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INTRODUCTORY SECTION







San Jacinto River Authority

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

December 1, 2013

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, 2013. 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, 2013. The independent auditor's report is located at the front of the financial section of the CAFR. An OMB Circular A-133, "Single Audit", was not required for fiscal year 2013 since SJRA did not receive sufficient federal grant funds to require such a Single 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 division descriptions below.

The **General & Administration Division**, located in the general business office at Lake Conroe, consists of professional, technical, accounting, administrative, and support staff working under the direction of the General Manager. The General & Administration Division's primary function is to provide management and support services to the SJRA's four operating divisions (listed below).

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

The **Lake Conroe Division** is situated seven miles west of Interstate 45 at the Lake Conroe dam. The SJRA supplies raw water from Lake Conroe, which was built as a water supply reservoir completed in 1973. The lake is exclusively operated by the SJRA, however the City of Houston owns two-thirds of the permitted water rights in the reservoir. 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 approves permits and licenses related to boat sanitation, piers, boat slips, boathouses, marinas, and other facilities operated or constructed on Lake Conroe and collects fees associated with these permits and licenses.

The **Woodlands Division** is located in southern Montgomery County and provides wholesale water supply and wastewater treatment services to the 100,000 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 (GRP) Division**, with its office located at the Lake Conroe dam, is responsible for implementing an alternative water supply program that will meet the groundwater reduction requirements of the Lone Star Groundwater

Conservation District (LSGCD) and ensure reliable, long-term water supplies for water users in Montgomery County that choose to join the program. Under the program, the GRP Division will design, construct, operate, maintain, and administer a water treatment plant and transmission lines. The GRP Division 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 "The Texas Economy – Economic Outlook," Texas added jobs in all major industries. "Pre-recession Texas employment peaked at 10,635,700 in August 2008, a level that was surpassed in September 2011, and by August 2013 Texas added an additional 548,000 jobs. Job growth, sales tax collections, and building permits all signal that the Texas economy continues to outpace the national economy." Texas' unemployment rate was 6.4 percent in August 2013 vs. 6.8 percent in August 2012.

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 repayment of 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 2014 and beyond. In fact, during fiscal year 2013 the SJRA had a need to increase its staff by13%, bringing job opportunities to its surrounding areas. Continued population growth within SJRA's service area will necessitate the demand for water. With the SJRA's service area located between Houston and Dallas, two rapidly growing major metropolitan areas, the need for future water supplies and reliable planning is vital, and as a result, the SJRA's Board of Directors and staff are working diligently to plan for future water supplies in order to better assure the region's future economic vitality.

FINANCIAL INFORMATION

Management of the SJRA is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the SJRA are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

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

MAJOR INITIATIVES

For the Year. One of the SJRA's major initiatives for Fiscal Year 2013 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.

A major initiative in Fiscal Year 2013 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 and creation of the Highlands Division Emergency Operations Center. This program will increase the reliability of the delivery system. In addition to critical facility repairs, the SJRA is also in the midst of a project to conduct a complete hydraulic and facilities assessment of the Highlands system to determine hydraulic capacities and identify future repair needs.

Another major initiative was the continued financing and construction activities for the Groundwater Reduction Plan (GRP) program. SJRA had completed approximately 62% of the financing for the GRP program by the end of Fiscal Year 2012, and approximately 98% of the financing for the GRP program has been completed as of the 2013 fiscal year end. During Fiscal Year 2013, significant progress was made on construction of the new GRP facilities, which include 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 LSGCD adopted final regulations that require certain groundwater users to prepare and submit a Groundwater Reduction Plan by April 1, 2010, outlining how large volume water users intended to meet a 2016 deadline for the reduction of groundwater use and conversion to alternative 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 2013, the GRP Pumpage Fee was set at \$1.25 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. Previous studies suggest that the GRP Pumpage Fee would be \$2.25 per thousand gallons for groundwater users and \$2.65 per thousand gallons for surface water users for fiscal year 2016. The estimated cost of the entire surface water system that must be constructed to meet the 2016 deadline is \$490 million. As of the end of the 2013 fiscal year, 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 2013 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, 2012. 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 Tom Michel
Director of Financial and
Administrative Services

Pam J. Steiger, CPA Controller

Certificate of Achievement for Excellence in Financial Reporting



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

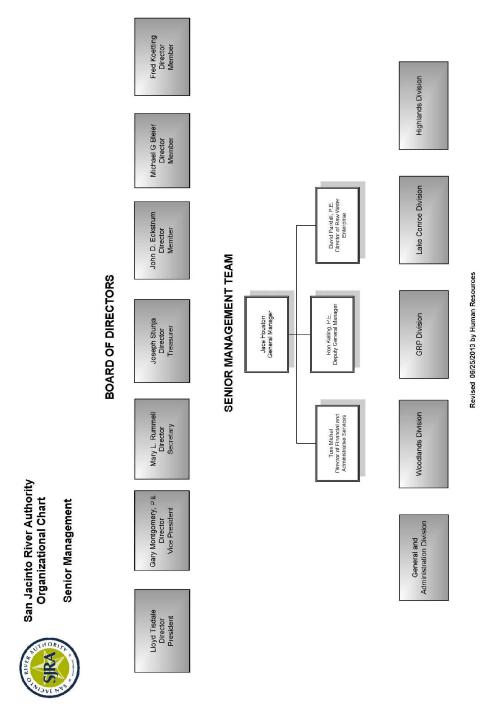
San Jacinto River Authority
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2012

Executive Director/CEO

Organizational Chart



Board of Directors

	Term Expires
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
Michael G. Bleier, 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, and may continue to serve after such term until a successor is appointed.

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FINANCIAL SECTION





130 Industrial Blvd, Suite 130 · Sugar Land, Texas 77478 · 281/242-3232 · fax 281/242-3252 · www.sktx.com

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, 2013, and the related notes to the financial statements, which collectively comprise the San Jacinto River Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the San Jacinto River Authority, as of August 31, 2013, and the respective changes in financial position and cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Sugar Land, Texas November 22, 2013

Saltapá (o.

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, 2013. 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 \$793.3 million; of this amount, approximately \$321.4 million represents net capital assets and \$455.3 million represents cash and cash equivalents under both current and restricted assets.
- Liabilities for the Authority totaled \$652.3 million of which \$600.5 million accounts for obligations under long-term debt.
- The Authority's total assets exceeded liabilities by approximately \$140.9 million. This amount represents net position; of this amount, \$34.3 million is investment in capital assets. An additional \$68.5 million is under restricted net position and the remaining \$38.1 million represents unrestricted net position.
- Operating revenues for the Authority at year-end were \$61.6 million and exceeded operating expenses by \$25.4 million. The major revenue sources were capacity charges, water and wastewater treatment service fees to Woodlands' municipal utility districts of \$34.4 million; untreated water sales to industrial, municipal and agricultural customers of \$9.5 million; and Groundwater Reduction Plan fees of \$24.0 million (net \$15.1 million with the elimination of intercompany revenues of \$8.9 million).
- Operating expenses totaled \$36.2 million. Highlights within operating expenses were salaries, wages and employee benefits of \$11.9 million, operating supplies of \$7.8 million and depreciation of \$7.4 million.
- Non-operating expenses exceeded non-operating revenues by approximately \$22.4 million. This was primarily attributable to interest expense paid on bonds that totaled \$22.4 million as of year-end.
- Capital contributions from Woodlands municipal utility districts totaled \$3.3 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, including 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
- Raw Water Enterprise
 - Highlands Division
 - Lake Conroe Division
- Woodlands Division
- Groundwater Reduction Plan Division
- Bear Branch
- Region H

NOTES TO THE FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION

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

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

- Investment in Capital Assets
- Restricted
- Unrestricted

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

FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a financial statement position. In the case of the Authority, assets exceeded liabilities by \$140.9 million at the close of the most recent fiscal year.

As of August 31, 2013 and 2012

	2013	2012
Assets		
Current assets	\$ 471,776,379	\$ 374,616,035
Noncurrent assets	93,546	5,700,899
Capital assets	321,406,440	226,508,264
Total Assets	\$ 793,276,365	\$ 606,825,198
	 _	
Liabilities		
Current liabilities	\$ 50,868,324	\$ 24,361,941
Noncurrent liabilities	 601,481,618	 439,696,319
Total Liabilities	\$ 652,349,942	\$ 464,058,260
Net Position		
Investment in		
Capital Assets	\$ 34,279,471	\$ 81,039,024
Restricted:		
Debt service	68,491,559	27,079,260
Construction	0	0
Unrestricted	38,155,393	34,648,654
Total Net Position	\$ 140,926,423	\$ 142,766,938

- Current assets increased by \$97.2 million which represents a 26% 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 decreased by \$5.6 million, a 98% decrease due to implementation of GASB 65 and removal of bond issue costs.
- Total liabilities increased by \$188.4 million, a 40% increase from the prior year primarily due to bonds payable for the Groundwater Reduction Plan Division.
- Current liabilities from accounts payable increased by \$26.5 million, a 108% increase due to increased purchases and interest accruals on the long-term debt.
- Long term debt increased by \$161.9 million, primarily due to new bond issues for the Groundwater Reduction Plan Division.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position is the basic statement of activities for all the Authority's Divisions. The Authority does not seek to earn a profit in the long term. However, the Authority must cover its operations, maintenance and other costs, 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 Position measures how well annual costs are covered by fees and charges.

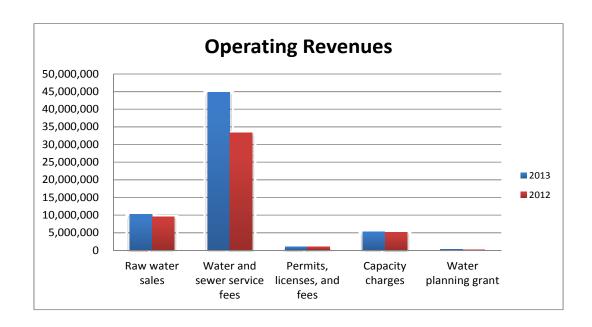
For the Years Ended August 31, 2013 and 2012

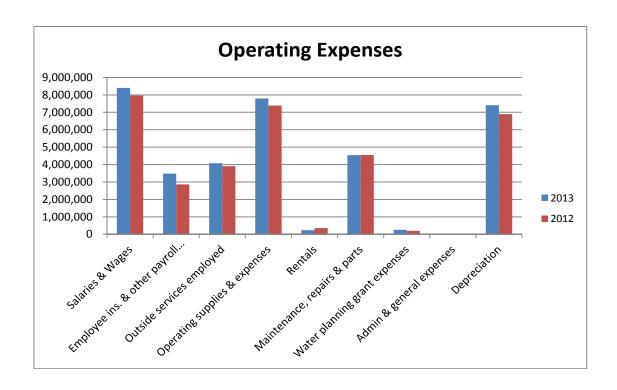
	• 5	2013	2012
Operating Revenues:			
Raw water sales	\$	10,234,273	\$ 9,331,444
Water and sewer service fees		44,863,366	33,360,551
Permits, licenses and fees		1,002,670	1,007,532
Capacity charges		5,252,805	5,242,829
Water planning grant		249,233	210,072
Total Operating Revenues		61,602,347	49,152,428
Operating Expenses:			
Salaries and wages		8,392,601	7,958,296
Employee insurance and other		-, ,	, ,
payroll benefits		3,476,905	2,772,375
Outside services employed		4,072,695	3,908,048
Operating supplies & expenses		7,797,323	7,388,455
Rentals		234,674	352,479
Maintenance, repairs and parts		4,538,373	4,550,249
Water planning study expenses	6	257,465	197,815
Depreciation		7,404,035	6,898,534
Total Operating Expenses		36,174,071	34,026,251
Operating Income		25,428,276	15,126,177
Nonoperating Revenues			
(Expenses)		(22,408,364)	(10,838,798)
Contributed Capital		3,300,933	837,109
Net Income		6,320,845	5,124,488
Net position at beginning of year*		134,605,578	 137,642,450
Net Position at End of Year	\$	140,926,423	\$ 142,766,938

^{*} The beginning net position was restated in the current year by \$8,161,360 due to the implementation of GASB 65.

- GRP pumpage fees increased from \$0.75 per 1,000 gallons to \$1.25 per 1,000 gallons.
- Salaries and wages increased by \$.4 million, a 5% increase from the prior year which was primarily due to the addition of employees.
- Depreciation expense increased by \$.5 million, an increase of 7% from the previous year. Most of this increase was due to the purchase/construction of capital assets.

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





CAPITAL ASSETS AND LONG-TERM DEBT

The Authority's investment in net capital assets as of August 31, 2013 totaled \$321.4 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 42%.

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

- The Authority added \$75 million to the construction in progress for the water treatment facility and transmission lines of the Groundwater Reduction Plan Division, electrical upgrade and numerous rehabilitations in the Woodlands Division, and an Emergency Operations Center in the Highlands Division.
- The Authority completed the Highland Reservoir Rehabilitation at a capital cost of \$7.8 million.
- The Authority completed Water Well 39 and Water Collection Line at capital costs of \$3.1 million in the Woodlands Division.
- The Authority completed the Siphon 15 rehabilitation at a capital cost of \$2.4 million in the Highlands Division.

	2013		2012
Capital Assets - at cost			
Land	\$ 12,399,636	\$	12,308,644
Water permits and rights	30,947,801		30,947,801
Office furniture, fixtures & equip	2,419,117		2,102,525
Other machinery and equipment	2,254,916		1,952,580
Automobiles and trucks	2,290,671		2,083,108
Buildings	11,443,126		11,446,680
Dams and appurtenances	8,235,874		8,228,966
Water systems	125,867,760		102,534,075
Wastewater utility systems	87,414,619		84,905,679
Capital improvement plans	376,882		376,882
Construction in progress	136,419,696		60,942,456
Less accumulated depreciation	 (98,663,658)	_	(91,321,132)
Total Net Capital Assets	\$ 321,406,440	\$	226,508,264

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 \$600.6 million. The debt represents primarily bonds secured solely by specified revenue sources (i.e. revenue bonds).

As of August 31, 2013 and 2012

	2013	2012
Long-Term Debt		
First Lien Water Revenue Bonds-		
less current maturities	\$ 596,135,000	\$ 436,960,000
Notes payable less current	3,147,496	3,416,627
Unamortized bond premium	 1,206,983	 (1,529,397)
Total Long-Term Debt	\$ 600,489,479	\$ 438,847,230

The Authority's total long-term debt increased by \$159 million from the previous year, due to the sale of the Special Project Revenue Bonds (GRP), Series 2012A and Water Revenue Bonds (HD), Series 2013.

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. Additional financial information can also be found on the Authority's website at www.sjra.net.

BASIC FINANCIAL STATEMENTS



STATEMENT OF NET POSITION

August 31, 2013

							Business Type Activitie				
	G	eneral and									
	Administration		Raw Water		Highlands		Conroe	Woodlands			
		Division	Enterprise		Division		Division		Division		
<u>Assets</u>											
Current Assets											
Cash and cash equivalents											
Unrestricted	\$	3,865,283	\$	\$	6,939,884	\$	4,091,583	\$	13,413,021		
Restricted:											
Debt service					4,455,127				4,290,986		
Construction					11,135,932				5,626,479		
Accounts receivable		241,475	1,056,464		550,435		254,619		9,811,923		
Prepaid expenses		406,962			32,832		27,701		408,883		
Total Current Assets		4,513,720	1,056,464		23,114,210		4,373,903		33,551,292		
Noncurrent Assets											
Net pension asset		93,546									
Total Noncurrent Assets		93,546									
Capital Assets - at cost											
Land					1,112,402		5,476,440		1,833,966		
Water permits and rights			30,947,801								
Furniture, fixtures and equipment		1,126,816			109,918		86,829		584,686		
Other machinery and equipment					1,661,045		163,031		423,071		
Automobiles and trucks		642,190			202,836		126,401		1,214,590		
Buildings		5,789,461			127,644		201,029		2,807,420		
Dams and appurtenances		-,, -			,-		6,706,481		,,		
Water systems		178,674			31,921,762		6,747		93,752,899		
Wastewater utility systems		, ,			, ,		-,		87,414,619		
Capital improvement plans									376,882		
		7,003			2,713,395		73,730		6,696,447		
Construction in progress		· ·			(6,054,992)		(3,316,793)		(87,013,125)		
Construction in progress Accumulated depreciation		(1,594,269)									

Enterprise Fun Groundwater Reduction				
Plan Division	Bear Branch	Region H	Eliminations	Total
\$ 18,522,102	\$ 337,543	\$ 364,701	\$	\$ 47,534,117
69,512,297				78,258,410
312,749,413				329,511,824
4,617,374			(1,256,640)	15,275,650
318,197	1,803			1,196,378
405,719,383	339,346	364,701	(1,256,640)	471,776,379
				03 546
				93,546 93,546
				93,340
3,105,996	870,832			12,399,636
				30,947,801
510,868				2,419,117
7,769				2,254,916
104,654				2,290,671
2,517,572				11,443,126
	1,529,393			8,235,874
7,678				125,867,760
				87,414,619
				376,882
126,883,272	45,849			136,419,696
(451,469)	(233,010)			(98,663,658)
132,686,340	2,213,064			321,406,440
\$ 538,405,723	\$ 2,552,410	\$ 364,701	\$ (1,256,640)	\$ 793,276,365

STATEMENT OF NET POSITION

August 31, 2013

							Business	- Ty	pe Activities -
	G	eneral and					Lake		
	Administration		Raw Water		Highlands		Conroe		Woodlands
		Division	Enterprise		Division		Division		Division
<u>Liabilities</u>									
Current Liabilities									
Accounts payable and accrued									
liabilities - unrestricted	\$	551,549	\$	\$	1,267,739	\$	141,604	\$	6,934,678
Restricted for Debt service:									
Current portion of bonds			1,120,000		680,000				2,935,000
Current portion of notes		266,809							
Accrued interest payable			235,635		494,323				965,751
Restricted for Construction:									
Accounts payable									
Retainage payable					138,062				336,304
Deferred revenue			2,999				255,901		
Total Current Liabilities		818,358	1,358,634		2,580,124		397,505	_	11,171,733
Noncurrent Liabilities									
Net OPEB obligation		72,157			189,360		354,972		375,650
Total Noncurrent Liabs		72,157			189,360		354,972	_	375,650
Long-Term Debt									
First lien water revenue bonds -									
less current maturities			14,920,000		30,140,000				46,770,000
Notes payable less current		3,147,496	11,520,000		30,110,000				10,770,000
Unamortized bond premium or discount		3,1 17, 150	436,801		376,883				288,083
Total Long-Term Debt		3,147,496	15,356,801	_	30,516,883				47,058,083
Total Liabilities		4,038,011	16,715,435		33,286,367		752,477		58,605,466
<u>Fund Equity</u>									
Net Position									
Investment in capital assets		2,735,570	14,471,000		11,594,997		9,523,895		63,388,547
Restricted:		_,,,,	,,				-,,		
Debt service					3,960,804				3,325,235
Unrestricted		3,983,560	817,830		6,066,052		3,621,426		16,323,499
Total Net Position		6,719,130	15,288,830	_	21,621,853		13,145,321	_	83,037,281
		67. 257255	25/255/555						00/00//201
Total Liabilities and									
Fund Equity	\$	10,757,141	\$ 32,004,265	\$	54,908,220	\$	13,897,798	\$	141,642,747
<i>-</i>	-	-, -, -,	, ==,55.,=55	_	.,,	_	-,,.55	<u> </u>	- :-, 5 :=, 7 :

	Enterprise Fun	ds					
G	roundwater						
	Reduction						
P	lan Division	Bear Brand	<u>:h</u>	Region H	E	liminations	 Total
\$	16,582,729	\$ 11,0	21 \$	17,111	\$	(1,256,640)	\$ 24,249,791
	7,820,000						12,555,000
							266,809
	8,306,777						10,002,486
	2,830,154			22,985			3,327,505
	_,000,20 .			207,833			466,733
	35,539,660	11,0	21	247,929		(1,256,640)	50,868,324
							992,139
		-	_				992,139
	504,305,000						596,135,000
							3,147,496
	105,216						1,206,983
	504,410,216						600,489,479
	539,949,876	11,0	21	247,929		(1,256,640)	652,349,942
	(69,624,617)	2,213,0	164	(22,985)			34,279,471
	61,205,520						68,491,559
	6,874,944	328,3	25_	139,757			 38,155,393
	(1,544,153)	2,541,3		116,772			140,926,423
\$	538,405,723	\$ 2,552,4	10 \$	364,701	\$	(1,256,640)	\$ 793,276,365

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended August 31, 2013

				Business - Type Activities -				
General and Administration Division		Raw Water Enterprise	Highlands Division	Lake Conroe		Woodlands Division		
\$	\$	8,740,752	\$	\$		\$		
		109,004						
		660,790					29,153,773	
					1,002,670			
					1,384,517			
							5,252,805	
		9,510,546			2,387,187		34,406,578	
500,076			819.677		1.080.688		3,920,492	
,			,		,,		-,,	
450.873			346.741		483.991		1,532,499	
· ·		600	•		· ·		1,676,123	
·			•				12,438,136	
· ·							61,644	
			•		•		3,932,328	
/			22.72.0		===,,,,,,,,		3,302,020	
(2.302.044)			303.256		407.213		685,050	
							5,672,860	
870,225		600	3,181,126		3,292,610		29,919,132	
(870,225)		9,509,946	(3,181,126)		(905,423)		4,487,446	
9.431			59.001				36,049	
					41.998		(15,896)	
			(//				48,321	
		19.725	8.828		3,733		44,681	
2		13/, 23	•				11,001	
(147 781)		(568 722)					(2,335,539)	
(117,701)		(500,722)	(1,020,031)				(2,333,333)	
(74,337)		(548,997)	(1,303,872)		47,757		(2,222,384)	
(944 562)		8.960 949	(4,484 998)		(857 666)		2,265,062	
(311,302)								
7,861,255		6,327,881	(14,779,808)		697,467		(88,937)	
							3,240,932	
		15,288,830	(19,264,806)		(160,199)		5,417,057	
6,916,693		13,200,030	(25/25 1/555)		(100/155)		3, 117,037	
6,916,693 (197,563)		13,200,030	40,886,659		13,305,520		77,620,224	
t	\$ \$ 500,076 450,873 865,003 793,703 21,573 111,244 (2,302,044) 429,797 870,225 (870,225) (870,225) 9,431 1,550 62,463 ts (147,781) (74,337) (944,562)	\$ \$ \$ 500,076 450,873 865,003 793,703 21,573 111,244 (2,302,044) 429,797 870,225 (870,225) 9,431 1,550 62,463 ts (147,781) (74,337) (944,562)	### Administration Division Raw Water Enterprise \$ \$ 8,740,752	Administration Division Raw Water Enterprise Highlands Division \$ 8,740,752 109,004 660,790 \$ 109,004 660,790 500,076 819,677 450,873 865,003 600 330,704 793,703 21,573 82,387 111,244 114,148 303,256 869,555 80,255 870,225 600 3,181,126 (2,302,044) 429,797 869,555 870,225 9,509,946 (3,181,126) (3,181,126) 9,431 59,001 1,550 (59,044) 62,463 85 19,725 8,828 (283,823) (147,781) (568,722) (1,028,834) (1,028,834) (74,337) (548,997) (1,303,872) (944,562) 8,960,949 (4,484,998)	Administration Division Raw Water Enterprise Highlands Division \$ 8,740,752 109,004 660,790 \$ \$ \$ \$,740,752 109,004 660,790 \$ 9,510,546 \$ \$ \$ \$,740,752 109,004 660,790 \$ 500,076 9,510,546 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	Administration Division Enterprise Division Division Division \$ \$ \$ \$ \$ \$ \$ \$ \$	Section Raw Water Highlands Division Division Division Name of the provision Name of t	

Enterprise Funds

Groundwater Reduction							
Plan Division	Bear Branch	Region H	Eliminations	Total			
#	¢.	¢.	¢.	¢ 0.740.7E2			
\$	\$	\$	\$	\$ 8,740,752 109,004			
23,955,203			(8,906,400)	44,863,366			
25,555,205			(0,500,100)	1,002,670			
				1,384,517			
				5,252,805			
		249,233		249,233			
23,955,203		249,233	(8,906,400)	61,602,347			
23,333,203		213,233	(0,300,100)	01,002,517			
2,044,820	26,848			8,392,601			
651,677	11,124			3,476,905			
535,380	15,723	25,000		4,072,695			
2,894,328	3,466		(8,906,400)	7,797,323			
				234,674			
13,449	143,474			4,538,373			
		257,465		257,465			
884,811	21,714						
268,358	19,141			7,404,035			
7,292,823	241,490	282,465	(8,906,400)	36,174,071			
16,662,380	(241,490)	(33,232)		25,428,276			
1,084,476	533			1,189,490			
(113,213)				(144,605)			
1,430				117,973			
4,423				77,657			
(950,270)				(1,234,093)			
(18,333,910)				(22,414,786)			
(18,307,064)	533			(22,408,364)			
(1,644,684)	(240,957)	(33,232)		3,019,912			
23,165	(41,036)	13					
	60,001			3,300,933			
(1,621,519)	(221,992)	(33,219)		6,320,845			
77,366	2,763,381	149,991		134,605,578			
\$ (1,544,153)	\$ 2,541,389	\$ 116,772	\$	\$ 140,926,423			

STATEMENT OF CASH FLOWS

Year Ended August 31, 2013

							Business - Type Activities -				
	G	eneral and						Lake			
	Administration Division		Raw Water Highlands Enterprise Division		ighlands	Conroe Division		Woodlands Division			
					Division						
Cash Flows from Operating Activities						_				<u>.</u>	
Cash received from customers	\$	5,068,250	\$	8,457,081	\$		\$	2,547,167	\$	26,860,651	
Cash payments to suppliers for											
goods and services		(1,902,709)		(600)		(2,597,597)		(1,241,814)		(15,014,141)	
Cash paid for employee services		(952,952)				(1,139,145)		(1,514,598)		(5,398,887)	
Other revenues & expenses		62,463						5,759		8,364	
Net Cash Provided (Used)								_			
by Operating Activities		2,275,052		8,456,481		(3,736,742)		(203,486)		6,455,987	
Cash Flows from Noncapital Financing	Activi	ties									
Transfers		7,861,255		6,327,881	(14,779,808)		697,467		(88,937)	
Net Cash Provided (Used) by											
Noncapital Finance Activities		7,861,255		6,327,881	(14,779,808)		697,467		(88,937)	
Cash Flows from Capital and Related F	inanci	ng Activities									
Principal paid on bonds		(1,060,000)				(655,000)				(2,815,000)	
Principal paid on notes		(309,362)									
Interest paid		(393,028)		(333,087)		(936,608)				(2,381,384)	
Proceeds from bond sales						6,730,000					
Bond issue expenses						(283,823)					
Acquisition of facilities and equipment		(7,755,958)		(14,451,275)		8,932,074		(39,331)		(7,795,204)	
Capital contributions										3,240,932	
Net Cash Provided (Used)											
by Capital and Related											
Financing Activities		(9,518,348)		(14,784,362)		13,786,643		(39,331)		(9,750,656)	

	Enterprise Fun	ds					
G	iroundwater						
	Reduction						
P	lan Division	Bear Branch	 Region H	E	liminations	_	Total
\$	21,341,770	\$	\$ 397,455	\$	(8,906,400)	\$	55,765,974
	(8,061,340)	(223,924)	(254,812)		8,906,400		(20,390,537)
	(2,696,497)	(37,972)					(11,740,051)
_	1,430		 				78,016
	10,585,363	(261,896)	142,643				23,713,402
	23,165	(41,036)	13				
			 _				_
	23,165	(41,036)	 13				
							(4,530,000)
							(309,362)
	(14,221,876)						(18,265,983)
	165,000,000						171,730,000
	(950,270)						(1,234,093)
	(64,830,789)	(5,227)					(85,945,710)
		60,001	 				3,300,933
	84,997,065	54,774	 			_	64,745,785

STATEMENT OF CASH FLOWS

Year Ended August 31, 2013

								Busines	ѕ Тур	e Activities -
	G	eneral and						Lake		
	Ad	ministration	ı	Raw Water		Highlands		Conroe	1	Woodlands
		Division		Enterprise		Division		Division		Division
Cash Flows from Investing Activities										
Interest earned		9,431				59,001				36,049
Net Cash Provided by										
Investing Activities		9,431	_		_	59,001	_			36,049
Net Increase (Decrease)										
in Cash and Cash Equivalents		627,390				(4,670,906)		454,650		(3,347,557)
Cash and equivalents at beginning										
of year		3,237,893	_		_	27,201,849		3,636,933		26,678,043
Cash and Equivalents at End										
of Year	\$	3,865,283	\$		\$	22,530,943	\$	4,091,583	\$	23,330,486
Reconcilation of Operating Income (Lo	-									
Operating Income (Loss)	\$	(870,225)	\$	9,509,946	\$	(3,181,126)	\$	(905,423)	\$	4,487,446
Adjustments to reconcile operating income	e (los			, ,		(, , ,	·	, ,	Ċ	, ,
net cash provided (used) by operating	•	•								
Other revenues and expenses		62,463						5,759		8,364
Depreciation		429,797				869,555		144,324		5,672,860
(Increase) decrease in receivables		2,768,039		(1,056,464)		(451,498)		467,773		(6,848,595)
(Increase) decrease in prepaid										
expenses and deposits		(134,698)				(2,189)		823		30,445
(Increase) decrease in net pension asse	et	(12,550)								
Increase (decrease) in accounts payabl	e									
and accrued liabilities		34,059				(971,484)		(16,162)		3,117,749
Increase (decrease) in deferred										
revenue		(1,833)		2,999				99,420		(12,282)
Total Adjustments		3,145,277		(1,053,465)		(555,616)		701,937		1,968,541
Net Cash Provided (Used) by										
Operating Activities	\$	2,275,052	\$	8,456,481	\$	(3,736,742)	\$	(203,486)	\$	6,455,987

	Enterprise Fun Froundwater	us						
	Reduction							
P	lan Division	В	ear Branch	F	Region H	El	iminations	Total
	1,084,476		533					 1,189,490
	1,084,476	,	533	-		,		 1,189,490
	96,690,069		(247,625)		142,656			89,648,677
_	304,093,743		585,168		222,045			 365,655,674
\$	400,783,812	\$	337,543	\$	364,701	\$		\$ 455,304,351
\$	16,662,380	\$	(241,490)	\$	(33,232)	\$		\$ 25,428,276
	1,430 268,358 (1,728,622)		19,141				1,256,640	78,016 7,404,035 (5,592,727)
	(286,465)		15					(392,069) (12,550)
	(4,331,718)		(39,562)		27,653		(1,256,640)	(3,436,105)
					148,222			 236,526
_	(6,077,017)		(20,406)		175,875			 (1,714,874)
\$	10,585,363	\$	(261,896)	\$	142,643	\$		\$ 23,713,402

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NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Business-Type Activities

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

The Enterprise Funds maintained by the Authority are described below:

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

The General and Administration Division, located in the general business office at Lake Conroe, consists of professional, technical, accounting, administrative and support staff working under the direction of the General Manager. The General and Administration Division provides management and support services to the SJRA's four operating divisions, Region H and Bear Branch and their time and salary costs are allocated to each division based on time worked. The majority of the growth occurring during and after 2007 (see Number of Employees by Division, pages 78-79) 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.

NOTES TO FINANCIAL STATEMENTS

Raw Water Fund ("Raw Water Enterprise")

This Enterprise consists of the Highlands and Lake Conroe Divisions plus revenue from raw water sales. The Enterprise accounts for the long-term water sale commitments to industrial, agricultural and municipal customers from its water resources in the Reservoir and Canal system located in eastern Harris County, Texas. As of year-end, substantially all of the estimated reliable 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 in 2031. Most of the sales contracts contain provisions for the quantities of water, take or pay, whether or not the water is used by the customers. Some of the sales contracts contain options and reservations for the additional purchases of water by customers.

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 reliable 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, take or pay, 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.

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 customers it serves and the City of Houston and customers they serve. The operating costs of Lake Conroe are generally borne one-third by the Authority and two-thirds by the City of Houston.

The accompanying financial statements include only the costs of the Authority's ownership interest in Lake Conroe; therefore, the costs of the City of Houston's ownership interest of \$21,113,220 in Lake Conroe are excluded from the capital asset totals presented.

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

NOTES TO FINANCIAL STATEMENTS

Woodlands Division Fund ("Woodlands Division")

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

All activities necessary to provide water and sewer services from such assets are accounted for in this fund, including operations, maintenance, financing and related debt service, and billings to and collections from the participating municipal utility districts. The basic agreement with the municipal utility districts provides for water and wastewater service billings based upon the recovery of the actual expenses incurred for the operations, maintenance and contingency reserves for the Central Facilities, exclusive of depreciation of such assets, as well as capacity charges for the purchase of reserved capacity rights. As of August 31, 2013, 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 Woodlands Development Company (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 fully reimbursed. The participating municipal utility districts make payment of capacity charges for purchased reserved capacity rights by contributing their respective pro rata shares of costs, in cash by contributing additional facilities in kind, or by payment of their pro rata shares of the debt services costs on contract revenue bonds issued by the Authority to finance the costs of Central Facilities.

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)

NOTES TO FINANCIAL STATEMENTS

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

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

Bear Branch Fund ("Bear Branch")

The Authority also owns and maintains the Bear Branch Reservoir System (Bear Branch) which provides elements of a storm water management system within a portion of The Woodlands, Texas service area. The Authority purchased the assets of Bear Branch from the Woodlands Land Development Company, LP in April 2000. All activities necessary to maintain and improve Bear Branch assets are accounted for in this fund. As of August 31, 2013, contracts have been signed with Montgomery County Municipal Utility Districts Nos. 7, 46, 47, 60 and 67 to purchase their agreed to proportionate share of reserve capacity rights for storm water detention resulting from the construction and maintenance of Bear Branch System.

Region H Fund ("Region H")

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

C. Measurement Focus and Basis of Accounting

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

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

NOTES TO FINANCIAL STATEMENTS

services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Cash and Cash Equivalents

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

E. Accounts Receivable

The allowance for doubtful accounts is established to provide an estimate of bad debts charged to revenues. Losses are charged against the allowance when management believes the collectibility of a receivable is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. As of August 31, 2013, no allowance for bad debts is recorded.

F. Depreciation

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

Asset Class	<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.

NOTES TO FINANCIAL STATEMENTS

G. Unamortized Bond Premium or Discount

Included within long-term debt is unamortized bond premium or discount. The bond premiums or discounts are being amortized over the life of the related obligation on the straight-line method.

H. Date of Management's Review

Subsequent events have been evaluated through November 22, 2013, which is the date the financial statements were available to be issued.

I. Net Position

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

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

A summary of **investment in capital assets** as of August 31, 2013 follows:

	Capital Assets - Net of Depreciation		_	Notes and Bonds Payable	Total
General and Administration Division	\$	6,149,875	\$	(3,414,305)	\$ 2,735,570
Raw Water Enterprise		30,947,801		(16,476,801)	14,471,000
Highlands Division		31,794,010		(20,199,013)	11,594,997
Lake Conroe Division		9,523,895			9,523,895
Woodlands Division		108,091,455		(44,702,908)	63,388,547
Groundwater Reduction Plan Division		132,686,340		(202,310,957)	(69,624,617)
Bear Branch		2,213,064			2,213,064
Region H				(22,985)	 (22,985)
Total	\$	321,406,440	\$	(287,126,969)	\$ 34,279,471

NOTES TO FINANCIAL STATEMENTS

A summary of net position restricted for **debt service** as of August 31, 2013 follows:

	Restricted Cash for ebt Service	Pa	Liabilities ayable from Restricted Cash for ebt Service	Total		
General and Administration Division Raw Water Enterprise	\$	\$		\$		
Highlands Division Lake Conroe Division	4,455,127		(494,323)		3,960,804	
Woodlands Division	4,290,986		(965,751)		3,325,235	
Groundwater Reduction Plan Division	69,512,297		(8,306,777)		61,205,520	
Bear Branch						
Region H						
Total	\$ 78,258,410	\$	(9,766,851)	\$	68,491,559	

A summary of net position restricted for **construction** as of August 31, 2013 follows:

Liabilities

	Restricted Cash for Construction	Bonds Payable	Payable from Restricted Cash for Construction	Total
General and Administration Division	\$	\$	\$	\$
Raw Water Enterprise Highlands Division	11,135,932	(10,997,870)	(138,062)	
Lake Conroe Division	,,	(1,11 ,11)	(
Woodlands Division	5,626,479	(5,290,175)	(336,304)	
Groundwater Reduction Plan Division	313,023,388	(310,193,234)	(2,830,154)	
Bear Branch				
Region H				
Total	\$ 329,785,799	\$ (326,481,279)	\$ (3,304,520)	\$

NOTES TO FINANCIAL STATEMENTS

A summary of net position – **unrestricted** as of August 31, 2013 follows:

			De	esignated						
	Operating Reserve		Contingency		Capital Repair/ Replace		Undesignated			Total
General & Administration Div.	\$	889,948	\$	1,779,895	\$	930,964	\$	382,753	\$	3,983,560
Raw Water Enterprise								817,830		817,830
Highlands Division		694,413		1,388,826		3,604,173		378,640		6,066,052
Lake Conroe Division		877,794		1,755,587		1,458,202		(470,157)		3,621,426
Woodlands Division		5,366,232		1,526,386				9,430,881		16,323,499
Groundwater Reduct. Plan Div.								6,874,944		6,874,944
Bear Branch								328,325		328,325
Region H			_		_		-	139,757	_	139,757
Total	\$	7,828,387	\$	6,450,694	\$	5,993,339	\$	17,882,973	\$	38,155,393

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.

		Book Balance		Bank Balance	Insurance & Market Value of Collateral
Collateral held by pledging banks in the					
Authority's name	\$	6,669,707	\$	9,534,901	\$ 16,519,297
Cash equivalents, not requiring pledging	J				
by banks, money funds & Pools		448,634,639		148,721,014	N/A
Total Cash and Cash Equivalents	\$	455,304,346	\$ 4	158,255,915	

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

Investment Policy

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

Investments

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

• Obligations of the U.S. or its agencies

NOTES TO FINANCIAL STATEMENTS

- 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, 2013.

Public Funds Investment Pools

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

The Authority has been authorized by the Board of Directors to invest in the Pools. 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 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, 2013, the Authority participated in TexPool (\$61,644,762) and TexStar (\$4,182,640).

Interest Rate Risk

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The individual interfund receivables/payables as of August 31, 2013 follow:

	R	eceivables	 Payables
Enterprise Funds:			
General and Administration Division	\$	240,872	\$
Woodlands Division			1,078,409
Groundwater Reduction Plan Division		1,015,768	 178,231
	\$	1,256,640	\$ 1,256,640

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS

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

		ance at . 1, 2012	Additions		Deletions	Balance at Aug. 31, 2013		
Business-Type Activities:							<u>, </u>	
Capital Assets Not Being Depreciated	d:							
Land	\$ 1	2,308,644	\$ 91,725	\$	(733)	\$	12,399,636	
Water permits and rights	3	0,947,801					30,947,801	
Construction in progress	6	0,942,456	103,336,172		(27,858,932)		136,419,696	
Total Capital Assets Not Being								
Depreciated	10	4,198,901	 103,427,897		(27,859,665)	_	179,767,133	
Capital Assets Being Depreciated:								
Furniture, fixtures and equipment		2,102,525	330,931		(14,339)		2,419,117	
Other machinery and equipment		1,952,580	302,336				2,254,916	
Automobiles and trucks		2,083,108	226,574		(19,011)		2,290,671	
Buildings	1	1,446,680	47,963		(51,517)		11,443,126	
Dams and appurtenances		8,228,966	6,908				8,235,874	
Water systems	10	2,534,075	23,333,685				125,867,760	
Wastewater utility systems	8	4,905,679	2,511,040		(2,100)		87,414,619	
Capital improvement plans		376,882					376,882	
Total Capital Assets Being								
Depreciated	21	3,630,495	 26,759,437		(86,967)	_	240,302,965	
Less Accumulated Depreciation for:								
Furniture, fixtures and equipment		867,661	244,055		(4,470)		1,107,246	
Other machinery and equipment		1,660,873	359,715		(1,974)		2,018,614	
Automobiles and trucks		1,357,363	290,528		(19,011)		1,628,880	
Buildings		1,111,927	368,101		(36,234)		1,443,794	
Dams and appurtenances		3,039,677	118,118				3,157,795	
Water systems	3	8,684,661	3,292,680				41,977,341	
Wastewater utility systems	4	4,385,102	2,711,877				47,096,979	
Capital improvement plans		213,868	19,141				233,009	
Total Accumulated Depreciation	9	1,321,132	 7,404,215		(61,689)	_	98,663,658	
Total Capital Assets Being								
Depreciated, Net	12	2,309,363	 19,355,222	_	(25,278)		141,639,307	
Business-Type Activities								
Capital Assets, Net	\$ 22	6,508,264	\$ 122,783,119	\$	(27,884,943)	\$	321,406,440	

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - UNAMORTIZED BOND PREMIUM OR DISCOUNT

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

	Original Bond Premium			Salance at		rrent Year	Balance at		
Daw Water Enterprise	or	(Discount)	<u>Se</u>	pt. 1, 2012	AM	<u>ortization</u>	Au	g. 31, 2013	
Raw Water Enterprise	nda								
Water Revenue Refunding Bo		421 041	4	206 072	+	16 711	+	270 161	
Series 2010 Series 2012	\$	421,941	\$	386,872	\$	16,711	\$	370,161	
		70,827		69,654		3,014		66,640	
Total Raw Water Enterprise		492,768	_	456,526		19,725		436,801	
Highlands Division									
Water Revenue Bonds:									
Series 2010		130,316		119,881		5,161		114,720	
Series 2013		265,830		113,001		3,667		262,163	
Total Highlands Division		396,146		119,881		8,828		376,883	
		330/1.0	_	113,001		0,020		37 0/003	
Woodlands Division									
Special Project Revenue Bond	ls:								
Series 2004		270,070		188,883		10,419		178,464	
Series 2004		(4,596)		(3,213)		(177)		(3,036)	
Series 2007		(144,350)		(117,980)		(5,606)		(112,374)	
Series 2010		103,982		67,648		15,997		51,651	
Refunding Bonds:									
Series 2010		252,508		197,426		24,048		173,378	
Total Woodlands Division		477,614		332,764		44,681		288,083	
		<u>.</u>							
GRP Division									
Special Project Revenue Bond	ls:								
Series 2011		114,995		109,639		4,423		105,216	
Total GRP Division		114,995		109,639		4,423		105,216	
Totals	\$	1,481,523	\$	1,018,810	\$	77,657	\$	1,206,983	

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – LONG-TERM DEBT

A summary of changes in bonds payable follows:

	Interest Rates	Original Issuance	Balance at Sept. 1, 2012	Additions	Deductions	Balance at Aug. 31, 2013	Due Within One Year
Raw Water E							
Water Revenue	•						
Series 2003	3.77%	\$ 4,950,000	\$ 220,000	\$	\$ 220,000	\$	\$
Water Revenue	Refunding Bon	ds:					
Series 2010	2-4%	14,000,000	13,170,000		840,000	12,330,000	865,000
Series 2012	2-3%	3,710,000	3,710,000			3,710,000	255,000
Total Raw Wa	ater Enterprise	e	17,100,000		1,060,000	16,040,000	1,120,000
Highlands Div Water Revenue							
Series 2010	3-4.375%	25,380,000	24,745,000		655,000	24,090,000	680,000
Series 2013	2-5%	6,730,000	24,743,000	6,730,000	033,000	6,730,000	000,000
Total Highlan	ds Division	, ,	24,745,000	6,730,000	655,000	30,820,000	680,000
Woodlands D	ivision						
	Revenue Bonds	:					
Series 2007		14,435,000	13,205,000		335,000	12,870,000	350,000
Special Project	Revenue Refund	ding Bonds:	, ,		,	, ,	,
Series 2004	4-5%	21,310,000	15,310,000		1,085,000	14,225,000	1,135,000
Series 2004	3.50%	18,970,000	17,935,000		635,000	17,300,000	660,000
Series 2010	3-5%	4,440,000	4,065,000		385,000	3,680,000	405,000
Series 2010	3-4%	2,365,000	2,005,000		375,000	1,630,000	385,000
Total Woodla	nds						
Division			52,520,000		2,815,000	49,705,000	2,935,000
Groundwater	Reduction Pla	an 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		67,470,000	67,470,000			67,470,000	2,040,000
Series 2012		175,000,000	175,000,000			175,000,000	4,780,000
Series 2012A		165,000,000		165,000,000		165,000,000	1,000,000
Total Ground	water Reducti	on Plan Divisio	n 347,125,000	165,000,000		512,125,000	7,820,000
Total Bonds F	ayable		\$ 441,490,000	\$ 171,730,000	\$ 4,530,000	\$ 608,690,000	\$ 12,555,000

Of the \$608,690,000 of bonds payable, \$596,135,000 is considered long-term and \$12,555,000 is considered current.

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 GRP Division Special Project Revenue Bond resolutions require that the gross revenues of the GRP, after deducting maintenance and operating expenses, shall be transferred in the following order:

- Debt Service Fund No later than the fifth day preceding each maturity date, an amount sufficient to pay principal and interest on the outstanding Special Project Revenue Bonds.
- 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 Special Project Revenue Bonds at the time of such computation.

The Woodlands Division Special Project Revenue Bond resolutions require that capacity charges be assessed, levied and made to and collected from the customers pursuant to the agreement 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.

NOTES TO FINANCIAL STATEMENTS

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

tal
670,000
673,450
675,925
682,525
682,925
474,157
931,606
790,588
864,652
038,665
040,003
033,528
038,978
190,633
191,168
184,967
968,320
428,400
979,314
195,430
194,180
187,530
009,693
035,880
992,143
206,546
247,676
000,594
069,672
709,555
691,408
691,928
692,182
690,152
448,361
446,648
452,741
458,055
130,033
072,705 353,735

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, 2013, the Authority had borrowed \$4,000,000 on this loan commitment and the balance of the note at August 31, 2013 was \$3,414,305.

Notes payable activity for the year ended August 31, 2013 follows:

Balance at beginning of year \$ 3,723,667

Additions

Retirements (309,362)
Balance at end of year \$ 3,414,305

Maturities of the loan commitments for the balances outstanding as of August 31, 2013 are as follows:

	F	Principal	1	Interest	Total
General and Ad					
2014	\$	266,809	\$	190,331	\$ 457,140
2015		282,643		174,497	457,140
2016		298,977		158,163	457,140
2017		317,161		139,979	457,140
2018		335,984		121,156	457,140
2019		1,912,731		103,000	2,015,731
	\$	3,414,305	\$	887,126	\$ 4,301,431

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, 2013.

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 "Pension Plan"), provides retirement benefits to plan members and beneficiaries. The Pension Plan is a single employer, noncontributory defined benefit plan. The Pension Plan's benefit provisions were established and may be amended by the Authority's Board. The Pension 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 Pension Plan. The Trustee is responsible for making payments to the Authority's retired employees.

The Pension Plan is available to all active employees who have completed one year of service and attained age 21. Normal retirement age is 65. The Pension 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 to retirees or their beneficiary monthly during the life of the retired participant. The Pension 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, 2012, there were 142 plan members.

Lincoln National Life and Standard Insurance Co. are the trustees of the Pension 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 Pension Plan. The Authority makes annual contributions to the Pension 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 2013, the Authority's annual pension cost of \$946,437 for the Pension 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, 2012 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.

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost and Net Pension Obligation

	Aug	j. 31, 2013
Annual Required Contribution (ARC)	\$	951,702
Interest on Net Pension Obligation		(5,265)
Adjustment to ARC		
Annual Pension Cost		946,437
Contributions made		(958,987)
Increase (decrease) in Net Pension Obligation		(12,550)
Net Pension Obligation (Asset) - beginning of year		(80,996)
Net Pension Obligation (Asset) - end of year	\$	(93,546)

Three Year Trend Information

	Annual	% of Annual		
	Pension	Pension	Net Pension	
Year Ending	 Cost	Contributed		Asset
Aug. 31, 2011	\$ 645,829	103.9 %	\$	67,763
Aug. 31, 2012	794,549	101.7		80,996
Aug. 31, 2013	946,437	101.3		93,546

Funded Status and Funding Progress

As of November 1, 2012, the most recent actuarial valuation date, the plan was 98.9% funded. The actuarial accrued liability for benefits was \$8.8 million, and the actuarial value of assets was \$8.7 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 \$6.8 million and the ratio of the UAAL to the covered payroll was 1.4%.

The Schedule of Funding Progress, presented as Required Supplementary Information 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:

- An assumed rate of return used in determining the actuarial present value of the accumulated benefits of 6.5%.
- Separations before normal retirement in accordance with T-1 of the Actuary's *Pension Handbook*, as modified for females.
- Mortality rates in accordance with the RP2000 Mortality Table with Projection Scale AA.
- Salary increases at an assumed 5% per annum.

NOTES TO FINANCIAL STATEMENTS

- 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.
- Normal retirement at the later of age 65 or 5 years of participation, or attained age if later.
- No loading for expenses.
- 80.0% of participants are assumed married with the husband 3 years older than the wife.

The valuation is based on participants in the Pension 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, 2013, ten former employees and their spouse dependents are receiving OPEB healthcare benefits. Five active employees and their dependents will receive this benefit if the employees' continue working for the Authority until reaching the normal retirement age of 65.

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

Funding Policy

The contribution required from OPEB plan members may be amended by the Authority's Board of 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 \$49,250 for OPEB medical insurance coverage for retired employees covered under the OPEB plan during the fiscal year ended August 31, 2013. After review, the Authority deems no reserve necessary for OPEB healthcare plan.

NOTES TO FINANCIAL STATEMENTS

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.

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

	Actuarial Valuation Date						
	Sep	t. 1, 2010	Sep	ot. 1, 2011	Sep	ot. 1, 2012	
Determination of Annual Required Obligation							
Normal Cost at year end	\$	48,911	\$	48,911	\$	48,911	
Amortization of UAAL		109,425		109,425		109,425	
Annual Required Contribution (ARC)	\$	158,336	\$	158,336	\$	158,336	
Expected Benefit Payments	\$	(41,303)	\$	(48,000)	\$	(49,000)	
Determination of Net OPEB Obligation							
Annual required contribution	\$	158,336	\$	158,336	\$	158,336	
Interest on prior year Net OPEB Obligation		22,665		28,253		33,964	
Adjustment to ARC							
Annual OPEB cost (expense)		181,001		186,589		192,300	
Contributions made		(41,303)		(43,828)		(49,250)	
Increase in net OPEB obligation		139,698		142,761		143,050	
Net OPEB obligation - beginning of year		566,630		706,328		849,089	
Net OPEB obligation - end of year	\$	706,328	\$	849,089	\$	992,139	

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

	Annual	Estimated %		
	OPEB	of OPEB Cost	ı	Net OPEB
Year Ending	 Cost	Contributed		Obligation
Aug. 31, 2011	\$ 181,001	23 %	\$	706,328
Aug. 31, 2012	186,589	26		849,089
Aug. 31, 2013	192,300	26		992,139

NOTES TO FINANCIAL STATEMENTS

Required Supplementary Information

Actuarial	Acti	uarial		Actuarial	ı	Unfunded				UAAL as a %	
Valuation	Val	ue of		Accrued	Ac	tuarial Accr.	Funded	(Covered	of Covered	
Date	As	sets	Lia	Liability (AAL) Liability		bility (UAAL)	L) Ratio		ayroll**	Payroll	
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	
Sept. 1, 2012*		0		2,047,414		2,047,414	0		413,753	494.8	

^{*} A full valuation was not performed for fiscal years ended August 31, 2012 or August 31, 2013. All entries have been derived from the September 1, 2010 valuation.

Funded Status and Funding Progress

As of September 1, 2012, the OPEB was 0% percent funded. The estimated actuarial accrued liability for benefits was \$2,047,414. 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, 2012. The covered payroll (annual payroll of active employees covered by the plan) was \$413,753 and the ratio of the UAAL to the covered payroll was 494.8% 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

^{**} September 1, 2012 covered payroll estimates based on active participants in the September 1, 2010 OPEB valuation and compensation provided in the November 1, 2012 pension valuaton.

NOTES TO FINANCIAL STATEMENTS

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.

NOTE 10 – MAJOR CUSTOMERS

Industrial water sales totaling \$8,345,334 were invoiced to the Authority's two largest customers. This accounts for 88% of the Raw Water Enterprise water sales revenues for the year ended August 31, 2013.

Revenues totaling \$1,384,517 accrued from the Authority's primary contractual partner in the Lake Conroe reservoir project. This accounts for 58% of the Lake Conroe Division's operating revenues for the year ended August 31, 2013.

Water pumpage fees totaling \$12,706,148 were invoiced to the Authority's two largest customers. This accounts for 53% of Groundwater Reduction Plan Division's operating revenues for the year ended August 31, 2013.

Water and sewer service fees and capacity charges totaling \$18,311,259 accrued from the Authority's three largest customers. This accounts for 53% of The Woodlands Division's operating revenues for the year ended August 31, 2013.

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 in 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 13 – FUNDING FOR REGION H WATER PLANNING GRANT

Under an agreement with the Texas Water Development Board ("TWDB"), the Authority is the contracting agency and designated representative of the Region H Water Planning Group. Under the contract, the TWDB provides financial assistance to develop a regional water plan for Region H, a 15 county area, which includes most of the San Jacinto River watershed. The TWDB, fulfilling the requirements set forth in Senate Bills 1, 2 and 3, defines the scope of work to be included in the plan and the time frame for completion of the various tasks in the plan. Senate Bill 1 was enacted by the 75th Texas Legislature in 1997, Senate Bill 2 was enacted by the 77th Texas Legislature in 2001 and Senate Bill 3 was enacted by the 80th Texas Legislature in 2007. The TWDB rules provide that State funds will be used to pay 100% of the direct regional water plan costs. The Authority has received contributions from governments and other parties interested in the development of the plan that partially fund miscellaneous other Region H costs.

NOTE 14 – COMPENSATED ABSENCES

Vacation

As of August 31, 2013, 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.

NOTES TO FINANCIAL STATEMENTS

Compensatory Time

Non-exempt employees may accrue compensatory time (comp time) in lieu of being paid overtime compensation upon approval by the Manager. Compensatory time is overtime and requires the same management approvals. Non-exempt employees may be eligible to bank overtime for later use as compensatory time off at a rate of $1\frac{1}{2}$ hours time worked.

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

Maximum Accruals:

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

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

Payment of Compensatory Time

All employees who are reclassified from a non-exempt position to an exempt position will be paid all accrued compensatory time upon approval of the reclassification and will cease to be eligible for any additional overtime and/or compensatory time. Likewise, an employee who is promoted, transferred or demoted to another non-exempt position will be paid in full for any compensatory time accrued before the promotion 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 their unused sick leave balance up to a maximum of thirty-six (36) days.

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:

	Sep	t. 1, 2012	A	dditions	Re	eductions	Aug	. 31, 2013
Lake Conroe Vacation	\$	18,984	\$	354	\$		\$	19,338
Highlands Vacation		17,872				6,740		11,132
General & Admin Vacation		144,225		14,703				158,928
Woodlands Vacation		121,771				49,342		72,429
GRP Vacation		22,086		1,972				24,058
Vacation Total		324,938		17,029		56,082		285,885
Lake Conroe Sick Leave								
Highlands Sick Leave								
General & Admin Sick Leave		32,281				17,274		15,007
Woodlands Sick Leave		14,462				9,539		4,923
GRP Sick Leave								
Sick Leave Total		46,743				26,813		19,930
Lake Conroe Comp Time		2,075				164		1,911
Highlands Comp Time		7,087				1,571		5,516
General & Admin Comp Time		3,198		1,389				4,587
Woodlands Comp Time				59				59
GRP Comp Time		254				235		19
Compensatory Time Total		12,614		1,448		1,970		12,092
Total	\$	384,295	\$	18,477	\$	84,865	\$	317,907

The current year expense and ending fiscal year 2013 liability for compensatory time is calculated based on the total employee hours accrued times the fiscal year 2013 pay rate plus applicable employee benefits.

NOTES TO FINANCIAL STATEMENTS

NOTE 15 - IMPLEMENTATION OF NEW STANDARDS

In the current fiscal year, the Authority implemented the following new standards:

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position ("GASB 63"), amended the net asset reporting requirements in GASB Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as "net position" rather than "net assets."

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"), clarifies which financial statement items should continue to be presented as assets and liabilities and which should be reclassified as deferred outflows or inflows, and which items should be treated as current period expenditures (outflows) or current period inflows. Beginning equity has been restated and reduced by \$8,161,360 due to bond issuance costs that were previously capitalized.

REQUIRED SUPPLEMENTARY INFORMATION



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

Year Ended August 31, 2013

Six Year Trend Information

Schedule of Contributions From the Employer										
Fiscal Year Ended		Annual Required ntribution	Со	Actual ntribution	Percentag Contribute					
10/31/2007 10/31/2008	\$	337,523 397,109	\$	372,478 437,482	110.4 110.2	%				
10/31/2009 10/31/2010		551,847 562,406		572,069 583,621	103.7 103.8					
10/31/2011 10/31/2012		648,608 798,954		670,891 807,782	103.4 101.1					

Schedule of Funding Progress - Frozen Initial Liability Actuarial Cost Method **(1)** (3) (4) **(5) (6) (2) Unfunded** UFIL as a % **Actuarial Actuarial** Frozen **Frozen Initial Funded** of Covered **Valuation** Value of Initial Liab (UFIL) Ratio Covered Pavroll **Date Plan Assets** Liability (2) - (1)**Payroll** (1)/(2)(3) / (5)5.4 % \$ 97.0 % \$ 3,254,963 11/1/2007 \$ 5,600,313 \$ 5,776,428 176,115 11/1/2008 6,042,141 6,375,231 333,090 94.8 4,013,370 8.3 270,933 4,129,705 11/1/2009 6,632,221 6,903,154 96.1 6.6 7,225,943 7,432,242 206,299 4,728,214 11/1/2010 97.2 4.4 8,020,008 138,168 5,901,212 11/1/2011 7,881,840 98.3 2.3 11/1/2012 8,666,044 8,760,869 94,825 98.9 6,776,385 1.4

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

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

Year Ended August 31, 2013

Three Year Trend Information

Schedule of Contributions From the Employer

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
8/31/2011	\$ 181,001	23.0%	\$706,328
8/31/2012 8/31/2013	186,589 192,300	26.0% 26.0%	849,089 992,139

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

Actuarial Valuation Date	(1) Actuarial Value of Assets		(2) AAL Actuarial Accrued Liability		(3) UAAL Unfunded AAL (2) - (1)		(4) Funded Ratio (1) / (2)		(5) Covered Payroll		(6) UAAL as a % of Covered Payroll (3) / (5)	
9/1/2010*	\$	0	\$	1,892,176	\$	1,892,176		0.0 %	\$	463,099	408.6	5 %
9/1/2011**		0		1,967,814		1,967,814		0.0		474,846	414.4	ļ
9/1/2012**		0		2,047,414		2,047,414		0.0		413,753	494.8	3

^{*} A full actuarial valuation was performed for the fiscal year ended 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



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

Year Ended August 31, 2013

			Actual	Variance		
		d Amounts	(Budgetary	Over		
	Original	Final	Basis)	(Under)		
Operating Revenues						
Water and sewer service fees	\$ 31,559,195	\$ 31,559,195	\$ 29,153,773	\$ (2,405,422)		
Total Revenues	31,559,195	31,559,195	29,153,773	(2,405,422)		
Operating Expenses						
Current:						
Salaries and wages	4,432,658	4,432,658	3,920,492	512,166		
Employee insurance and other						
payroll benefits	1,852,227	1,852,227	1,532,499	319,728		
Outside services employed	1,833,447	1,833,447	1,676,123	157,324		
Operating supplies and expense	s 12,259,760	12,259,760	12,438,136	(178,376)		
Rentals	64,100	64,100	61,644	2,456		
Maintenance, repairs and parts	4,574,614	4,574,614	3,932,328	642,286		
General and administrative Asset Purchases	756,211	756,211	685,050	71,161		
Total Expenditures	25,773,017	25,773,017	24,246,272	1,526,745		
Total Expenditures	23,773,017	23,773,017	27,270,272	1,320,743		
Operating Net Income (Loss)	5,786,178	5,786,178	4,907,501	(878,677)		
Nonoperating Revenues						
Interest income	6,089	6,089	36,049	29,960		
Other			(7,532)	(7,532)		
Total Nonoperating Revenues	6,089	6,089	28,517	22,428		
Change in Net Position	\$ 5,792,267	\$ 5,792,267	\$ 4,936,018	\$ (856,249)		

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.

SCHEDULE OF REVENUE AND EXPENSES BUDGET AND ACTUAL - RAW WATER ENTERPRISE, HIGHLANDS AND LAKE CONROE DIVISIONS AND REGION H

Year Ended August 31, 2013

	Rudaete	d Amounts		Variance Over	
	Original	Final	Actual	(Under)	
Operating Revenues					
Water revenues	\$ 10,496,723	\$ 10,496,723	\$ 10,234,273	\$ (262,450)	
Permits, licenses and fees	1,563,252	1,563,252	1,663,460	100,208	
Water planning grant	427,960	427,960	249,233	(178,727)	
Total Revenues	12,487,935	12,487,935	12,146,966	(340,969)	
Operating Expenses					
Current:					
Salaries and wages	2,071,402	2,071,402	1,900,365	171,037	
Employee insurance and other					
payroll benefits	910,648	910,648	830,732	79,916	
Outside services employed	925,130	925,130	980,466	(55,336)	
Operating supplies and expenses	907,229	907,229	574,090	333,139	
Rentals	229,035	229,035	151,457	77,578	
Maintenance, repairs and parts	427,523	427,523	337,878	89,645	
Water planning grant expenses	425,460	425,460	257,465	167,995	
General and administrative	820,362	820,362	710,469	109,893	
Depreciation			1,013,879	(1,013,879)	
Total Expenditures	6,716,789	6,716,789	6,756,801	(40,012)	
Operating Net Income	5,771,146	5,771,146	5,390,165	(380,981)	
Nonoperating Revenues (Expenses)					
Interest income	118,000	118,000	59,001	(58,999)	
Interest expense on bonds	(1,994,924)	(1,994,924)	(1,597,556)	397,368	
Other	6,045	6,045	(266,557)	(272,602)	
Total Nonoperating Revenues				<u>-</u>	
(Expenses)	(1,870,879)	(1,870,879)	(1,805,112)	65,767	
Change in Net Position	\$ 3,900,267	\$ 3,900,267	\$ 3,585,053	\$ (315,214)	

SCHEDULE OF REVENUE AND EXPENSES BUDGET AND ACTUAL GROUNDWATER REDUCTION PLAN DIVISION

Year Ended August 31, 2013

	Dudantod	l Amounta		Variance
	Original	l Amounts Final	Actual	Over (Under)
Operating Revenues	Original		Accuai	(Ollder)
Water revenues (GRP Pumpage Fees)	\$ 21,997,181	\$ 21,997,181	\$ 23,955,203	\$ 1,958,022
Total Revenues	21,997,181	21,997,181	23,955,203	1,958,022
Operating Expenses	· · · · · · ·			
Current:				
Salaries and wages	2,881,069	2,881,069	2,044,820	836,249
Employee insurance and other				
payroll benefits	1,103,178	1,103,178	651,677	451,501
Outside services employed	640,650	640,650	535,380	105,270
Operating supplies and expenses	589,705	589,705	983,449	(393,744)
Raw water costs	1,943,463	1,943,463	1,910,879	32,584
Rentals	12,000	12,000		12,000
Maintenance, repairs and parts	3,360	3,360	13,449	(10,089)
General and administrative	1,124,319	1,124,319	884,811	239,508
Depreciation			268,358	(268,358)
Total Expenditures	8,297,744	8,297,744	7,292,823	1,004,921
Operating Net Income	13,699,437	13,699,437	16,662,380	2,962,943
Nonoperating Revenues (Expenses)				
Interest income	2,369,785	2,369,785	1,084,476	(1,285,309)
Interest expense	(17,540,882)	(17,540,882)	(18,333,910)	(793,028)
Other			(1,057,630)	(1,057,630)
Total Nonoperating Revenues	_		_	
(Expenses)	(15,171,097)	(15,171,097)	(18,307,064)	(3,135,967)
Change in Net Position	\$ (1,471,660)	\$ (1,471,660)	\$ (1,644,684)	\$ (173,024)

SCHEDULE OF NET POSITION GROUNDWATER REDUCTION PLAN DIVISION

August 31, 2013

Assets

ASSCES	
Current Assets	
Cash and cash equivalents	
Unrestricted	\$ 18,522,102
Restricted for debt service	69,512,297
Restricted for construction	312,749,413
Accounts receivable and prepaids	4,935,571
Total Current Assets	405,719,383
Capital Assets - at cost	
Land	3,105,996
Furniture and fixtures	510,868
Other machinery and equipment	7,769
Automobiles and trucks	104,654
Buildings	2,517,572
Water systems	7,678
Construction in progress	126,883,272
Accumulated Depreciation	(451,469)
Total Capital Assets	132,686,340
Total Noncurrent Assets	132,686,340
Total Assets	\$ 538,405,723
<u>Liabilities</u>	
Current Liabilities	
Accounts payable and accrued liabilities - unrestricted	\$ 16,582,729
Restricted for debt services - current portion of bonds	7,820,000
Restricted for debt service - accrued interest payable	8,306,777
Restricted for construction - retainage payable	2,830,154
Total Current Liabilities	35,539,660
Noncurrent Liabilities	
First lien water revenue bonds - less current maturities	504,305,000
Unamortized bond premium or discount	105,216
Total Noncurrent Liabilities	504,410,216
Total Liabilities	539,949,876
Net Position	
Net Position	
Invested in capital assets - net of related debt	(69,624,617)
Restricted for debt service	61,205,520
Unrestricted	6,874,944
Total Net Position	\$ (1,544,153)

SCHEDULE OF REVENUE AND EXPENSES GROUNDWATER REDUCTION PLAN DIVISION

Year Ended August 31, 2013

Operating Revenues	
Water revenues (GRP Pumpage Fees)	\$ 23,955,203
Total Revenues	23,955,203
Operating Expenses	
Current:	
Salaries and wages	2,044,820
Employee insurance and other	
payroll benefits	651,677
Outside services employed	535,380
Operating supplies and expenses	983,449
Raw water costs	1,910,879
Rentals	
Maintenance, repairs and parts	13,449
General and administrative expenses	884,811
Depreciation	268,358
Total Expenditures	7,292,823
Operating Net Income (Loss)	16,662,380
Nonoperating Revenues (Expenses)	
Interest income	1,084,476
Gain (Loss) on disposal of assets	(113,213)
Amortization of debt issuance costs	4,423
Interest expense on bonds	(18,333,910)
Other	(948,840)
Total Nonoperating Revenues	
(Expenses)	(18,307,064)
Income (Loss) Before Operating Transfers	(1,644,684)
Transfers	23,165
Change in Net Position	(1,621,519)
Net Position at Beginning of Year	77,366
Net Position at End of Year	\$ (1,544,153)

SCHEDULE OF CASH FLOWS GROUNDWATER REDUCTION PLAN DIVISION

Year Ended August 31, 2013

Cash Flows from Operating Activities Cash received from customers Cash payments to suppliers for goods and services Cash payments to suppliers for goods and services Cash paid for employee services Other revenues and expenses Net Cash Provided by Operating Activities Cash Flows from Noncapital Financing Activities Transfers Transfers Transfers Act Cash (Used) by Noncapital Financing Activities Cash Flows from Capital and Related Financing Activities Interest paid on bonds Proceeds from bond sales Interest paid on bonds Get, 23,165 Acquisition of capital assets Flox Get, 23,165 Acquisition of capital assets Froceeds from asset sales Net Cash Provided by Capital and Related Financing Activities Cash Flows from Investing Activities Interest earned Net Cash Flows Provided by Investing Activities Cash Flows from Investing Activities Interest earned Activities Interest earned Activities Interest earned Activities Cash Flows from Investing Activities Cash and equivalents at beginning of year Cash and Equivalents at End of Year Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities
Cash payments to suppliers for goods and services (8,061,340) Cash paid for employee services (2,696,497) Other revenues and expenses 1,430 Net Cash Provided by Operating Activities 10,585,363 Cash Flows from Noncapital Financing Activities Transfers 23,165 Net Cash (Used) by Noncapital Financing Activities 23,165 Cash Flows from Capital and Related Financing Activities Interest paid on bonds (14,221,876) Proceeds from bond sales 165,000,000 Bond issue expenses (950,270) Acquisition of capital assets (64,830,789) Proceeds from asset sales Net Cash Provided by Capital and Related Financing Activities 84,997,065 Cash Flows from Investing Activities Interest earned 1,084,476 Net Cash Flows Provided by Investing Activities 1,084,476 Net Increase in Cash and Cash Equivalents 96,690,069 Cash and equivalents at beginning of year 304,093,743 Cash and Equivalents at End of Year \$400,783,812
Cash paid for employee services (2,696,497) Other revenues and expenses 1,430 Net Cash Provided by Operating Activities 10,585,363 Cash Flows from Noncapital Financing Activities Transfers 23,165 Net Cash (Used) by Noncapital Financing Activities 23,165 Cash Flows from Capital and Related Financing Activities Interest paid on bonds (14,221,876) Proceeds from bond sales 165,000,000 Bond issue expenses (950,270) Acquisition of capital assets (64,830,789) Proceeds from asset sales Net Cash Provided by Capital and Related Financing Activities 84,997,065 Cash Flows from Investing Activities Interest earned 1,084,476 Net Cash Flows Provided by Investing Activities 1,084,476 Net Increase in Cash and Cash Equivalents 96,690,069 Cash and equivalents at beginning of year 304,093,743 Cash and Equivalents at End of Year \$400,783,812
Net Cash Provided by Operating Activities Cash Flows from Noncapital Financing Activities Transfers Net Cash (Used) by Noncapital Financing Activities Transfers Net Cash (Used) by Noncapital Financing Activities Interest paid on bonds Proceeds from bond sales Interest paid on bonds Acquisition of capital assets Proceeds from asset sales Net Cash Provided by Capital and Related Financing Activities (64,830,789) Proceeds from asset sales Net Cash Provided by Capital and Related Financing Activities Interest earned Net Cash Flows from Investing Activities Interest earned Net Cash Flows Provided by Investing Activities 1,084,476 Net Increase in Cash and Cash Equivalents 96,690,069 Cash and equivalents at beginning of year \$400,783,812
Net Cash Provided by Operating Activities10,585,363Cash Flows from Noncapital Financing Activities23,165Transfers23,165Net Cash (Used) by Noncapital Financing Activities23,165Cash Flows from Capital and Related Financing Activities(14,221,876)Interest paid on bonds(14,221,876)Proceeds from bond sales165,000,000Bond issue expenses(950,270)Acquisition of capital assets(64,830,789)Proceeds from asset salesNet Cash Provided by Capital and Related Financing Activities84,997,065Cash Flows from Investing Activities1,084,476Net Cash Flows Provided by Investing Activities1,084,476Net Cash Flows Provided by Investing Activities96,690,069Cash and equivalents at beginning of year304,093,743Cash and Equivalents at End of Year\$ 400,783,812Reconciliation of Operating Income (Loss) to Net
Transfers 23,165 Net Cash (Used) by Noncapital Financing Activities 23,165 Cash Flows from Capital and Related Financing Activities Interest paid on bonds (14,221,876) Proceeds from bond sales 165,000,000 Bond issue expenses (950,270) Acquisition of capital assets Proceeds from asset sales Net Cash Provided by Capital and Related Financing Activities 84,997,065 Cash Flows from Investing Activities Interest earned 1,084,476 Net Cash Flows Provided by Investing Activities 1,084,476 Net Increase in Cash and Cash Equivalents 96,690,069 Cash and equivalents at beginning of year 304,093,743 Cash and Equivalents at End of Year \$400,783,812
Transfers 23,165 Net Cash (Used) by Noncapital Financing Activities 23,165 Cash Flows from Capital and Related Financing Activities Interest paid on bonds (14,221,876) Proceeds from bond sales 165,000,000 Bond issue expenses (950,270) Acquisition of capital assets Proceeds from asset sales Net Cash Provided by Capital and Related Financing Activities 84,997,065 Cash Flows from Investing Activities Interest earned 1,084,476 Net Cash Flows Provided by Investing Activities 1,084,476 Net Increase in Cash and Cash Equivalents 96,690,069 Cash and equivalents at beginning of year 304,093,743 Cash and Equivalents at End of Year \$400,783,812
Net Cash (Used) by Noncapital Financing Activities Cash Flows from Capital and Related Financing Activities Interest paid on bonds Proceeds from bond sales Inderest paid on bonds Proceeds from bond sales Inderest paid on bonds Proceeds from bond sales Inderest paid on bonds Requisition of capital assets Proceeds from asset sales Net Cash Provided by Capital and Related Financing Activities Interest earned Net Cash Flows Provided by Investing Activities Interest earned Net Cash Flows Provided by Investing Activities Net Increase in Cash and Cash Equivalents Popposition of Special Science (Loss) to Net
Cash Flows from Capital and Related Financing Activities Interest paid on bonds (14,221,876) Proceeds from bond sales 165,000,000 Bond issue expenses (950,270) Acquisition of capital assets (64,830,789) Proceeds from asset sales Net Cash Provided by Capital and Related Financing Activities 84,997,065 Cash Flows from Investing Activities Interest earned 1,084,476 Net Cash Flows Provided by Investing Activities 1,084,476 Net Increase in Cash and Cash Equivalents 96,690,069 Cash and equivalents at beginning of year 304,093,743 Cash and Equivalents at End of Year \$400,783,812
Interest paid on bonds Proceeds from bond sales Bond issue expenses Acquisition of capital assets Proceeds from asset sales Net Cash Provided by Capital and Related Financing Activities Interest earned Net Cash Flows Provided by Investing Activities Interest earned Net Cash Flows Provided by Investing Activities Increase in Cash and Cash Equivalents Cash and equivalents at beginning of year Cash and Equivalents at End of Year Reconciliation of Operating Income (Loss) to Net
Interest paid on bonds Proceeds from bond sales Bond issue expenses Acquisition of capital assets Proceeds from asset sales Net Cash Provided by Capital and Related Financing Activities Interest earned Net Cash Flows Provided by Investing Activities Interest earned Net Cash Flows Provided by Investing Activities Increase in Cash and Cash Equivalents Cash and equivalents at beginning of year Cash and Equivalents at End of Year Reconciliation of Operating Income (Loss) to Net
Proceeds from bond sales Bond issue expenses Acquisition of capital assets Proceeds from asset sales Net Cash Provided by Capital and Related Financing Activities Interest earned Net Cash Flows Provided by Investing Activities Interest earned Net Cash Flows Provided by Investing Activities Net Increase in Cash and Cash Equivalents Cash and equivalents at beginning of year Cash and Equivalents at End of Year 165,000,000 (64,830,789) 84,997,065 84,997,065
Bond issue expenses (950,270) Acquisition of capital assets (64,830,789) Proceeds from asset sales Net Cash Provided by Capital and Related Financing Activities 84,997,065 Cash Flows from Investing Activities Interest earned 1,084,476 Net Cash Flows Provided by Investing Activities 1,084,476 Net Increase in Cash and Cash Equivalents 96,690,069 Cash and equivalents at beginning of year 304,093,743 Cash and Equivalents at End of Year \$400,783,812
Acquisition of capital assets Proceeds from asset sales Net Cash Provided by Capital and Related Financing Activities Cash Flows from Investing Activities Interest earned Net Cash Flows Provided by Investing Activities Net Cash Flows Provided by Investing Activities Net Increase in Cash and Cash Equivalents 96,690,069 Cash and equivalents at beginning of year 304,093,743 Cash and Equivalents at End of Year \$ 400,783,812
Proceeds from asset sales Net Cash Provided by Capital and Related Financing Activities 84,997,065 Cash Flows from Investing Activities Interest earned 1,084,476 Net Cash Flows Provided by Investing Activities 1,084,476 Net Increase in Cash and Cash Equivalents 96,690,069 Cash and equivalents at beginning of year 304,093,743 Cash and Equivalents at End of Year \$400,783,812
Net Cash Provided by Capital and Related Financing Activities Cash Flows from Investing Activities Interest earned Net Cash Flows Provided by Investing Activities Net Increase in Cash and Cash Equivalents Perform Specific Spe
Interest earned Net Cash Flows Provided by Investing Activities Net Increase in Cash and Cash Equivalents 96,690,069 Cash and equivalents at beginning of year 204,093,743 Cash and Equivalents at End of Year \$400,783,812 Reconciliation of Operating Income (Loss) to Net
Interest earned Net Cash Flows Provided by Investing Activities Net Increase in Cash and Cash Equivalents 96,690,069 Cash and equivalents at beginning of year 204,093,743 Cash and Equivalents at End of Year \$400,783,812 Reconciliation of Operating Income (Loss) to Net
Net Cash Flows Provided by Investing Activities 1,084,476 Net Increase in Cash and Cash Equivalents 96,690,069 Cash and equivalents at beginning of year 304,093,743 Cash and Equivalents at End of Year \$400,783,812 Reconciliation of Operating Income (Loss) to Net
Net Increase in Cash and Cash Equivalents 96,690,069 Cash and equivalents at beginning of year Cash and Equivalents at End of Year \$ 400,783,812 Reconciliation of Operating Income (Loss) to Net
Cash and equivalents at beginning of year 304,093,743 Cash and Equivalents at End of Year \$400,783,812 Reconciliation of Operating Income (Loss) to Net
Cash and Equivalents at End of Year \$ 400,783,812 Reconciliation of Operating Income (Loss) to Net
Reconciliation of Operating Income (Loss) to Net
Reconciliation of Operating Income (Loss) to Net
Operating Income (Loss) \$ 16,662,380 Adjustments to reconcile operating income (loss) to net cash provided by operating activities:
Other revenues 1,430
Depreciation 268,358
(Increase) in receivables (1,728,622)
(Increase) in prepaids (286,465)
Increase in accounts payable and accrued liabilities (4,331,718)
Total Adjustments (6,077,017)
Net Cash Provided by Operating Activities \$ 10,585,363

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

August 31, 2013

Dam and Appurtenances:		
Dam and appurtenances - joint	\$	16,783,800
Dam and appurtenances - San Jacinto River Authority		1,169,194
Total Dam and Appurtenances		17,952,994
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		23,404
Total Buildings and Residences		542,406
Equipment:		
Construction and maintenance equipment - joint		187,269
Transportation equipment - joint		357,092
Transportation equipment - San Jacinto River Authority		7,371
Office furniture and fixtures - joint		14,547
Computer software - joint		146,977
Computer hardware - joint		56,092
Telephone system - joint		41,713
Laboratory equipment - joint		75,424
Miscellaneous equipment - joint		101,557
Construction and maintenance equipment - San Jacinto River Authority		45,919
Total Equipment		1,033,961
Land:		
Land easements and improvements - joint		7,569,685
Land acquisition and administration - joint		5,863,771
Ayer Island improvements - joint		49,508
Land easements - Newton Park		312,928
Water supply well rehabilitation - joint		20,241
Lake Conroe land - site prep - SJRA		28,379
Land acquisition and administration - San Jacinto River Authority		580,032
Total Land		14,424,544
Total Lake Conroe Dam, Reservoir and Related Equipment		33,953,905
Less City of Houston Contribution		(21,113,220)
San Jacinto River Authority's Interest in Lake Conroe Dam, Reservand Related Equipment	voir	12,840,685
Less Accumulated Depreciation on San Jacinto River Authority's I	nte	rest
in Assets		(3,316,791)
Net Interest in Lake Conroe Dam, Reservoir and Related Equipment	\$	9,523,894

INSURANCE COVERAGE

August 31, 2013

Amount of

Types of Coverages	(Coverage	<u>Insurer</u>	Coverage to
Property Coverages				
Buildings	\$	129,254,951	TWCA Risk Management Fund	7/1/2014
Contents	\$	5,858,019	TWCA Risk Management Fund	7/1/2014
EDP Equipment	\$	1,575,449	TWCA Risk Management Fund	7/1/2014
Equipment/Contractors Equip	\$	1,772,815	TWCA Risk Management Fund	7/1/2014
Miscellaneous Property &				
Equipment	\$	•	TWCA Risk Management Fund	7/1/2014
Rented Equipment	\$		TWCA Risk Management Fund	7/1/2014
Total Property Coverages	\$	138,911,866		
D :	_	F2 060 072	TWO BILLIA	7/4/2044
Boiler and Machinery	\$	52,969,872	TWCA Risk Management Fund	7/1/2014
Automobile:				
Bodily injury and	Co	mbined limit		
property damage	\$		TWCA Risk Management Fund	7/1/2014
Excess auto liability	\$		TWCA Risk Management Fund	7/1/2014
Physical damage	'		TWCA Risk Management Fund	7/1/2014
,c.ca. aamage	,	dar casii valac	TV GV NGK Flanagement Fana	7/1/2011
General Liability	\$	1,000,000	TWCA Risk Management Fund	7/1/2014
•	pe	r occurrence	J	
Excess General Liability	\$	9,000,000	TWCA Risk Management Fund	7/1/2014
Public Officials:				
Errors and omissions	\$		TWCA Risk Management Fund	7/1/2014
Excess errors and omissions	\$		TWCA Risk Management Fund	7/1/2014
GRP Review Committee	\$	1,000,000	AWAC - Darwin Select Insurance	6/3/2014
Workers! Compensation	C+	atuton.	TMCA Rick Management Fund	7/1/2014
Workers' Compensation	Sta	atutory	TWCA Risk Management Fund	7/1/2014
Fiduciary Liability - 457 Plan	\$	2,000,000	Chubb - Federal Insurance Co.	3/1/2014
riddelary Elability 137 Flatt	Ψ	2,000,000	Chabb i Caciai Insulance Co.	3/1/2017

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

PRINCIPAL OFFICIALS

August 31, 2013

Directors

Lloyd B. Tisdale, President

P.O. Box 329

Conroe, Texas 77305-0329

Mary L. Rummell, Secretary

P.O. Box 329

Conroe, Texas 77305-0329

Fredrick Koetting, Member

P.O. Box 329

Conroe, Texas 77305-0329

Michael G. Bleier, Member

P.O. Box 329

Conroe, Texas 77305-0329

R. Gary Montgomery, Vice President

P.O. Box 329

Conroe, Texas 77305-0329

Joseph L. Stunja, Treasurer

P.O. Box 329

Conroe, Texas 77305-0329

John Eckstrum, Member

P.O. Box 329

Conroe, Texas 77305-0329

Staff

Jace Houston, General Manager

P.O. Box 329

Conroe, Texas 77305-0329

Pam J. Steiger, Controller

P.O. Box 329

Conroe, Texas 77305-0329

Ron Kelling, P.E., Deputy General Manager

P.O. Box 329

Conroe, Texas 77305-0329

Tom Michel, Director of Financial &

Administrative Services

P.O. Box 329

Conroe, Texas 77305-0329

David Parkhill, P.E., Director of Raw Water Enterprise

P.O. Box 329

Conroe, Texas 77305-0329

Consultants

General Counsel Mitchell 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 66	6-69
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 70	'0-72
These schedules contain information to help the reader assess the Authority's most significant local revenue source, the water and sewer service.	
Debt Capacity 73	'3-75
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 76	'6-79
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 80	80-83
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.	

NET POSITION BY COMPONENT

Last Ten Fiscal Years

2004	2005	2006	2007
\$ 48,547,804	\$ 50,362,973	\$ 60,374,586	\$ 65,772,745
19,894,387	31,273,497	22,324,988	18,254,369
14,332,693	15,446,458	17,451,681	16,039,280
\$ 82,774,884	\$ 97,082,928	\$ 100,151,255	\$ 100,066,394
\$ 48,547,804	\$ 50,362,973	\$ 60,374,586	\$ 65,772,745
19,894,387	31,273,497	22,324,988	18,254,369
14,332,693	15,446,458	17,451,681	16,039,280
\$ 82,774,884	\$ 97,082,928	\$ 100,151,255	\$ 100,066,394
	\$ 48,547,804 19,894,387 14,332,693 \$ 82,774,884 \$ 48,547,804 19,894,387 14,332,693	\$ 48,547,804	\$ 48,547,804 \$ 50,362,973 \$ 60,374,586 19,894,387 31,273,497 22,324,988 14,332,693 15,446,458 17,451,681 \$ 82,774,884 \$ 97,082,928 \$ 100,151,255 \$ 48,547,804 \$ 50,362,973 \$ 60,374,586 19,894,387 31,273,497 22,324,988 14,332,693 15,446,458 17,451,681

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

Fiscal Year

	2008		2009		2010		2011		2012		2013
\$	65,030,432	\$	71,921,272	\$	39,210,018	\$	93,493,165	\$	81,039,024	\$	34,279,471
	34,936,170		28,654,942		65,464,657		7,778,815		27,079,260		68,491,559
	18,156,477		23,616,921		21,068,435		36,370,470		34,648,654		38,155,393
\$	118,123,079	\$	124,193,135	\$ 125,743,110		\$ 137,642,450		\$ 142,766,938		\$	140,926,423
_						_		_		_	
_	CE 020 422	_	71 021 272	_	20 210 010	_	02 402 165	_	01 020 024	_	24 270 471
\$	65,030,432	\$	71,921,272	\$	39,210,018	\$	93,493,165	\$	81,039,024	\$	34,279,471
	34,936,170		28,654,942		65,464,657		7,778,815		27,079,260		68,491,559
	18,156,477		23,616,921		21,068,435		36,370,470		34,648,654		38,155,393
\$	118,123,079	\$	124,193,135	\$	125,743,110	\$	137,642,450	\$	142,766,938	\$	140,926,423

CHANGES IN NET POSITION

Last Ten Fiscal Years

		2004		2005		2006		2007
Expenses								
Business-type activities:								
Salaries and wages	\$	2,276,993	\$	2,365,528	\$	2,537,539	\$	2,974,694
Employee insurance and other								
payroll benefits		1,056,883		1,166,323		1,352,771		1,777,904
Outside services employed		1,438,566		1,410,829		1,318,626		1,981,899
Operating supplies and expenses		2,923,444		3,355,259		4,238,291		3,871,080
Rentals		42,515		18,895		18,677		32,509
Maintenance, repairs and parts		2,069,226		1,867,411		2,966,070		2,495,369
Water planning study expenses		419,037		505,656		389,211		75,104
General and administrative expenses		712,106		677,448		643,248		830,749
Depreciation		3,971,573		4,241,197		4,501,769		4,619,949
Total business-type activities expenses		14,910,343		15,608,546		17,966,202		18,659,257
Total primary government expenses	\$	14,910,343	\$	15,608,546	\$	17,966,202	\$	18,659,257
Program Revenues:								
Business-type activities								
Water sales:								
Industrial	\$	3,997,431	\$	4,061,681	\$	3,973,539	\$	6,020,521
Irrigation	•	14,800		18,249	•	25,752		28,147
Water and sewer service fees		7,880,999		9,574,736		11,488,378		8,558,969
Permits, licenses, and fees		252,942		140,832		157,742		791,295
Capacity charges		4,252,382		4,171,424		4,202,855		4,212,228
Water planning study		420,802		505,656		389,211		82,726
Total business-type activities revenues		16,819,356		18,472,578		20,237,477		19,693,886
Total primary government revenues	\$	16,819,356	\$	18,472,578	\$	20,237,477	\$	19,693,886
Net (Expenses) Revenue								
Business-type activities								
Interest income	\$	367,633	\$	924,941	\$	1,666,911	\$	1,874,487
Gain (Loss) on disposal of capital assets	4	(109,568)	7	6,500	т	10,826	т	7,716
Oil and gas royalty income		52,551		57,689		82,420		35,714
Other revenues		4,699		3,584		57,313		43,313
FEMA Grant		.,055		3,30 .		1,262,964		408,965
Other expenses						1,202,301		100,303
Amortization of bond premium or discounts		(486,268)		(736,681)		(663,089)		(631,922)
Interest expense on bonds		(3,990,520)		(3,445,937)		(3,445,006)		(3,344,542)
Total business-type activities	-	(4,161,473)		(3,189,904)		(1,027,661)		(1,606,269)
Total primary government	\$	(4,161,473)	\$	(3,189,904)	\$	(1,027,661)	\$	(1,606,269)
General Revenues and Other Change in Ne	t Pos		÷					
Business-type activities:								
Capital Contributions	\$	585,273	\$	14,633,916	\$	1,824,713	\$	486,779
Total business-type activities		585,273		14,633,916		1,824,713		486,779
Total primary government	\$	585,273	\$	14,633,916	\$	1,824,713	\$	486,779
Change in Net Position								
Business-type activities		(1,667,187)	_	14,308,044		3,068,327		(84,861)
Total primary government	\$	(1,667,187)	\$	14,308,044	\$	3,068,327	\$	(84,861)
Notes: The Authority does not currently have			tal a					
•								

Fisca	l Ye	ar								
2008		2009	2010 2011					2012		2013
\$ 3,609,239	\$	4,213,962	\$	4,610,165	\$	6,702,971	\$	7,958,296	\$	8,392,601
1,802,280		2,057,484		2,316,454		2,783,051		2,772,375		3,476,905
2,785,842		3,279,261		2,718,636		5,053,638		3,908,048		4,072,695
4,717,992		4,499,020		5,437,305		7,595,490		7,388,455		7,797,323
48,714		111,362		147,150		124,643		352,479		234,674
3,456,995		4,174,346		2,446,618		4,133,285		4,550,249		4,538,373
125,700		356,123		1,026,692		157,071		197,815		257,465
949,078		1,370,683		1,971,681						
5,747,453		5,219,499		5,823,940		6,330,205		6,898,534		7,404,035
23,243,293		25,281,740		26,498,641		32,880,354		34,026,251		36,174,071
\$ 23,243,293	\$	25,281,740	\$	26,498,641	\$	32,880,354	\$	34,026,251	\$	36,174,071
\$ 7,660,698	\$	8,264,471	\$	8,862,294	\$	9,037,794	\$	9,223,102	\$	10,125,269
40,013		58,291		76,369		134,341		108,342		109,004
13,514,338		16,270,637		15,253,398		33,257,666		33,360,551		44,863,366
858,733		682,043		578,560		763,503		1,007,532		1,002,670
5,149,975		5,522,353		5,205,756		5,466,830		5,242,829		5,252,805
 575,909		464,449		1,088,622		141,878		210,072		249,233
27,799,666		31,262,244		31,064,999		48,802,012		49,152,428		61,602,347
\$ 27,799,666	\$	31,262,244	\$	31,064,999	\$	48,802,012	\$	49,152,428	\$	61,602,347
\$ 1,549,570	\$	482,664	\$	229,489	\$	287,860	\$	713,705	\$	1,189,490
11,706		22,746		161,336		47,542		167,866		(144,605)
51,268		32,820		12,635		7,920		3,165		
185,648		74,016		1,932		6,305		220,754		117,973
		1,910,083								
(17,800)						(119,476)				(1,234,093)
(641,709)		(646,329)		(683,725)		(728,548)		(454,979)		77,657
 (3,814,792)		(3,875,334)		(3,527,175)		(5,367,553)		(11,489,309)		(22,414,786)
(2,676,109)		(1,999,334)		(3,805,508)		(5,865,950)		(10,838,798)		(22,408,364)
\$ (2,676,109)	\$	(1,999,334)	\$	(3,805,508)	\$	(5,865,950)	\$	(10,838,798)	\$	(22,408,364)
\$ 16,176,421	\$	2,088,886	\$	789,125	\$	1,843,632	\$	837,109	\$	3,300,933
 16,176,421	<u>-</u>	2,088,886	<u> </u>	789,125	<u> </u>	1,843,632	<u>.</u>	837,109	÷	3,300,933
\$ 16,176,421	\$	2,088,886	\$	789,125	\$	1,843,632	\$	837,109	\$	3,300,933
 18,056,685		6,070,056		1,549,975		11,899,340		5,124,488		6,320,845
\$ 18,056,685	\$	6,070,056	\$	1,549,975	\$	11,899,340	\$	5,124,488	\$	6,320,845

WOODLANDS DIVISION WATER AND SEWER SERVICE FEES BY SOURCE

Last Ten Fiscal Years

Water and Sewer Fees

Fiscal Year	_	Water	_	Sewer	_	Total	otal Water irect Rate	Total WasteWater Direct Rate (1)
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
2013		10,903,899		10,265,798		21,169,697	1.64	1.93

⁽¹⁾ Direct Rate based on per thousand gallons

PRINCIPAL WOODLANDS DIVISION WATER AND SEWER FEES PAYERS

August 31, 2013

	;	2013				2004	
Customer	Revenue Base Attributable		% Base of The total Revenue Base	Revenue Base Attributable		Rank	% Base of The total Revenue Base
MUD 6	\$ 1,050,065	8	5%	\$	573,356	8	7%
MUD 7	1,584,124	6	8%		916,643	4	10%
MUD 36	952,244	9	5%		524,871	9	6%
MUD 39	749,826	10	4%		275,116	10	3%
MUD 40	1,369,950	7	7%		739,882	7	8%
MUD 46	4,899,964	1	24%		922,735	3	10%
MUD 47	3,966,030	2	19%		2,119,350	1	24%
MUD 60	2,516,861	3	12%		1,113,070	2	13%
MUD 67	1,649,442	5	8%		819,927	5	9%
Metro MUD	1,777,464	4	9%		786,167	6	9%

Note: The requirement for statistical data is ten years.

LIST OF PRINCIPAL CUSTOMERS

August 31, 2013

Raw Water Enterprise

ExxonMobil

Chevron Chemical Company

Entergy

Newport Municipal Utility District

LCY Elastomers, LP Solvay USA, Inc.

Crosby Municipal Utility District

SJRA - GRP Division

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 (Montgomery

County portion only)

Metro Municipal Utility District

Lake Conroe Division

Walden on Lake Conroe Seven Coves Association

Bentwater Yacht & Country Club

The Palms Marina Inland Discount Marina Sports Harbour, LLC Stow-A-Way Marina

Waterpoint Marina 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 New Caney MUD

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

RATIO OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

Business-Type Activities

Fiscal Year	Water Revenue Bonds	Special Project Revenue Bond	Loans	Total Primary Government	Percentage of Revenue (1)	Percentage of Personal Income (2)	Debt per Population (2)
2004	\$ 22,600,000	\$ 50,555,000	\$	\$ 73,155,000	446.11%	N/A	N/A
2005	62,400,000	13,695,000		76,095,000	423.53%	N/A	N/A
2006	61,470,000	12,550,000		74,020,000	372.93%	N/A	N/A
2007	60,110,000	11,350,000		71,460,000	364.38%	N/A	N/A
2008	58,355,000	24,860,000		83,215,000	305.67%	N/A	N/A
2009	56,540,000	23,550,000		80,090,000	260.05%	N/A	N/A
2010 (3)	86,240,000	36,860,000	1,947,767	125,047,767	417.02%	N/A	N/A
2011 (3)	84,910,000	118,625,000	3,926,810	207,461,810	426.35%	N/A	N/A
2012 (3)	81,160,000	360,330,000	3,723,667	445,213,667	902.61%	N/A	N/A
2013 (3)	46,860,000	561,830,000	3,414,305	612,104,305	993.64%	N/A	N/A

⁽¹⁾ Based on operating revenues.

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

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

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

PLEDGE - REVENUE COVERAGE

Last Ten Fiscal Years

Water Revenue Bonds

		Less	Net Available			
		Operating	for Debt	Debt	Service	Cover
Fiscal Year	Revenue	Expenses	Service	Principal	Interest	Ratio
All Divisions	Except the GRP	Division				
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
2013	9,338,000	3,363,471	5,974,529	1,715,000	1,616,962	1.79

GRP Division

2010

2011

2012

2013

Special Revenue Bonds

	Less Operating	N	let Available for Debt	 Debt	Serv	rice	Cover
 Revenue	Expenses		Service	Principal		Interest	Ratio
\$ 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
5,252,805	5,350		5,247,455	2,815,000		2,326,974	1.02
1,089,476	2,447,677		(1,358,201)			238,064	-5.71
10,826,665	5,450,870		5,375,795			1,096,553	4.90
14,814,666	4,132,542		10,682,124			7,208,592	1.48
23,955,203	6,139,654		17,815,549			18,333,910	0.97

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.

County/City	Population
Barrett	3,199
Baytown	73,238
Crosby	6,126
Grimes County	26,783
Highlands	7,522
Liberty County	76,571
Montgomery County	485,047
San Jacinto County	27,126
Waller County	44,357
Walker County	68,408

Source US Census Bureau, Census 2010 & 2012

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

Educational Attainment

County/City	High School	<u>College</u>
Barrett	76%	5%
Baytown	75%	14%
Crosby	72%	11%
Grimes County	77%	11%
Highlands	84%	11%
Liberty County	75%	9%
Montgomery County	86%	30%
San Jacinto County	78%	12%
Waller County	79%	20%
Walker County	82%	18%

Source US Census Bureau, Census 2012

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

County/City	<u>Median Age</u>	Largest Employers
Barrett	35	Texas Department of Criminal Justice
Baytown	32	Sam Houston State University
Crosby	38	Conroe Independent School District
Grimes County	40	Anadarko Petroleum
Highlands	37	Aon Hewitt
Liberty County	36	Memorial Hermann The Woodlands Hospital
Montgomery County	36	St. Luke's The Woodlands Hospital
San Jacinto County	43	Huntsville Independent School District
Waller County	32	Huntsman Company, LLC
Walker County	35	Woodforest National Bank

Source US Census Bureau, Census 2012

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

County/City	Median Household Income (\$)
Barrett	28,839
Baytown	48,062
Crosby	35,655
Grimes County	40,509
Highlands	51,806
Liberty County	47,460
Montgomery County	66,657
San Jacinto County	48,750
Waller County	50,609
Walker County	36,885

Source US Census Bureau, Census 2012

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

County/City	Unemployment Rate
Barrett	12.3%
Baytown	10.6%
Crosby	4.8%
Grimes County	7.3%
Highlands	9.0%
Liberty County	10.4%
Montgomery County	6.6%
San Jacinto County	12.9%
Waller County	6.3%
Walker County	4.7%

Source US Census Bureau, Census 2012

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

NUMBER OF EMPLOYEES BY DIVISION

Last Ten Fiscal Years

Full-Time

Number of

Division	2004	<u>2005</u>	2006	2007	2008
	- -		-		6
Highlands	/	6	/	6	6
Lake Conroe	7	7	7	8	9
Woodlands	35	37	38	40	43
General & Administration	8	8	9	11	13
Groundwater Reduction Plan					
Total	57	58	61	65	71

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

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

Positions Equivalent

2	009	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
	6	6	7	7	7
	9	11	13	14	13
	44	45	45	45	39
	17	27	48	56	77
		1	4	5	7
	76	90	117	127	143

OPERATING STATISTICS

Last Ten Fiscal Years

2004 2005 2006 2007 2008 Raw Water Enterprise (Lake Conroe and Highlands Division)						
Water Delivered (Thousand Gallons)	24,874,814	29,486,436	22,370,584	24,192,602	25,853,331	
Water Rights (See detail below)	4	5	5	5	6	
Woodlands Division						
Water Average Pumpage (Thousand Gallons)	4,663,533	5,578,435	6,238,117	5,083,736	6,333,984	
Wastewater Average Flow (Thousand Gallons per Day)	6,852	7,107	7,253	7,682	7,624	
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		Permitted	
	Water Right	Amount	Date
<u>Source</u>	Permit Number	(afpy)	Granted
Lake Conroe	COA 10-4963	33,333	1987
Lake Houston - Run of River	COA 10-4964	55,000	1987
Lake Houston - Effluent Woodlands WWTP's	Permit 5809	14,944	2004
Lake Houston - Additional Storage	Permit 5807	14,100	2008
Lake Houston - Additional Run of River	Permit 5808	40,000	2009
Trinity River - Devers	Permit 5271	56,000	1995
Trinity River - CLCND	COA 08-4279	30,000	2005

2009	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
23 /61 508	22,956,203	26 5/18 710	22 813 15 <i>1</i>	22 K34 U30
23,401,370	22,730,203	20,340,710	22,013,134	22,034,037
7	7	7	7	7
4 022 002	E 700 040	7 474 400	7.024.222	4 420 740
6,832,883	5,789,840	7,674,492	7,036,323	6,628,769
7,756	7,643	7,557	7,742	7,315
1	1	1	1	1
3	3	3	3	3
2	2	2	2	2

SCHEDULE OF CAPITAL ASSET ADDITIONS

Last Ten Fiscal Years

	2004	2005	2006	2007	
Raw Water Enterprise, Highland	ls and General &	Administration			
Land	\$	\$	\$	\$	
Water permits and rights	316,439	79,824	85,669	35,235	
Construction in progress			87,918	879,998	
Furniture, fixtures and equipment	7,843		23,805		
Other machinery and equipment	80,067	11,515	11,369	46,316	
Automobiles and trucks		51,519	93,107	52,373	
Buildings	39,279	25,822		22,535	
Water systems	586,269			913,252	
Lake Conroe Division					
Land Construction in progress	200 002	20 146		11 066	
Construction in progress	208,903	29,146	2 705	11,966	
Furniture, fixtures and equipment	7 220		2,785	4,470	
Other machinery and equipment Automobiles and trucks	7,330	0 100	2,388	11,133	
	8,285	8,100	6,457	2 220	
Buildings Dams and appurtenances	21 407	270.070	2 100	2,320	
Water systems	21,497	270,070	2,199	2,613	
Woodlands Division					
Land	265,004	43,085	5,000	29,840	
Construction in progress	5,204,917	1,294,339	3,097,327	6,626,492	
Furniture, fixtures and equipment	25,136	10,065	24,797		
Other machinery and equipment	•	16,549	8,850	36,657	
Automobiles and trucks	79,389	19,115	118,370	42,131	
Buildings	388,186	755,422	5,000		
Dams and appurtenances			36,384		
Water systems	672,843	3,363,979	1,381,511	3,457,408	
Wastewater utility systems	21,098	10,369,113	8,248,477	446,691	
Capital Improvement Plans	49,505				
Groundwater Reduction Plan Division					
Land					
Construction in Progress					
Furniture, fixtures and equipment					
Other machinery and equipment					
Automobiles and trucks					
Buildings					
Water systems					
Total Capital Assets	\$ 7,981,990	\$ 16,347,663	\$ 13,241,413	\$ 12,621,430	

2008	2009	2010	2011	2012	2013
\$	\$	\$	\$ 31,415	\$	\$
50,330	42,536	4,737	5,194	1,090	·
35,412	1,240,832	5,303,395	7,743,714	5,804,413	13,887,890
	59,880	3,761	888,915	130,150	18,540
5,034	162,469	128,081	102,666	223,889	300,528
49,568	35,845	55,566	102,171	369,830	131,621
11,971		3,025	5,215,813	41,360	
	395,987	716,658	3,308,871	2,173,361	17,875,400
			28,372		
15,397	69,895	74,266	63,589	15,062	63,109
	3,851	1,254	75,846	292	1,134
17,447	18,446	55,156	10,774	12,721	1,828
8,741		8,459	22,799	9,653	17,215
	23,933	6,936	46,370	2,656	
	17,676	7,528	5,711	40,289	6,908
			6,747		
	42,394	25,364	31	14,236	6,568
16,958,077	7,348,205	5,670,466	6,398,484	7,841,826	7,662,672
7,313	88,005	81,356	77,986	42,559	196,702
12,043	46,909	20,822	91,258		9,849
129,846	287,450	313,628		56,106	58,209
		13,293	79,829	82,024	
787,524	21,084,196	2,665,510	4,854,789	3,798,904	5,458,285
8,586,424	613,969	2,716,115	542,695	827,430	2,511,040
		1,139,941		1,880,898	85,157
		2,265,204	10,163,648	40,586,454	81,722,501
		15,000	78,463 189,557	320,489	104,686
			26,575	58,551	19,529
			20,5.3	2,287,713	47,963
			7,678	_,,,	.,,555
\$ 26,675,127	\$ 31,582,478	\$ 21,295,521	\$ 40,169,960	\$ 66,621,956	\$ 130,187,334
. , ,		. , ,	. , ,	. , ,	. , ,