 | 7% |
| MUD 7 | 1,390,350 | 6 | 8% | 916,643 | 4 | 10% |
| MUD 36 | 756,089 | 9 | 4% | 524,871 | 9 | 6% |
| MUD 39 | 698,926 | 10 | 4% | 275,116 | 10 | 3% |
| MUD 40 | 1,206,598 | 7 | 7% | 739,882 | 7 | 8% |
| MUD 46 | 4,328,069 | 1 | 24% | 922,735 | 3 | 10% |
| MUD 47 | 3,447,534 | 2 | 19% | 2,119,350 | 1 | 24% |
| MUD 60 | 2,180,103 | 3 | 12% | 1,113,070 | 2 | 13% |
| MUD 67 | 1,474,199 | 5 | 8% | 819,927 | 5 | 9% |
| Metro MUD | 1,506,093 | 4 | 8% | 786,167 | 6 | 9% |

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

SAN JACINTO RIVER AUTHORITY

LIST OF PRINCIPAL CUSTOMERS

August 31, 2012

General and Administration Division

ExxonMobil
Chevron Chemical Company
Entergy
Newport Municipal Utility District
LCY Elastomers, LP
Rhodia, Inc.

Woodlands Division

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

Lake Conroe Division

Walden on Lake Conroe
Seven Coves Association
Bentwater Yacht & Country Club
French Quarter VIII, LP
The Palms Marina
Inland Discount Marina
Sports Harbour, LLC

Groundwater Reduction Plan Division

SJRA - Woodlands Division
City of Conroe
Aqua Texas, Inc.
Quadvest, LP
Rayford Road Municipal Utility District
Southern Mont. Co. Municipal Utility District
MSEC Enterprises
T&W Water Services
Montgomery Co. Municipal Utility District No. 89
Quadvest, LP 1

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

SAN JACINTO RIVER AUTHORITY

RATIO OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

| Fiscal Year | Business-Type Activities | | | Total Primary Government | Percentage of Revenue (1) | Percentage of Personal Income | Debt per Population (2) |
|-------------|---------------------------|---------------------------------------|-----------|--------------------------------|---------------------------------|-------------------------------------|-------------------------------|
| | Water Revenue Bonds | Special Project Revenue Bond | Loans | | | | |
| 2003 | \$ 23,055,000 | \$ 51,930,000 | \$ | 74,985,000 | 449.85% | 0.27% % | \$ 113 |
| 2004 | 22,600,000 | 50,555,000 | | 73,155,000 | 446.11% | 0.26% | 110 |
| 2005 | 62,400,000 | 13,695,000 | | 76,095,000 | 423.53% | 0.27% | 115 |
| 2006 | 61,470,000 | 12,550,000 | | 74,020,000 | 372.93% | 0.26% | 112 |
| 2007 | 60,110,000 | 11,350,000 | | 71,460,000 | 364.38% | 0.26% | 108 |
| 2008 | 58,355,000 | 24,860,000 | | 83,215,000 | 305.67% | 0.30% | 125 |
| 2009 | 56,540,000 | 23,550,000 | | 80,090,000 | 260.05% | 0.29% | 121 |
| 2010 (3) | 86,240,000 | 36,860,000 | 1,947,767 | 125,047,767 | 417.02% | 0.45% | 188 |
| 2011 (3) | 84,910,000 | 118,625,000 | 3,926,810 | 207,461,810 | 426.35% | 0.74% | 313 |
| 2012 (3) | 81,160,000 | 360,330,000 | 3,723,667 | 445,213,667 | 902.61% | 1.01% | 568 |

(1) Based on operating revenues.

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

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

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

SAN JACINTO RIVER AUTHORITY

PLEDGE - REVENUE COVERAGE

Last Nine Fiscal Years

| Fiscal Year | Water Revenue Bonds | | | | | |
|-------------|---------------------|-------------------------------|--------------------------------------|--------------|--------------|----------------|
| | Revenue | Less Operating Expenses | Net Available for Debt Service | Debt Service | | Cover Ratio |
| | | | | Principal | Interest | |
| 2004 | \$ 4,685,975 | \$ 2,169,820 | \$ 2,516,155 | \$ 455,000 | \$ 1,115,325 | 1.60 |
| 2005 | 4,726,418 | 2,202,848 | 2,523,570 | 480,000 | 1,134,457 | 1.56 |
| 2006 | 4,546,244 | 3,642,025 | 904,219 | 510,000 | 1,105,475 | 0.56 |
| 2007 | 6,922,689 | 3,803,567 | 3,119,122 | 700,000 | 1,074,456 | 1.76 |
| 2008 | 9,135,353 | 5,163,482 | 3,971,871 | 740,000 | 1,041,351 | 2.23 |
| 2009 | 9,469,254 | 7,126,546 | 2,342,708 | 775,000 | 1,006,243 | 1.32 |
| 2010 | 10,595,845 | 5,585,308 | 5,010,537 | 815,000 | 969,101 | 2.81 |
| 2011 | 8,448,902 | 2,809,489 | 5,639,413 | 195,000 | 1,189,324 | 4.07 |
| 2012 | 9,017,529 | 3,621,077 | 5,396,452 | 1,670,000 | 1,617,041 | 1.64 |

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

| Special Revenue Bonds | | | | | | |
|-----------------------|-----------|-----------------------|---------------------|--------------|--------------|----------------|
| | | Less | Net Available | | | Cover Ratio |
| Revenue | | Operating Expenses | for Debt Service | Debt Service | | |
| | | | | Principal | Interest | |
| \$ | 4,252,382 | \$ 4,882 | \$ 4,247,500 | \$ 1,375,000 | \$ 2,863,994 | 1.00 |
| | 4,171,424 | 31,751 | 4,139,673 | 1,440,000 | 2,795,138 | 0.98 |
| | 4,202,855 | 13,697 | 4,189,158 | 1,565,000 | 2,374,895 | 1.06 |
| | 4,212,228 | 5,738 | 4,206,490 | 1,860,000 | 2,307,542 | 1.01 |
| | 5,149,975 | 8,468 | 5,141,507 | 1,940,000 | 2,236,712 | 1.23 |
| | 5,522,353 | 3,725 | 5,518,628 | 2,350,000 | 3,171,379 | 1.00 |
| | 5,205,756 | 19,638 | 5,186,118 | 2,655,000 | 2,807,120 | 0.95 |
| | 5,466,830 | 8,150 | 5,458,680 | 2,525,000 | 2,578,229 | 1.07 |
| | 5,242,829 | 5,400 | 5,237,429 | 2,925,000 | 2,484,830 | 0.97 |

SAN JACINTO RIVER AUTHORITY

DISTRICT DEMOGRAPHICS

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

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

| <u>County/City</u> | <u>Population</u> |
|---------------------------|--------------------------|
| Barrett | 3,199 |
| Baytown | 71,802 |
| Crosby | 6,059 |
| Grimes | 26,604 |
| Highlands | 7,522 |
| Liberty | 75,643 |
| Montgomery | 455,746 |
| San Jacinto | 26,384 |
| Waller | 43,205 |
| Walker | 67,861 |

Source US Census Bureau, Census 2010

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

| <u>Educational Attainment</u> | | |
|--------------------------------------|---------------------------|-----------------------|
| <u>County/City</u> | <u>High School</u> | <u>College</u> |
| Barrett | 75% | 7% |
| Baytown | 76% | 14% |
| Crosby | 75% | 13% |
| Grimes | 77% | 11% |
| Highlands | 82% | 11% |
| Liberty | 73% | 9% |
| Montgomery | 86% | 30% |
| San Jacinto | 77% | 10% |
| Waller | 80% | 20% |
| Walker | 80% | 17% |

Source US Census Bureau, Census 2010

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

| <u>County/City</u> | <u>Median Age</u> |
|---------------------------|--------------------------|
| Barrett | 35 |
| Baytown | 32 |
| Crosby | 38 |
| Grimes | 40 |
| Highlands | 37 |
| Liberty | 36 |
| Montgomery | 36 |
| San Jacinto | 43 |
| Waller | 32 |
| Walker | 35 |

Source US Census Bureau, Census 2010

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

| <u>County/City</u> | <u>Median Household Income (\$)</u> |
|---------------------------|--|
| Barrett | 33,333 |
| Baytown | 47,586 |
| Crosby | 36,301 |
| Grimes | 39,429 |
| Highlands | 54,832 |
| Liberty | 45,929 |
| Montgomery | 65,620 |
| San Jacinto | 46,285 |
| Waller | 47,324 |
| Walker | 34,259 |

Source US Census Bureau, Census 2010

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

| <u>County/City</u> | <u>Unemployment Rate</u> |
|---------------------------|---------------------------------|
| Barrett | 8.0% |
| Baytown | 6.1% |
| Crosby | 1.5% |
| Grimes | 3.0% |
| Highlands | 4.3% |
| Liberty | 5.0% |
| Montgomery | 4.1% |
| San Jacinto | 5.9% |
| Waller | 4.4% |
| Walker | 2.9% |

Source US Census Bureau, Census 2011

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

SAN JACINTO RIVER AUTHORITY

NUMBER OF EMPLOYEES BY DIVISION

Last Ten Fiscal Years

| Division | Number of Full-Time | | | | |
|----------------------------|------------------------|-------------|-------------|-------------|-------------|
| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| Highlands | 7 | 7 | 6 | 7 | 6 |
| Lake Conroe | 7 | 7 | 7 | 7 | 8 |
| Woodlands | 37 | 35 | 37 | 38 | 40 |
| General & Administration | 8 | 8 | 8 | 9 | 11 |
| Groundwater Reduction Plan | | | | | |
| Total | 59 | 57 | 58 | 61 | 65 |

Note: This table reports the number of full-time employees based on the division in which they are employed. Employees in the General & Administration Division provide centralized services to all four operating divisions, and their time and salary costs are allocated to each division based on time worked.

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

**Positions
Equivalent**

| <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|-------------|-------------|-------------|-------------|-------------|
| 6 | 6 | 6 | 7 | 7 |
| 9 | 9 | 11 | 13 | 14 |
| 43 | 44 | 45 | 45 | 45 |
| 13 | 17 | 27 | 48 | 56 |
| | | 1 | 4 | 5 |
| 71 | 76 | 90 | 117 | 127 |

SAN JACINTO RIVER AUTHORITY

OPERATING STATISTICS

Last Ten Calendar Years

| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| <u>General and Administration, Lake Conroe and Highlands Divisions</u> | | | | | |
| Water Delivered (Thousand Gallons) | 27,735,785 | 24,874,814 | 29,486,257 | 22,379,447 | 24,192,482 |
| Water Rights (See detail below) | 3 | 4 | 5 | 5 | 5 |

Woodlands Division

| | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|
| Water Average Pumpage (Thousand Gallons) | 5,075,982 | 4,663,533 | 5,578,435 | 6,238,117 | 5,083,736 |
| Wastewater Average Flow (Thousand Gallons per Day) | 6,689 | 6,852 | 7,107 | 7,253 | 7,682 |
| Water Permits | 1 | 1 | 1 | 1 | 1 |
| Wastewater Permits | 3 | 3 | 3 | 3 | 3 |
| Storm Water Permits | 2 | 2 | 2 | 2 | 2 |

Water Rights Permitted at End of Year

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

* Reported by Fiscal Year

| <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011*</u> | <u>2012*</u> |
|-------------|-------------|-------------|--------------|--------------|
| 24,583,503 | 23,474,958 | 22,956,529 | 21,951,139 | 27,904,340 |
| 5 | 7 | 7 | 7 | 7 |
| 6,333,984 | 6,832,883 | 5,789,840 | 7,674,492 | 7,036,323 |
| 7,624 | 7,756 | 7,643 | 7,557 | 7,742 |
| 1 | 1 | 1 | 1 | 1 |
| 3 | 3 | 3 | 3 | 3 |
| 2 | 2 | 2 | 2 | 2 |

SAN JACINTO RIVER AUTHORITY

SCHEDULE OF CAPITAL ASSET ADDITIONS

Last Ten Fiscal Years

| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---|----------------------|---------------------|----------------------|----------------------|
| General and Administration and Highlands Divisions | | | | |
| Land | \$ | \$ | \$ | \$ |
| Water permits and rights | 8,109,069 | 316,439 | 79,824 | 85,669 |
| Construction in progress | 449,473 | | | 87,918 |
| Furniture, fixtures & equip | | 7,843 | | 23,805 |
| Other machinery & equip | 22,290 | 80,067 | 11,515 | 11,369 |
| Automobiles and trucks | 25,926 | | 51,519 | 93,107 |
| Buildings | | 39,279 | 25,822 | |
| Water systems | | 586,269 | | |
| Lake Conroe Division | | | | |
| Land | | | | |
| Construction in progress | 28,130 | 208,903 | 29,146 | |
| Furniture, fixtures & equip | | | | 2,785 |
| Other machinery & equip | | 7,330 | | 2,388 |
| Automobiles and trucks | 19,683 | 8,285 | 8,100 | 6,457 |
| Buildings | | | | |
| Dams and appurtenances | 15,901 | 21,497 | 270,070 | 2,199 |
| Water systems | | | | |
| Woodlands Division | | | | |
| Land | 34,520 | 265,004 | 43,085 | 5,000 |
| Construction in progress | 6,428,763 | 5,204,917 | 1,294,339 | 3,097,327 |
| Furniture, fixtures & equip | | 25,136 | 10,065 | 24,797 |
| Other machinery & equip | 5,979 | | 16,549 | 8,850 |
| Automobiles and trucks | 53,128 | 79,389 | 19,115 | 118,370 |
| Buildings | 622,320 | 388,186 | 755,422 | 5,000 |
| Dams and appurtenances | | | | 36,384 |
| Water systems | 1,608,171 | 672,843 | 3,363,979 | 1,381,511 |
| Wastewater utility systems | 2,836,980 | 21,098 | 10,369,113 | 8,248,477 |
| Capital Improvement Plans | | 49,505 | | |
| Groundwater Reduction Plan Division | | | | |
| Land | | | | |
| Construction in Progress | | | | |
| Furniture, fixtures and equipment | | | | |
| Other machinery & equip | | | | |
| Automobiles and trucks | | | | |
| Buildings | | | | |
| Water systems | | | | |
| Total Capital Assets | <u>\$ 20,260,333</u> | <u>\$ 7,981,990</u> | <u>\$ 16,347,663</u> | <u>\$ 13,241,413</u> |

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ | \$ | \$ | \$ | \$ | \$ |
| 35,235 | 50,330 | 42,536 | 4,737 | 31,415 | 1,090 |
| 879,998 | 35,412 | 1,240,832 | 5,303,395 | 5,194 | 5,804,413 |
| | | 59,880 | 3,761 | 7,743,714 | 130,150 |
| 46,316 | 5,034 | 162,469 | 128,081 | 888,915 | 223,889 |
| 52,373 | 49,568 | 35,845 | 55,566 | 102,666 | 369,830 |
| 22,535 | 11,971 | | 3,025 | 102,171 | 41,360 |
| 913,252 | | 395,987 | 716,658 | 5,215,813 | 2,173,361 |
| | | | | 3,308,871 | |
| | | | | 28,372 | |
| 11,966 | 15,397 | 69,895 | 74,266 | 63,589 | 15,062 |
| 4,470 | | 3,851 | 1,254 | 75,846 | 292 |
| 11,133 | 17,447 | 18,446 | 55,156 | 10,774 | 12,721 |
| | 8,741 | | 8,459 | 22,799 | 9,653 |
| 2,320 | | 23,933 | 6,936 | 46,370 | 2,656 |
| 2,613 | | 17,676 | 7,528 | 5,711 | 40,289 |
| | | | | 6,747 | |
| 29,840 | | 42,394 | 25,364 | 31 | 14,236 |
| 6,626,492 | 16,958,077 | 7,348,205 | 5,670,466 | 6,398,484 | 7,841,826 |
| | 7,313 | 88,005 | 81,356 | 77,986 | 42,559 |
| 36,657 | 12,043 | 46,909 | 20,822 | 91,258 | |
| 42,131 | 129,846 | 287,450 | 313,628 | | 56,106 |
| | | | 13,293 | 79,829 | 82,024 |
| 3,457,408 | 787,524 | 21,084,196 | 2,665,510 | 4,854,789 | 3,798,904 |
| 446,691 | 8,586,424 | 613,969 | 2,716,115 | 542,695 | 827,430 |
| | | | | | |
| | | | 1,139,941 | | 1,880,898 |
| | | | 2,265,204 | 10,163,648 | 40,586,454 |
| | | | 15,000 | 78,463 | 320,489 |
| | | | | 189,557 | |
| | | | | 26,575 | 58,551 |
| | | | | | 2,287,713 |
| | | | | 7,678 | |
| <u>\$ 12,621,430</u> | <u>\$ 26,675,127</u> | <u>\$ 31,582,478</u> | <u>\$ 21,295,521</u> | <u>\$ 40,169,960</u> | <u>\$ 66,621,956</u> |