



San Jacinto River Authority

Comprehensive Annual Financial Report



For the Fiscal Year Ended
August 31, 2014

Photo: May 14, 2014 – Lake Conroe finally fills after years of persistent drought resulting in the first release of overflow water since April of 2010.

**Prepared by the Accounting Department
Montgomery County, Texas**



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

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INTRODUCTORY SECTION



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San Jacinto River Authority

ADMINISTRATIVE OFFICE
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November 21, 2014

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, 2014. The purpose of the CAFR is to provide reliable financial information about the SJRA to the SJRA's Board of Directors, customers, general public, and other interested parties. The SJRA's Accounting Department has prepared the CAFR in accordance with generally accepted accounting principles (GAAP). Management assumes full responsibility for the completeness and reliability of the information contained in the CAFR, based upon a comprehensive framework of internal controls that are established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective of such internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

An independent auditor, Sandersen, Knox & Co, L.L.P., Certified Public Accountants, has issued an unmodified ("clean") opinion on the SJRA's financial statements for the year ended August 31, 2014. 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 performed for fiscal year 2014 since SJRA did receive sufficient Texas Water Development Board grant funds related to Region H to require such a Single Audit.

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

LAKE CONROE DIVISION
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GRP DIVISION
P.O. Box 329
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(T) 936.588.1662
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WOODLANDS DIVISION
P.O. Box 7537
The Woodlands, Texas 77387
(T) 281.367.9511
(F) 281.362.4385

HIGHLANDS DIVISION
P.O. Box 861
Highlands, Texas 77562
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(F) 281.426.2877

the watershed of the San Jacinto River and its tributaries, except that portion of the watershed lying within the boundaries of Harris County. Such geographical area consists of all of Montgomery County and parts of Waller, Grimes, Walker, San Jacinto, Liberty, and Fort Bend counties.

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

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

The **Highlands Division** is located in East Harris County and operates a pump station at Lake Houston. Raw water from Lake Houston is diverted into the SJRA's extensive 27-mile system of canals and a 1,400 acre reservoir for delivery to industrial, municipal, and agricultural customers. The Highlands 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 and participates in two-thirds of the costs. 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 treatment facilities, 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 a countywide 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 all public utilities in Montgomery County that choose to join the program. The GRP Division will design, construct, operate, maintain, and administer a water treatment plant and transmission lines. 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 water 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 10,638,100 in August 2008, a level that was surpassed in November 2011, and by August 2014 Texas added an additional 1,021,500 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 5.3 percent in August 2014 vs. 6.4 percent in August 2013.

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. In fact, during fiscal year 2014 the SJRA had a need to increase its staff by 1% , 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 2014 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 2014 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, completion of the Highlands Division Emergency Operations Center, and installation of additional flow measuring equipment. 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 and improvement needs.

Another major initiative was the continued financing and construction activities for the Groundwater Reduction Plan (GRP) program. SJRA had completed approximately 98% of the financing for the GRP program by the end of Fiscal Year 2014. During Fiscal Year 2014, 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, over 50 miles of transmission lines, surface water receiving facilities and a standpipe.

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 2014, the GRP Pumpage Fee was set at \$1.75 per thousand gallons of groundwater pumped by the participating entity and is billed monthly. It is anticipated that this fee will increase each year as costs are incurred for design and construction of the necessary infrastructure to deliver surface water by the 2015 deadline. Current rate studies suggest that the GRP Pumpage Fee would be \$2.25 per thousand gallons for groundwater users and \$2.44 per thousand gallons for surface water users for fiscal year 2015. 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 2014 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, constructing, operating, and maintaining the necessary infrastructure to deliver water no later than January 1, 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 2014 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, 2013. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

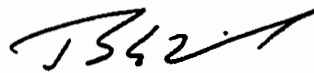
In order to be awarded a Certificate, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. 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.

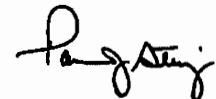
Sincerely,



Jace A. Houston
General Manager



Tom Michel
Director of Financial and
Administrative Services



Pam J. Steiger, CPA
Controller

SAN JACINTO RIVER AUTHORITY

Certificate of Achievement for Excellence in Financial Reporting



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**San Jacinto River Authority
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

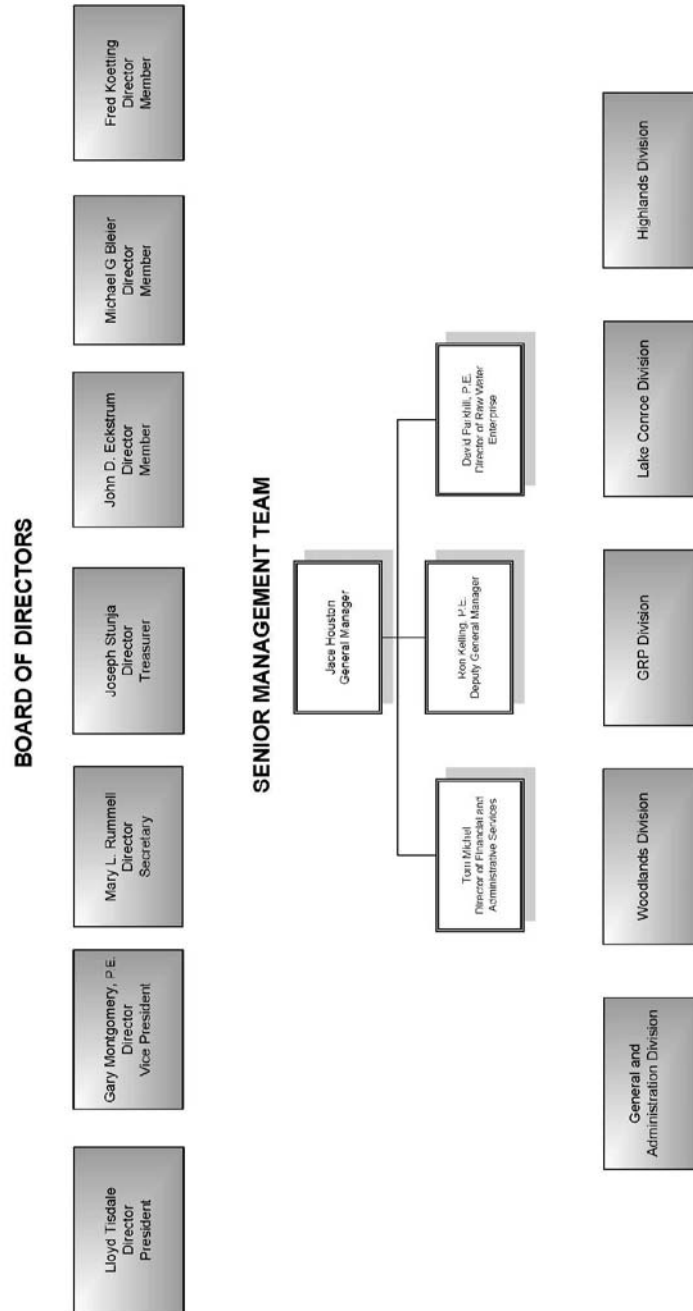
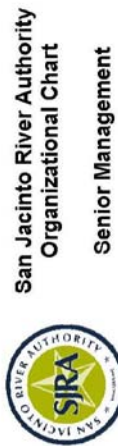
August 31, 2013



Executive Director/CEO

SAN JACINTO RIVER AUTHORITY

Organizational Chart



Revised 06/25/2013 by Human Resources

SAN JACINTO RIVER AUTHORITY

Board of Directors

	<u>Term Expires</u>
Lloyd B. Tisdale, President	2013
R. Gary Montgomery, Vice President	2013
Mary L. Rummell, Secretary	2015
Joseph L. Stunja, Treasurer	2017
John Eckstrum, Member	2017
Fredrick Koetting, Member	2015
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 of the San Jacinto River Authority, as of and for the year ended August 31, 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 of the San Jacinto River Authority, as of August 31, 2014, 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 52-53 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 was 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014, on our consideration of the San Jacinto River Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Jacinto River Authority's internal control over financial reporting and compliance.



Sugar Land, Texas
November 21, 2014

SAN JACINTO RIVER AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

The management of the San Jacinto River Authority (the "Authority") offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended August 31, 2014. 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 \$835.2 million; of this amount, approximately \$549.4 million represents net capital assets and \$272.1 million represents cash and cash equivalents under both, current and restricted assets.
- Liabilities for the Authority totaled \$688.9 million of which \$623.9 million accounts for obligations under long-term debt.
- The Authority's total assets exceeded liabilities by approximately \$146.3 million. This amount represents net position; of this amount, \$53.5 million is net investment in capital assets. An additional \$58 million is restricted net position and the remaining \$34.8 million represents unrestricted net position.
- Operating revenues for the Authority at year-end were \$70 million. The major revenue sources were capacity charges, water and wastewater treatment service fees to Woodlands' municipal utility districts of \$35.8 million; untreated water sales to industrial, municipal and agricultural customers of \$10.9 million; and Groundwater Reduction Plan fees of \$31.3 million.
- Operating expenses totaled \$38.9 million. Highlights within operating expenses were salaries, wages and employee benefits of \$12.3 million, operating supplies of \$9.4 million and depreciation of \$7.8 million.
- Non-operating expenses exceeded non-operating revenues by approximately \$27.2 million. This was primarily attributable to interest expense paid on bonds that totaled \$25.7 million as of year-end.
- Capital contributions and distributions totaled \$1.4 million. Contributions from Highlands Industrial Customer totaling \$1 million, GRP Participants totaling \$0.3 million; Woodlands municipal utility districts' contributions and distributions netted \$0.1 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

ENTERPRISE FUNDS

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION

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

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

- Investment in Capital Assets
- Restricted
- Unrestricted

The Governmental Accounting Standards Board (GASB) believes the users of the Authority's financial statements should know whether "Net Position" were 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 \$146.3 million at the close of the most recent fiscal year.

As of August 31, 2014 and 2013

	2014	2013
Assets		
Current assets	\$ 285,532,654	\$ 471,776,379
Noncurrent assets	209,606	93,546
Capital assets	549,445,998	321,406,440
Total Assets	<u>\$ 835,188,258</u>	<u>\$ 793,276,365</u>
Liabilities		
Current liabilities	\$ 63,892,305	\$ 50,868,324
Noncurrent liabilities	624,993,201	601,481,618
Total Liabilities	<u>\$ 688,885,506</u>	<u>\$ 652,349,942</u>
Net Position		
Investment in		
Capital Assets	\$ 53,512,386	\$ 34,279,471
Restricted:		
Debt service	57,996,912	68,491,559
Construction		
Unrestricted	34,793,454	38,155,393
Total Net Position	<u>\$ 146,302,752</u>	<u>\$ 140,926,423</u>

- Current assets decreased by \$186.2 million which represents a 39% decrease from the prior year primarily due to a decrease in cash and cash equivalents from bond proceeds for the Groundwater Reduction Plan Division, restricted to engineering, construction, construction management and inspection. Capital assets increased by 70% from the prior year primarily due to the building of capital assets for the GRP Division with the aforementioned bond proceeds.
- Noncurrent assets increased by \$0.1 million, a 124% increase due to accrual for Other Post Employment Benefits.
- Total liabilities increased by \$36.5 million, a 6% increase from the prior year primarily due to bonds payable for the Groundwater Reduction Plan Division.
- Current liabilities from accounts payable increased by \$13.0 million, a 26% increase due to increased retainage payable and debt service on the long-term debt.
- Long term debt increased by \$23.5 million, primarily due to new bond issues for the Groundwater Reduction Plan Division.

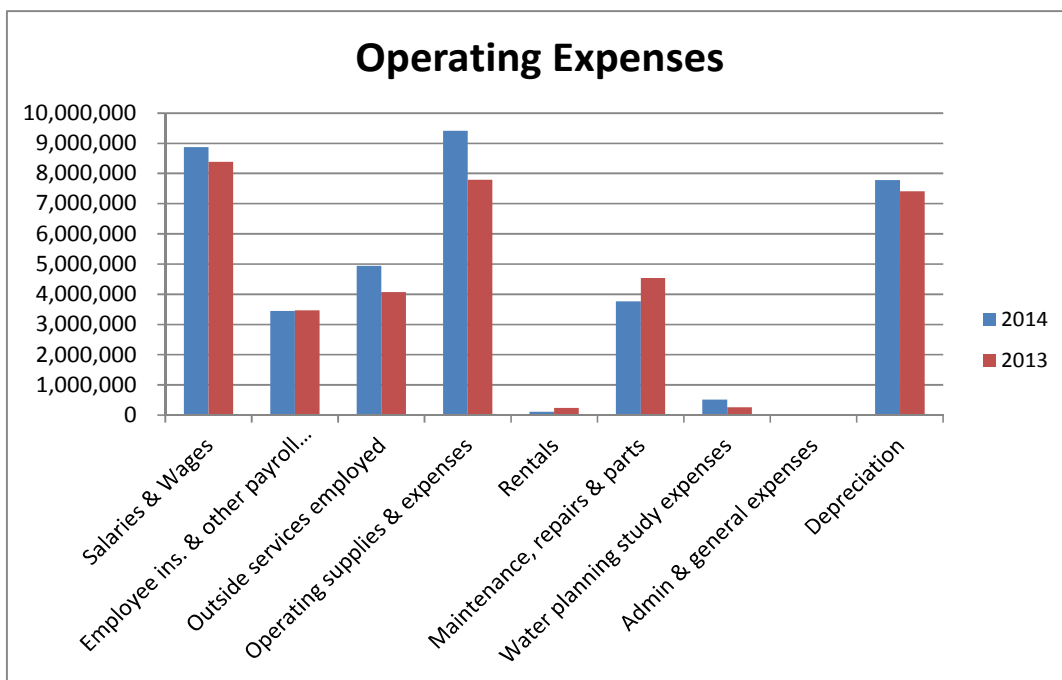
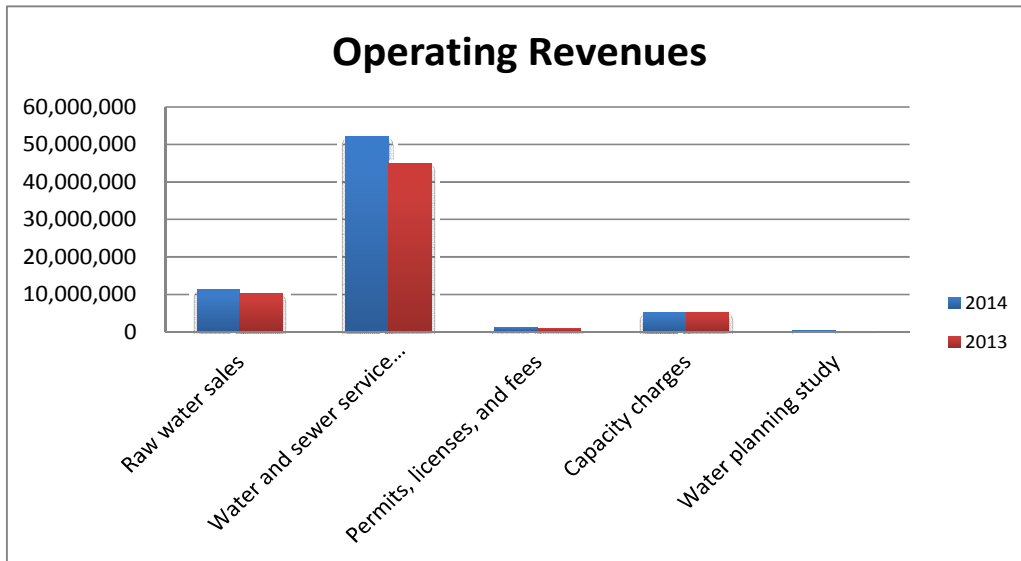
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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, 2014 and 2013

	2014	2013
Operating Revenues:		
Raw water sales	\$ 11,200,531	\$ 10,234,273
Water and sewer service fees	52,090,243	44,863,366
Permits, licenses and fees	1,070,828	1,002,670
Capacity charges	5,188,612	5,252,805
Water planning study	492,810	249,233
Total Operating Revenues	70,043,024	61,602,347
Operating Expenses:		
Salaries and wages	8,872,719	8,392,601
Employee insurance and other payroll benefits	3,443,181	3,476,905
Outside services employed	4,943,193	4,072,695
Operating supplies & expenses	9,405,454	7,797,323
Rentals	118,467	234,674
Maintenance, repairs and parts	3,773,308	4,538,373
Water planning study expenses	520,071	257,465
Depreciation	7,783,943	7,404,035
Total Operating Expenses	38,860,336	36,174,071
Operating Income	31,182,688	25,428,276
Nonoperating Revenues (Expenses)	(27,197,228)	(22,408,364)
Contributed Capital	1,390,869	3,300,933
Net Income	5,376,329	6,320,845
Net position at beginning of year	140,926,423	134,605,578
Net Position at End of Year	\$ 146,302,752	\$ 140,926,423

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



- Salaries and wages increased by \$.5 million, a 6% increase from the prior year which was primarily due to additional employees.
- Depreciation expense increased by \$.4 million, an increase of 5% from the previous year. Most of this increase was due to the purchase/construction of capital assets.

CAPITAL ASSETS AND LONG-TERM DEBT

The Authority's investment in net capital assets as of August 31, 2014 totaled \$549.4 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 70%.

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

- The Authority added \$223 million to the construction in progress for the water treatment facility and transmission lines of the Groundwater Reduction Plan Division.
- The Authority completed the Highland EOC Building at a capital cost of \$1.5 million.
- The Authority completed the 16" Well Collection Line from Water Well 31 and 32 to Water Plant 5 at capital costs of \$1.4 million, 16" Water Distribution Line to Water Plant 5 at a capital cost of \$1.8 million and Lift Station 12 and Force Main improvements at a capital cost of \$1.9 million.
- The Authority completed the Siphon 20 rehabilitation at a capital cost of \$2.8 million.

	<u>2014</u>	<u>2013</u>
Capital Assets - at cost		
Land	\$ 12,308,084	\$ 12,399,636
Water permits and rights	30,947,801	30,947,801
Office furniture, fixtures & equip	2,847,883	2,419,117
Other machinery and equipment	2,999,370	2,254,916
Automobiles and trucks	2,320,248	2,290,671
Buildings	12,933,871	11,443,126
Dams and appurtenances	8,515,730	8,235,874
Water systems	132,453,395	125,867,760
Wastewater utility systems	90,435,574	87,414,619
Capital improvement plans	376,882	376,882
Construction in progress	359,623,466	136,419,696
Less accumulated depreciation	<u>(106,316,306)</u>	<u>(98,663,658)</u>
Total Capital Assets	<u>\$ 549,445,998</u>	<u>\$ 321,406,440</u>

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

LONG-TERM DEBT

At the end of the current fiscal year, the Authority had long-term debt of \$623.9 million. The debt represents primarily bonds secured solely by specified revenue sources (i.e. revenue bonds).

As of August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Long-Term Debt		
First Lien Bonds-		
less current maturities	\$ 616,380,000	\$ 596,135,000
Notes payable less current	2,885,105	3,147,496
Unamortized bond premium	<u>4,638,840</u>	<u>1,206,983</u>
Total Long-Term Debt	<u><u>\$ 623,903,945</u></u>	<u><u>\$ 600,489,479</u></u>

The Authority's total first lien bonds increased a net of \$20 million from the previous year, due to the sale of the Special Project Revenue Bonds (GRP), Series 2013 associated with the water treatment plant and transmission lines.

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

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS



SAN JACINTO RIVER AUTHORITY

STATEMENT OF NET POSITION

August 31, 2014

	<u>Total</u>	<u>Eliminations</u>	<u>Business Type Activities -</u>		
			<u>Raw Water Enterprise</u>		
			<u>Raw Water Supply</u>	<u>Highlands Division</u>	<u>Lake Conroe Division</u>
<u>Assets</u>					
Current Assets					
Cash and cash equivalents					
Unrestricted	\$ 43,887,545	\$	\$	\$ 8,842,769	\$ 3,031,071
Restricted:					
Debt service	68,618,921			4,721,335	
Construction	159,577,888			3,822,296	
Accounts receivable	10,004,642	(1,660,723)	1,223,233	38,306	1,152,160
Prepaid expenses	3,443,658			41,659	28,843
Total Current Assets	<u>285,532,654</u>	<u>(1,660,723)</u>	<u>1,223,233</u>	<u>17,466,365</u>	<u>4,212,074</u>
Noncurrent Assets					
Net pension asset	209,606				
Total Noncurrent Assets	<u>209,606</u>				
Capital Assets - at cost					
Land	12,308,084			1,122,402	5,398,388
Water permits and rights	30,947,801		30,947,801		
Furniture, fixtures and equipment	2,847,883			172,840	93,882
Other machinery and equipment	2,999,370			2,022,184	173,896
Automobiles and trucks	2,320,248			216,537	125,750
Buildings	12,933,871			1,611,669	201,029
Dams and appurtenances	8,515,730				6,706,481
Water systems	132,453,395			34,724,314	6,747
Wastewater utility systems	90,435,574				
Capital improvement plans	376,882				
Construction in progress	359,623,466			8,108,480	575,453
Accumulated depreciation	(106,316,306)			(7,166,151)	(3,432,453)
Total Capital Assets	<u>549,445,998</u>		<u>30,947,801</u>	<u>40,812,275</u>	<u>9,849,173</u>
Total Assets	<u>\$ 835,188,258</u>	<u>\$ (1,660,723)</u>	<u>\$ 32,171,034</u>	<u>\$ 58,278,640</u>	<u>\$ 14,061,247</u>

Enterprise Funds

Woodlands Division	Groundwater Reduction Plan Division	Bear Branch	Region H	General and Administration Division
\$ 11,845,396	\$ 16,036,989	\$ 288,409	\$ 182,078	\$ 3,660,833
4,301,054	59,596,532			
5,658,189	150,097,403			
4,323,546	4,752,440			175,680
427,734	2,440,917	1,668		502,837
26,555,919	232,924,281	290,077	182,078	4,339,350
				209,606
				209,606
1,833,966	3,105,996	847,332		
656,099	700,489			1,224,573
795,521	7,769			
1,191,456	128,504			658,001
2,814,140	2,335,675			5,971,358
		1,809,249		
97,535,982	7,678			178,674
90,435,574				
376,882				
6,042,436	344,892,301			4,796
(92,699,257)	(749,833)	(253,434)		(2,015,178)
108,982,799	350,428,579	2,403,147		6,022,224
\$ 135,538,718	\$ 583,352,860	\$ 2,693,224	\$ 182,078	\$ 10,571,180

SAN JACINTO RIVER AUTHORITY

STATEMENT OF NET POSITION

August 31, 2014

			Business - Type Activities -		
			Raw Water Enterprise		
	Total	Eliminations	Raw Water Supply	Highlands Division	Lake Conroe Division
<u>Liabilities</u>					
Current Liabilities					
Accounts payable and accrued liabilities - unrestricted	\$ 21,231,189	\$ (1,660,723)	\$ 33,199	\$ 1,110,172	\$ 459,310
Restricted for Debt service:					
Current portion of bonds	18,450,000		1,155,000	880,000	
Current portion of notes	263,598				
Accrued interest payable	10,844,707		222,698	484,407	
Restricted for Construction:					
Accounts payable					
Retainage payable	12,893,957			191,700	114,884
Deferred revenue	208,854		7,924		200,930
Total Current Liabilities	<u>63,892,305</u>	<u>(1,660,723)</u>	<u>1,418,821</u>	<u>2,666,279</u>	<u>775,124</u>
Noncurrent Liabilities					
Net OPEB obligation	1,089,256			207,899	389,725
Total Noncurrent Liabs	<u>1,089,256</u>			<u>207,899</u>	<u>389,725</u>
Long-Term Debt					
First lien water revenue bonds -					
less current maturities	616,380,000		13,765,000	29,260,000	
Notes payable less current	2,885,105				
Unamortized bond premium or discount	4,638,840		367,085	361,744	
Total Long-Term Debt	<u>623,903,945</u>		<u>14,132,085</u>	<u>29,621,744</u>	
Total Liabilities	<u>688,885,506</u>	<u>(1,660,723)</u>	<u>15,550,906</u>	<u>32,495,922</u>	<u>1,164,849</u>
<u>Fund Equity</u>					
Net Position					
Investment in capital assets	53,512,386		15,660,716	13,941,127	9,734,289
Restricted:					
Debt service	57,996,912			4,236,928	
Unrestricted	34,793,454		959,412	7,604,663	3,162,109
Total Net Position	<u>146,302,752</u>		<u>16,620,128</u>	<u>25,782,718</u>	<u>12,896,398</u>
Total Liabilities and Fund Equity					
	<u>\$ 835,188,258</u>	<u>\$ (1,660,723)</u>	<u>\$ 32,171,034</u>	<u>\$ 58,278,640</u>	<u>\$ 14,061,247</u>

See Notes to Financial Statements.

Enterprise Funds

Woodlands Division	Groundwater Reduction Plan Division	Bear Branch	Region H	General and Administration Division
\$ 3,577,956	\$ 17,034,711	\$ 8,948	\$ 70,748	\$ 596,868
3,525,000	12,890,000			263,598
1,200,104	8,937,498			
172,382	12,366,075		48,916	
<u>8,475,442</u>	<u>51,228,284</u>	<u>8,948</u>	<u>119,664</u>	<u>860,466</u>
412,428				79,204
<u>412,428</u>				<u>79,204</u>
42,090,000	531,265,000			2,885,105
3,809,132	100,879			
<u>45,899,132</u>	<u>531,365,879</u>			<u>2,885,105</u>
<u>54,787,002</u>	<u>582,594,163</u>	<u>8,948</u>	<u>119,664</u>	<u>3,824,775</u>
65,044,474	(56,095,972)	2,403,147	(48,916)	2,873,521
3,100,950	50,659,034			
12,606,292	6,195,635	281,129	111,330	3,872,884
<u>80,751,716</u>	<u>758,697</u>	<u>2,684,276</u>	<u>62,414</u>	<u>6,746,405</u>
<u>\$ 135,538,718</u>	<u>\$ 583,352,860</u>	<u>\$ 2,693,224</u>	<u>\$ 182,078</u>	<u>\$ 10,571,180</u>

SAN JACINTO RIVER AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended August 31, 2014

	<u>Total</u>	<u>Eliminations</u>	<u>Business - Type Activities -</u>		
			<u>Raw Water Enterprise</u>		
			<u>Raw Water Supply</u>	<u>Highlands Division</u>	<u>Lake Conroe Division</u>
Operating Revenues:					
Water sales:					
Industrial	\$ 9,891,441	\$	\$ 9,891,441	\$	\$
Irrigation	129,878		129,878		
Water and sewer service fees	52,090,243	(10,693,774)	907,594		
Permits, licenses and fees	1,070,828				1,070,828
Contractual revenues	1,179,212				1,179,212
Capacity charges	5,188,612				
Water planning grant	492,810				
Total Operating Revenues	<u>70,043,024</u>	<u>(10,693,774)</u>	<u>10,928,913</u>		<u>2,250,040</u>
Operating Expenses:					
Salaries and wages	8,872,719			984,662	1,191,651
Employee insurance and other payroll benefits	3,443,181			431,722	541,370
Outside services employed	4,943,193		367,194	274,220	584,761
Operating supplies and expenses	9,405,454	(10,693,774)		287,398	234,727
Rentals	118,467			3,892	68,677
Maintenance, repairs & parts	3,773,308			164,448	180,483
Water planning grant expenses	520,071				
General and admin. expenses allocated				327,156	613,643
Depreciation	7,783,943			1,129,960	130,247
Total Operating Expenses	<u>38,860,336</u>	<u>(10,693,774)</u>	<u>367,194</u>	<u>3,603,458</u>	<u>3,545,559</u>
Operating Income (Loss)	<u>31,182,688</u>		<u>10,561,719</u>	<u>(3,603,458)</u>	<u>(1,295,519)</u>
Nonoperating Revenues (Expenses)					
Interest income	376,774			31,217	
Gain (Loss) on disposal of assets	959,459			65,085	447,486
Other revenues	87,035			6,987	4,359
Amortization of bond premium or discounts	166,343		69,716	15,138	
Bond issuance costs	(3,097,923)				
Interest expense	(25,688,916)		(537,063)	(1,174,736)	
Total Nonoperating Revenues (Expenses)	<u>(27,197,228)</u>		<u>(467,347)</u>	<u>(1,056,309)</u>	<u>451,845</u>
Income (Loss) Before Contributions and Transfers					
Contributions and Transfers	3,985,460		10,094,372	(4,659,767)	(843,674)
Transfers			(8,763,074)	7,820,632	594,751
Capital Contributions/(Distributions)	1,390,869			1,000,000	
Change in Net Position	<u>5,376,329</u>		<u>1,331,298</u>	<u>4,160,865</u>	<u>(248,923)</u>
Net Position at Beginning of Year	140,926,423		15,288,830	21,621,853	13,145,321
Net Position at End of Year	<u>\$ 146,302,752</u>	<u>\$</u>	<u>\$ 16,620,128</u>	<u>\$ 25,782,718</u>	<u>\$ 12,896,398</u>

See Notes to Financial Statements.

Enterprise Funds

Woodlands Division	Groundwater Reduction Plan Division	Bear Branch	Region H	General and Administration Division
\$	\$	\$	\$	\$
30,582,811	31,293,612			
5,188,612				
			492,810	
<u>35,771,423</u>	<u>31,293,612</u>		<u>492,810</u>	
3,899,539	2,141,361	41,098		614,408
1,606,204	766,398	14,937		82,550
2,651,126	613,347	37,957	26,440	388,148
15,229,071	3,505,145	5,572	375	836,940
37,539				8,359
3,182,267	14,800	119,112		112,198
			520,071	
733,857	651,577	18,821		(2,345,054)
5,755,326	292,959	20,423		455,028
<u>33,094,929</u>	<u>7,985,587</u>	<u>257,920</u>	<u>546,886</u>	<u>152,577</u>
<u>2,676,494</u>	<u>23,308,025</u>	<u>(257,920)</u>	<u>(54,076)</u>	<u>(152,577)</u>
23,344	316,339	192		5,682
73,207	368,123			5,558
11,994	2,129			61,566
77,152	4,337			
(2,480,431)	(617,492)			
<u>(2,433,327)</u>	<u>(21,350,629)</u>			<u>(193,161)</u>
<u>(4,728,061)</u>	<u>(21,277,193)</u>	<u>192</u>		<u>(120,355)</u>
(2,051,567)	2,030,832	(257,728)	(54,076)	(272,932)
69,133	(21,982)	615	(282)	300,207
<u>(303,131)</u>	<u>294,000</u>	<u>400,000</u>		
<u>(2,285,565)</u>	<u>2,302,850</u>	<u>142,887</u>	<u>(54,358)</u>	<u>27,275</u>
83,037,281	(1,544,153)	2,541,389	116,772	6,719,130
<u>\$ 80,751,716</u>	<u>\$ 758,697</u>	<u>\$ 2,684,276</u>	<u>\$ 62,414</u>	<u>\$ 6,746,405</u>

SAN JACINTO RIVER AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended August 31, 2014

			Business - Type Activities -		
			Raw Water Enterprise		
			Raw Water Supply	Highlands Division	Lake Conroe Division
	Total	Eliminations			
Cash Flows from Operating Activities					
Cash received from customers	\$ 74,652,070	\$ (10,693,774)	\$ 10,767,069	\$ 184,973	\$ 683,885
Cash payments to suppliers for goods and services	(23,622,292)	10,693,774	(333,995)	(896,352)	(752,084)
Cash paid for employee services	(12,334,843)			(1,397,845)	(1,698,268)
Other revenues & expenses	87,035			6,987	4,359
Net Cash Provided (Used) by Operating Activities	<u>38,781,970</u>		<u>10,433,074</u>	<u>(2,102,237)</u>	<u>(1,762,108)</u>
Cash Flows from Noncapital Financing Acti					
Transfers			(8,763,074)	7,820,632	594,751
Net Cash Provided (Used) by Noncapital Finance Activities			<u>(8,763,074)</u>	<u>7,820,632</u>	<u>594,751</u>
Cash Flows from Capital and Related Finar					
Principal paid on bonds	(51,765,000)		(1,120,000)	(680,000)	
Principal paid on notes	(265,602)				
Interest paid	(24,846,695)		(550,000)	(1,184,652)	
Proceeds from bond sales	77,905,000				
Bond issue expenses	(3,097,923)				
Acquisition of facilities and equipment	(222,219,332)			(10,032,453)	(395,747)
Proceeds from the sale of assets	519,942			2,950	502,592
Capital contributions/(distributions)	1,390,869			1,000,000	
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(222,378,741)</u>		<u>(1,670,000)</u>	<u>(10,894,155)</u>	<u>106,845</u>

Enterprise Funds

Woodlands Division	Groundwater Reduction Plan Division	Bear Branch	Region H	General and Administration Division
\$ 40,525,943	\$ 30,506,969	\$ (18,821)	\$ 284,977	\$ 2,410,849
(24,475,576)	(5,804,030)	(164,579)	(493,249)	(1,396,201)
(5,468,965)	(2,907,759)	(56,035)		(805,971)
11,994	2,129			61,566
10,593,396	21,797,309	(239,435)	(208,272)	270,243
69,133	(21,982)	615	(282)	300,207
69,133	(21,982)	615	(282)	300,207
(42,145,000)	(7,820,000)			(265,602)
(2,198,974)	(20,719,908)			(193,161)
38,055,000	39,850,000			
(2,480,431)	(617,492)			
(3,147,834)	(208,131,154)	(210,506)	25,931	(327,569)
8,650				5,750
(303,131)	294,000	400,000		
(12,211,720)	(197,144,554)	189,494	25,931	(780,582)

SAN JACINTO RIVER AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended August 31, 2014

			Business - Type Activities -		
			Raw Water Enterprise		
	Total	Eliminations	Raw Water Supply	Highlands Division	Lake Conroe Division
Cash Flows from Investing Activities					
Interest earned	376,774			31,217	
Net Cash Provided by Investing Activities	376,774			31,217	
Net Increase (Decrease) in Cash and Cash Equivalents	(183,219,997)			(5,144,543)	(1,060,512)
Cash and equivalents at beginning of year	455,304,351			22,530,943	4,091,583
Cash and Equivalents at End of Year	<u>\$ 272,084,354</u>	<u>\$</u>	<u>\$</u>	<u>\$ 17,386,400</u>	<u>\$ 3,031,071</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ 31,182,688	\$	\$ 10,561,719	\$ (3,603,458)	\$ (1,295,519)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Other revenues and expenses	87,035			6,987	4,359
Depreciation	7,783,943			1,129,960	130,247
(Increase) decrease in receivables	6,527,648	1,660,723	(166,769)	512,129	(897,541)
(Increase) decrease in prepaid expenses and deposits	(2,247,280)			(8,827)	(1,142)
(Increase) decrease in net pension asset	(116,060)				
Increase (decrease) in accounts payable and accrued liabilities	(4,275,242)	(1,660,723)	33,199	(157,567)	317,706
Increase (decrease) in net OPEB obligation	97,117			18,539	34,753
Increase (decrease) in deferred revenue	(257,879)		4,925		(54,971)
Total Adjustments	<u>7,599,282</u>		<u>(128,645)</u>	<u>1,501,221</u>	<u>(466,589)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 38,781,970</u>	<u>\$</u>	<u>\$ 10,433,074</u>	<u>\$ (2,102,237)</u>	<u>\$ (1,762,108)</u>

Enterprise Funds

Woodlands Division	Groundwater Reduction Plan Division	Bear Branch	Region H	General and Administration Division
23,344	316,339	192		5,682
23,344	316,339	192		5,682
(1,525,847)	(175,052,888)	(49,134)	(182,623)	(204,450)
23,330,486	400,783,812	337,543	364,701	3,865,283
<u>\$ 21,804,639</u>	<u>\$ 225,730,924</u>	<u>\$ 288,409</u>	<u>\$ 182,078</u>	<u>\$ 3,660,833</u>
\$ 2,676,494	\$ 23,308,025	\$ (257,920)	\$ (54,076)	\$ (152,577)
11,994	2,129			61,566
5,755,326	292,959	20,423		455,028
5,488,377	(135,066)			65,795
(18,851)	(2,122,720)	135		(95,875)
				(116,060)
(3,356,722)	451,982	(2,073)	53,637	45,319
36,778				7,047
			(207,833)	
7,916,902	(1,510,716)	18,485	(154,196)	422,820
<u>\$ 10,593,396</u>	<u>\$ 21,797,309</u>	<u>\$ (239,435)</u>	<u>\$ (208,272)</u>	<u>\$ 270,243</u>

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SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Business-Type Activities

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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Raw Water Fund ("Raw Water Enterprise")

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

Highlands Fund ("Highlands Division")

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

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

The Authority contracted with the City of Houston for the joint construction of Lake Conroe. Under the terms of the contract, the City of Houston advanced two-thirds of the financing of such construction and owns two-thirds of 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 \$22,238,232 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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Woodlands Division Fund ("Woodlands Division")

This fund accounts for the water and wastewater treatment plants (Central Plants) and major water production, storage and distribution facilities and wastewater collection and conveyance equipment (Central Lines) located in The Woodlands, Texas. As described below, the Central Plants and Central Lines (collectively, the Central Facilities) are provided to this fund through purchases at actual costs of reserve capacity rights in such Central Facilities by the twelve municipal utility districts located in The Woodlands, Texas. Some of the costs of reserve capacity were reduced by federal grants received by the Authority for the initial cost of construction and expansion of wastewater treatment facilities comprising a part of the Central Facilities. The Woodlands Division participates in the countywide groundwater reduction 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, 2014, 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) including its successors, the Company agreed to advance monies to the Woodlands Division, to the extent that funds were not otherwise available to finance the costs of the expansions to the Central Facilities. Such agreements also stipulate that sums advanced to the Woodlands Division by the Company shall be reimbursed to the Company from capacity charges received from the participating municipal utility districts. Since 1989, the Company has not been called upon to make any advances for such purposes, and substantially all prior advances by the Company have been fully reimbursed. The participating municipal utility districts make payment of capacity charges for purchased reserved capacity rights by contributing their respective pro rata shares of costs, in cash by contributing additional facilities in kind, or by payment of their pro rata shares of the debt services costs on contract revenue bonds issued by the Authority to finance the costs of Central Facilities.

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NOTES TO FINANCIAL STATEMENTS

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

As authorized by the Board of Directors, the Authority is developing a Groundwater Reduction Plan (GRP) on behalf of all large volume groundwater users (LVGU's) within Montgomery County who choose to join. Individual LVGU's in Montgomery County will be able to comply with the Lone Star Groundwater Conservation District (LSGCD) regulatory requirements to submit a GRP by participating in the Authority's GRP. The projected water demand of all participating LVGU's is included in the planning for the Authority's regionalized 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, 2014, contracts have been signed with Montgomery County Municipal Utility Districts Nos. 7, 46, 47, 60 and 67 to purchase their agreed to proportionate share of reserve capacity rights for storm water detention resulting from the construction and maintenance of Bear Branch System.

Region H Fund ("Region H")

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

C. Measurement Focus and Basis of Accounting

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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Authority applies all GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Cash Equivalents

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

E. Accounts Receivable

The allowance for doubtful accounts is established to provide an estimate of bad debts charged to revenues. Losses are charged against the allowance when management believes the collectibility of a receivable is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. As of August 31, 2014, 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:

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

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NOTES TO FINANCIAL STATEMENTS

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

G. 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 21, 2014, 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, 2014 follows:

	Capital Assets - Net of Depreciation	Notes and Bonds Payable	Total
General and Administration Division	\$ 6,022,224	\$ (3,148,703)	\$ 2,873,521
Raw Water Enterprise	30,947,801	(15,287,085)	15,660,716
Highlands Division	40,812,275	(26,871,148)	13,941,127
Lake Conroe Division	9,849,173	(114,884)	9,734,289
Woodlands Division	108,982,799	(43,938,325)	65,044,474
Groundwater Reduction Plan Division	350,428,579	(406,524,551)	(56,095,972)
Bear Branch	2,403,147		2,403,147
Region H		(48,916)	(48,916)
Total	\$ 549,445,998	\$ (495,933,612)	\$ 53,512,386

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A summary of net position restricted for **debt service** as of August 31, 2014 follows:

	Restricted Cash for Debt Service	Liabilities Payable from Restricted Cash for Debt Service	Total
General and Administration Division	\$	\$	\$
Raw Water Enterprise			
Highlands Division	4,721,335	(484,407)	4,236,928
Lake Conroe Division			
Woodlands Division	4,301,054	(1,200,104)	3,100,950
Groundwater Reduction Plan Division	59,596,532	(8,937,498)	50,659,034
Bear Branch			
Region H			
Total	\$ 68,618,921	\$ (10,622,009)	\$ 57,996,912

A summary of net position restricted for **construction** as of August 31, 2014 follows:

	Restricted Cash for Construction	Bonds Payable	Liabilities Payable from Restricted Cash for Construction	Total
General and Administration Division	\$	\$	\$	\$
Raw Water Enterprise				
Highlands Division	3,822,296	(3,630,596)	(191,700)	-
Lake Conroe Division				
Woodlands Division	5,658,189	(5,485,807)	(172,382)	-
Groundwater Reduction Plan Division	150,097,403	(137,731,328)	(12,366,075)	-
Bear Branch				
Region H				
Total	\$ 159,577,888	\$ (146,847,731)	\$ (12,730,157)	\$ -

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A summary of net position – **unrestricted** as of August 31, 2014 follows:

	Designated				
	Operating Reserve	Contingency	Capital Repair/ Replace	Undesignated	Total
General & Administration Div.	\$ 802,627	\$ 1,605,253	\$ 916,154	\$ 548,850	\$ 3,872,884
Raw Water Enterprise				959,412	959,412
Highlands Division	761,125	1,522,250	4,616,247	705,041	7,604,663
Lake Conroe Division	540,301	1,080,603	1,410,167	131,038	3,162,109
Woodlands Division	4,942,515	1,844,833		5,818,944	12,606,292
Groundwater Reduct. Plan Div.				6,195,635	6,195,635
Bear Branch				281,129	281,129
Region H				111,330	111,330
Total	\$ 7,046,568	\$ 6,052,939	\$ 6,942,568	\$ 14,751,379	\$ 34,793,454

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	\$ 6,701,332	\$ 8,578,997	\$ 16,360,018
Cash equivalents, not requiring pledging by banks, money funds & Pools	<u>265,383,015</u>	<u>265,383,015</u>	N/A
Total Cash and Cash Equivalents	<u>\$ 272,084,347</u>	<u>\$ 273,962,012</u>	

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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Investments

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

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

The Authority invested in obligations of the U.S. or its agencies as of August 31, 2014.

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, 2014, the Authority participated in TexPool (\$124,092,207) and TexStar (\$4,338,825).

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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Credit Risk – Investments

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

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The individual interfund receivables/payables as of August 31, 2014 follow:

	<u>Receivables</u>	<u>Payables</u>
Enterprise Funds:		
General and Administration Division	\$ 175,661	\$ 30,000
Highlands Division	13,006	
Woodlands Division		1,506,657
Groundwater Reduction Plan Division	1,472,056	119,366
Bear Branch		4,700
	<u>\$ 1,660,723</u>	<u>\$ 1,660,723</u>

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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS

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

	Balance at Sept. 1, 2013	Transfers	Additions	Deletions	Balance at Aug. 31, 2014
Business-Type Activities:					
Capital Assets Not Being Depreciated:					
Land	\$ 12,399,636	\$ (23,500)	\$ 10,000	\$ (78,052)	\$ 12,308,084
Water permits and rights	30,947,801				30,947,801
Construction in progress	136,419,696		235,008,156	(11,804,386)	359,623,466
Total Capital Assets Not Being Depreciated	179,767,133	(23,500)	235,018,156	(11,882,438)	402,879,351
Capital Assets Being Depreciated:					
Furniture, fixtures and equipment	2,419,117		428,766		2,847,883
Other machinery and equipment	2,254,916		744,454		2,999,370
Automobiles and trucks	2,290,671		168,749	(139,172)	2,320,248
Buildings	11,443,126		1,490,745		12,933,871
Dams and appurtenances	8,235,874	23,500	256,356		8,515,730
Water systems	125,867,760		6,585,635		132,453,395
Wastewater utility systems	87,414,619		3,020,955		90,435,574
Capital improvement plans	376,882				376,882
Total Capital Assets Being Depreciated	240,302,965	23,500	12,695,660	(139,172)	252,882,953
Less Accumulated Depreciation for:					
Furniture, fixtures and equipment	1,107,246	(199,315)	184,848		1,092,779
Other machinery and equipment	2,018,614	27,535	474,551		2,520,700
Automobiles and trucks	1,628,880	(10,710)	268,220	(131,295)	1,755,095
Buildings	1,443,794	128,203	442,000		2,013,997
Dams and appurtenances	3,157,795	1,718	99,944		3,259,457
Water systems	41,977,341	781,329	3,739,572		46,498,242
Wastewater utility systems	47,096,979	(728,760)	2,574,808		48,943,027
Capital improvement plans	233,009				233,009
Total Accumulated Depreciation	98,663,658		7,783,943	(131,295)	106,316,306
Total Capital Assets Being Depreciated, Net	141,639,307	23,500	4,911,717	(7,877)	146,566,647
Business-Type Activities					
Capital Assets, Net	\$ 321,406,440	\$	\$ 239,929,873	\$ (11,890,315)	\$ 549,445,998

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – UNAMORTIZED BOND PREMIUM OR DISCOUNT

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

	Original Bond Premium or (Discount)	Balance at Sept. 1, 2013	Current Year Amortization	Balance at Aug. 31, 2014
Raw Water Supply				
Water Revenue Refunding Bonds:				
Series 2010	\$ 421,941	\$ 370,161	\$ 66,660	\$ 303,501
Series 2012	70,827	66,640	3,056	63,584
Total Raw Water Supply	<u>492,768</u>	<u>436,801</u>	<u>69,716</u>	<u>367,085</u>
Highlands Division				
Water Revenue Bonds:				
Series 2010	130,316	114,720	5,060	109,660
Series 2013	265,830	262,163	10,079	252,084
Total Highlands Division	<u>396,146</u>	<u>376,883</u>	<u>15,139</u>	<u>361,744</u>
Total Raw Water Enterprise	<u>888,914</u>	<u>813,684</u>	<u>84,855</u>	<u>728,829</u>
Woodlands Division				
Special Project Revenue Bonds:				
Series 2004	270,070	178,464	178,464	
Series 2004	(4,596)	(3,036)	(3,036)	
Series 2007	(144,350)	(112,374)	(101,462)	(10,912)
Special Project Revenue Refunding Bonds:				
Series 2010	103,982	51,651	16,003	35,648
Series 2010	252,508	173,378	24,040	149,338
Series 2014	1,183,116		11,626	1,171,490
Series 2014	2,488,017		24,449	2,463,568
Total Woodlands Division	<u>4,148,747</u>	<u>288,083</u>	<u>150,084</u>	<u>3,809,132</u>
GRP Division				
Special Project Revenue Bonds:				
Series 2011	114,995	105,216	4,337	100,879
Total GRP Division	<u>114,995</u>	<u>105,216</u>	<u>4,337</u>	<u>100,879</u>
Totals	<u>\$ 5,152,656</u>	<u>\$ 1,206,983</u>	<u>\$ 239,276</u>	<u>\$ 4,638,840</u>

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – LONG-TERM DEBT

A summary of changes in bonds payable follows:

	<u>Interest Rates *</u>	<u>Original Issuance</u>	<u>Balance at Sept. 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at Aug. 31, 2014</u>	<u>Due Within One Year</u>
Raw Water Supply							
Water Revenue Refunding Bonds:							
Series 2010	3.00-4.25%	14,000,000	\$ 12,330,000	\$	\$ 865,000	\$ 11,465,000	\$ 895,000
Series 2012	2.00-3.00%	3,710,000	<u>3,710,000</u>		<u>255,000</u>	<u>3,455,000</u>	<u>260,000</u>
Total Raw Water Supply			<u>16,040,000</u>		<u>1,120,000</u>	<u>14,920,000</u>	<u>1,155,000</u>
Highlands Division							
Water Revenue Bonds:							
Series 2010	3.00-4.38%	25,380,000	24,090,000		680,000	23,410,000	705,000
Series 2013	2.00-5.00%	6,730,000	<u>6,730,000</u>			<u>6,730,000</u>	<u>175,000</u>
Total Highlands Division			<u>30,820,000</u>		<u>680,000</u>	<u>30,140,000</u>	<u>880,000</u>
Total Raw Water Enterprise			<u>46,860,000</u>		<u>1,800,000</u>	<u>45,060,000</u>	<u>2,035,000</u>
Woodlands Division							
Special Project Revenue Bonds:							
Series 2007	5.25-5.50%	14,435,000	12,870,000		11,700,000	1,170,000	370,000
Special Project Revenue Refunding Bonds:							
Series 2004	4.00-4.00%	21,310,000	14,225,000		13,045,000	1,180,000	1,180,000
Series 2004	4.00-4.00%	18,970,000	17,300,000		16,610,000	690,000	690,000
Series 2010	4.00-5.00%	4,440,000	3,680,000		405,000	3,275,000	415,000
Series 2010	4.00-4.00%	2,365,000	1,630,000		385,000	1,245,000	400,000
Series 2014	2.00-5.00%	11,355,000		11,355,000		11,355,000	125,000
Series 2014	3.00-5.00%	26,700,000		<u>26,700,000</u>		<u>26,700,000</u>	<u>345,000</u>
Total Woodlands Division			<u>49,705,000</u>	<u>38,055,000</u>	<u>42,145,000</u>	<u>45,615,000</u>	<u>3,525,000</u>
Groundwater Reduction Plan Division							
Special Project Revenue Bonds:							
Series 2009	0.85-2.66%	21,500,000	21,500,000			21,500,000	
Series 2011	3.00-5.25%	83,155,000	83,155,000			83,155,000	2,035,000
Series 2011A	1.47-4.97%	67,470,000	67,470,000		2,040,000	65,430,000	2,070,000
Series 2012	1.47-4.62%	175,000,000	175,000,000		4,780,000	170,220,000	4,845,000
Series 2012A	1.67-4.62%	165,000,000	165,000,000		1,000,000	164,000,000	3,005,000
Series 2013	0.53-4.76%	39,850,000		39,850,000		39,850,000	935,000
Total Groundwater Reduction Plan Division			<u>512,125,000</u>	<u>39,850,000</u>	<u>7,820,000</u>	<u>544,155,000</u>	<u>12,890,000</u>
Total Bonds Payable			<u>\$ 608,690,000</u>	<u>\$ 77,905,000</u>	<u>\$ 51,765,000</u>	<u>\$ 634,830,000</u>	<u>\$ 18,450,000</u>

* Represents outstanding coupon rates only.

Of the \$634,830,000 of bonds payable, \$616,380,000 is considered long-term and \$18,450,000 is considered current.

SAN JACINTO RIVER AUTHORITY

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 in such fiscal year.
- Debt Service Reserve Fund – On a monthly basis, in equal monthly installments, an amount not less than one-sixtieth of the average annual sum payable in respect of the principal and interest scheduled to become due on the outstanding Special Project Revenue Bonds at the time of such computation.

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

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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

	Principal	Interest	Total
Raw Water Enterprise			
2015	\$ 2,035,000	\$ 1,677,115	\$ 3,712,115
2016	2,100,000	1,615,927	3,715,927
2017	2,170,000	1,546,052	3,716,052
2018	2,255,000	1,466,902	3,721,902
2019	2,340,000	1,396,227	3,736,227
2020-2024	13,060,000	5,620,229	18,680,229
2025-2029	7,860,000	3,560,761	11,420,761
2030-2034	8,220,000	1,965,536	10,185,536
2035-2039	5,020,000	336,490	5,356,490
	<u>\$ 45,060,000</u>	<u>\$ 19,185,239</u>	<u>\$ 64,245,239</u>
Woodlands Division			
2015	\$ 3,525,000	\$ 1,450,666	\$ 4,975,666
2016	3,245,000	1,723,312	4,968,312
2017	2,165,000	1,628,001	3,793,001
2018	2,270,000	1,549,000	3,819,000
2019	2,335,000	1,476,450	3,811,450
2020-2024	11,255,000	6,083,156	17,338,156
2025-2029	12,530,000	3,560,750	16,090,750
2030-2034	8,290,000	636,400	8,926,400
	<u>\$ 45,615,000</u>	<u>\$ 18,107,735</u>	<u>\$ 63,722,735</u>
Groundwater Reduction Plan Division			
2015	\$ 12,890,000	\$ 21,341,076	\$ 34,231,076
2016	13,010,000	21,219,043	34,229,043
2017	12,950,000	21,277,096	34,227,096
2018	13,255,000	20,973,969	34,228,969
2019	13,585,000	20,643,975	34,228,975
2020-2024	74,285,000	96,845,818	171,130,818
2025-2029	89,170,000	81,963,890	171,133,890
2030-2034	110,415,000	60,726,682	171,141,682
2035-2039	139,195,000	31,954,174	171,149,174
2040-2041	65,400,000	3,061,745	68,461,745
	<u>\$ 544,155,000</u>	<u>\$ 380,007,468</u>	<u>\$ 924,162,468</u>

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Notes Payable

The General and Administration Division entered into a loan commitment in 2010. The commitment from the bank is for \$4,000,000 for a term of 120 months, interest only at 5.7% through April 2011 and 104 principal and interest payments of \$38,095 thereafter or until such time as all principal has been repaid and interest on the unpaid balance. On June 24, 2014, the Authority refinanced the loan commitment from the bank. The new loan commitment is for \$3,191,758 for a term of 120 months, principal and interest payments of \$32,792 until such time as all principal has been repaid and interest on the unpaid balance. The Authority's balance of the note at August 31, 2014 was \$3,148,703.

Notes payable activity for the year ended August 31, 2014 follows:

Balance at beginning of year	\$	3,414,305
Additions		
Retirements		(265,602)
Balance at end of year	\$	<u>3,148,703</u>

Maturities of the loan commitments for the balances outstanding as of August 31, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General and Administration Division			
2015	\$ 262,952	\$ 130,547	\$ 393,499
2016	274,178	119,321	393,499
2017	286,559	106,940	393,499
2018	299,154	94,345	393,499
2019	312,113	81,386	393,499
2020-2024	<u>1,713,747</u>	<u>187,790</u>	<u>1,901,537</u>
	<u>\$ 3,148,703</u>	<u>\$ 720,329</u>	<u>\$ 3,869,032</u>

NOTE 7 – ADMINISTRATIVE AND GENERAL EXPENSES

The administrative and general expenses represent the direct and related expenses incurred by and paid for the services of the administrative personnel and the expenses of the usage of the administrative plant and equipment of the Authority. Since the Authority is involved in different types of activities, and some of such activities are governed by contractual agreements, these types of expenses are accounted for separately from the different types of activities accounted for in the funds maintained by the Authority so that the Authority may comply with the contractual allocation of such expenses to the different activities of the funds maintained by the Authority for the year ended August 31, 2014.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – PENSION PLAN

Plan Description

The Authority's defined benefit pension plan, the San Jacinto River Authority Pension Plan (the "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 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, 2013, there were 151 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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost and Net Pension Asset

For 2014, the Authority's annual pension cost of \$1,084,375 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, 2013 actuarial valuation using the entry age normal cost method. Gains and losses are spread over the current year and future years in accordance with the funding method.

Annual Pension Cost and Net Pension Obligation

	<u>Aug. 31, 2014</u>
Annual Required Contribution (ARC)	\$ 1,090,455
Interest on Net Pension Obligation	(6,080)
Adjustment to ARC	
Annual Pension Cost	<u>1,084,375</u>
Contributions made	(1,200,435)
Increase (decrease) in Net Pension Obligation	(116,060)
Net Pension Obligation (Asset) - beginning of year	(93,546)
Net Pension Obligation (Asset) - end of year	<u><u>\$ (209,606)</u></u>

Three Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost</u>	<u>% of Annual Pension Contributed</u>	<u>Net Pension Asset</u>
Aug. 31, 2012	\$ 794,549	101.7 %	\$ 80,996
Aug. 31, 2013	946,437	101.3	93,546
Aug. 31, 2014	1,084,375	110.7	209,606

Funded Status and Funding Progress

As of November 1, 2013, the most recent actuarial valuation date, the plan was 83.0% funded. The actuarial accrued liability for benefits was \$11.6 million, and the actuarial value of assets was \$9.6 million resulting in an unfunded actuarial accrued liability (UAAL) of \$2.0 million. The covered payroll (annual payroll of active employees covered by the plan) was \$7.7 million and the ratio of the UAAL to the covered payroll was 25.8%.

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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Actuarial Methods and Assumptions

Significant actuarial assumptions used in the valuation include (a) an assumed rate of return used in determining the actuarial present value of the accumulated benefits of 6.5%, (b) separations before normal retirement in accordance with T-1 of the Actuary's *Pension Handbook*, as modified for females, (c) mortality rates in accordance with the RP2000 Mortality Table with Projection Scale AA, (d) salary increases at an assumed 5% per annum, (e) cost of living increases [IRC Section 401(a)(17) compensation limit and IRC Section 415 benefit limit] at an assumed 2.50% increase per annum, (f) normal retirement at the later of age 65 or 5 years of participation, or attained age if later, (g) no loading for expenses and 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 2.50%. The actuarial value of the assets was the market value. The amortization method is level dollar. The initial unfunded due to change in cost method from Frozen Initial Liability to Entry Age Normal is amortized over a closed 25-year period. Future gains/losses, assumption changes and plan amendments will be amortized over a closed period.

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, 2014, 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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The contribution required from OPEB plan members may be amended by the Authority's Board of Directors. As of the date of this report, the OPEB healthcare plan is 100% funded by the Authority on a pay-as-you-go-basis. The Authority paid \$49,446 for OPEB medical insurance coverage for retired employees covered under the OPEB plan during the fiscal year ended August 31, 2014. After review, the Authority deems no reserve necessary for OPEB healthcare plan.

Annual OPEB Cost and Net OPEB Obligation

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

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

	Actuarial Valuation Date		
	Sept. 1, 2011	Sept. 1, 2012	Sept. 1, 2013
Determination of Annual Required Obligation			
Normal Cost at year end	\$ 48,911	\$ 48,911	\$ 42,857
Amortization of UAAL	109,425	109,425	124,777
Annual Required Contribution (ARC)	<u>\$ 158,336</u>	<u>\$ 158,336</u>	<u>\$ 167,634</u>
Expected Benefit Payments	<u>\$ (48,000)</u>	<u>\$ (49,000)</u>	<u>\$ (49,446)</u>
Determination of Net OPEB Obligation			
Annual required contribution	\$ 158,336	\$ 158,336	\$ 167,634
Interest on prior year Net OPEB Obligation	28,253	33,964	39,686
Adjustment to ARC			(60,757)
Annual OPEB cost (expense)	<u>186,589</u>	<u>192,300</u>	<u>146,563</u>
Contributions made	<u>(43,828)</u>	<u>(49,250)</u>	<u>(49,446)</u>
Increase in net OPEB obligation	<u>142,761</u>	<u>143,050</u>	<u>97,117</u>
Net OPEB obligation - beginning of year	<u>706,328</u>	<u>849,089</u>	<u>992,139</u>
Net OPEB obligation - end of year	<u>\$ 849,089</u>	<u>\$ 992,139</u>	<u>\$ 1,089,256</u>

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

<u>Year Ending</u>	<u>Annual Required Contribution</u>	<u>Estimated % of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Aug. 31, 2012	\$ 158,336	22 %	\$ 849,089
Aug. 31, 2013	158,336	24	992,139
Aug. 31, 2014	167,634	30	1,089,256

Required Supplementary Information

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accr. Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll**</u>	<u>UAAL as a % of Covered Payroll</u>
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
Sept. 1, 2013	0	2,037,561	2,037,561	0	336,482	605.5

* 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.

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

Funded Status and Funding Progress

As of September 1, 2013, the OPEB was 0% percent funded. The estimated actuarial accrued liability for benefits was \$2,037,561. This value is based on a full valuation performed as of September 1, 2013. The covered payroll (annual payroll of active employees covered by the plan) was \$336,482 and the ratio of the UAAL to the covered payroll was 605.5%. 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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The valuation assumptions include a future inflation rate of 2.50%.

In the September 1, 2013 actuarial valuation, the projected unit credit method was used. The retirement age for an active employee was assumed to be 65, which is the first year an eligible employee would qualify for OPEB plan benefits. The probability for employees eligible for the OPEB plan separating from service before normal retirement is based on Table T-1 of the Actuary's Pension Handbook, modified for females. The marital status of eligible active employees was assumed to continue throughout retirement. Life expectancies were based on the RP2000 Mortality Table with Projection Scale AA. The actuarial assumptions also included an assumed investment rate of return of 4.0% for fiscal years 2014 and later.

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

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

NOTE 10 – MAJOR CUSTOMERS

Industrial water sales totaling \$8,991,828 were invoiced to the Authority's two largest customers of the Highlands Division. This accounts for 91% of the Raw Water Enterprise water sales revenues for the year ended August 31, 2014.

Revenues totaling \$1,179,212 accrued from the Authority's primary contractual partner in the Lake Conroe reservoir project. This accounts for 52% of the Lake Conroe Division's operating revenues for the year ended August 31, 2014.

Water pumpage fees totaling \$16,558,442 were invoiced to the Authority's two largest customers of the Groundwater Reduction Plan Division. This accounts for 53% of Groundwater Reduction Plan Division's operating revenues for the year ended August 31, 2014.

Water and sewer service fees and capacity charges totaling \$13,832,186 accrued from the Authority's three largest customers of the Woodlands Division. This accounts for 45% of The Woodlands Division's operating revenues for the year ended August 31, 2014.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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. Commercial insurance coverage exceeded settlement amounts in each of the past three years.

NOTE 13 – FUNDING FOR REGION H WATER PLANNING GRANT

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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 14 – COMPENSATED ABSENCES

Vacation

As of August 31, 2014, employees of the Authority accrue vacation quarterly based on their hire date. Vacation is accrued as follows:

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

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

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

Compensatory Time

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

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

Payment of Compensatory Time

All employees who are reclassified from a non-exempt position to an exempt position will be paid all accrued compensatory time upon approval of the reclassification and will cease to be eligible for any additional overtime and/or compensatory time. Likewise, an employee who is promoted, transferred or demoted to another non-exempt position will be paid in full for any compensatory time accrued before the promotion 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.

SAN JACINTO RIVER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

	<u>Sept. 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Aug. 31, 2014</u>
Lake Conroe Vacation	\$ 19,338	\$	\$ 2,578	\$ 16,760
Highlands Vacation	11,132		3,750	7,382
General & Admin Vacation	158,928	23,011		181,939
Woodlands Vacation	72,429	4,115		76,544
GRP Vacation	24,058	6,634		30,692
Vacation Total	<u>285,885</u>	<u>33,760</u>	<u>6,328</u>	<u>313,317</u>
Lake Conroe Sick Leave				
Highlands Sick Leave				
General & Admin Sick Leave	15,007	28,574		43,581
Woodlands Sick Leave	4,923		1,485	3,438
GRP Sick Leave				
Sick Leave Total	<u>19,930</u>	<u>28,574</u>	<u>1,485</u>	<u>47,019</u>
Lake Conroe Comp Time	1,911		433	1,478
Highlands Comp Time	5,516	2,641		8,157
General & Admin Comp Time	4,587	1,111		5,698
Woodlands Comp Time	59		59	
GRP Comp Time	19			19
Compensatory Time Total	<u>12,092</u>	<u>3,752</u>	<u>492</u>	<u>15,352</u>
Total	<u>\$ 317,907</u>	<u>\$ 66,086</u>	<u>\$ 8,305</u>	<u>\$ 375,688</u>

The current year expense and ending fiscal year 2014 liability for compensatory time is calculated based on the total employee hours accrued times the fiscal year 2014 pay rate plus applicable employee benefits.

REQUIRED SUPPLEMENTARY INFORMATION



SAN JACINTO RIVER AUTHORITY

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

Year Ended August 31, 2014

Six Year Trend Information

Schedule of Contributions From the Employer			
Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
10/31/2008	\$ 397,109	\$ 437,482	110.2 %
10/31/2009	551,847	572,069	103.7
10/31/2010	562,406	583,621	103.8
10/31/2011	648,608	670,891	103.4
10/31/2012	798,954	807,782	101.1
10/31/2013	951,702	958,987	100.8

Schedule of Funding Progress - Frozen Initial Liability Actuarial Cost Method: Entry Age Normal Cost Method beginning 11/01/13

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (2) - (1)	Funded Ratio (1) / (2)	Covered Payroll	UFIL as a % of Covered Payroll (3) / (5)
11/1/2008	\$ 6,042,141	\$ 6,375,231	\$ 333,090	94.8 %	\$ 4,013,370	8.3 %
11/1/2009	6,632,221	6,903,154	270,933	96.1	4,129,705	6.6
11/1/2010	7,225,943	7,432,242	206,299	97.2	4,728,214	4.4
11/1/2011	7,881,840	8,020,008	138,168	98.3	5,939,787	2.3
11/1/2012	8,666,044	8,760,869	94,825	98.9	6,776,385	1.4
11/1/2013	9,648,174	11,629,648	1,981,474	83.0	7,693,148	25.8

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

SAN JACINTO RIVER AUTHORITY

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

Year Ended August 31, 2014

Three Year Trend Information

Schedule of Contributions From the Employer

Fiscal Year Ended	Annual Required Contribution	Estimated % of OPEB Cost Contributed	Net OPEB Obligation
8/31/2012	\$ 186,589	25.7%	\$849,089
8/31/2013	192,300	26.0%	992,139
8/31/2014	146,563	33.7%	1,089,256

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

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	AAL Actuarial Accrued Liability	UAAL Unfunded AAL (2) - (1)	Funded Ratio (1) / (2)	Covered Payroll	UAAL as a % of Covered Payroll (3) / (5)
9/1/2011*	\$ 0	\$ 1,967,814	\$ 1,967,814	0.0 %	\$ 474,846	414.4 %
9/1/2012*	0	2,047,414	2,047,414	0.0	413,753	494.8
9/1/2013	0	2,037,561	2,037,561	0.0	336,482	605.5

* 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.

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OTHER SUPPLEMENTARY INFORMATION



SAN JACINTO RIVER AUTHORITY

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

Year Ended August 31, 2014

	Budgeted Amounts			Variance Over (Under)
	Original	Final	Actual	
<u>Operating Revenues</u>				
Water revenues	\$ 13,606,350	\$ 13,606,350	\$ 11,200,531	\$ (2,405,819)
Permits, licenses and fees	1,962,641	1,962,641	1,978,422	15,781
Total Revenues	<u>15,568,991</u>	<u>15,568,991</u>	<u>13,178,953</u>	<u>(2,390,038)</u>
<u>Operating Expenses</u>				
Current:				
Salaries and wages	2,592,432	2,592,432	2,176,313	(416,119)
Employee insurance and other payroll benefits	1,171,095	1,171,095	973,092	(198,003)
Outside services employed	1,286,625	1,286,625	1,226,175	(60,450)
Operating supplies and expenses	850,559	850,559	522,125	(328,434)
Rentals	96,859	96,859	72,569	(24,290)
Maintenance, repairs and parts	3,730,541	3,730,541	344,931	* (3,385,610)
General and administrative	1,405,794	1,405,794	940,799	(464,995)
Depreciation			1,260,207	1,260,207
Total Expenditures	<u>11,133,905</u>	<u>11,133,905</u>	<u>7,516,211</u>	<u>(3,617,694)</u>
Operating Net Income	4,435,086	4,435,086	5,662,742	1,227,656
<u>Nonoperating Revenues (Expenses)</u>				
Interest income	19,200	19,200	31,217	12,017
Interest expense on bonds	(1,857,632)	(1,857,632)	(1,711,799)	145,833
Other	5,787	5,787	608,771	602,984
Total Nonoperating Revenues (Expenses)	<u>(1,832,645)</u>	<u>(1,832,645)</u>	<u>(1,071,811)</u>	<u>760,834</u>
Income (Loss) Before Contributions and Transfers	<u>\$ 2,602,441</u>	<u>\$ 2,602,441</u>	<u>\$ 4,590,931</u>	<u>\$ 1,988,490</u>

* The City of Houston requested that the Authority classify the costs of the Lake Conroe dam gate rehabilitation under Maintenance expenses in the Authority's budget, however the Authority is capitalizing the costs.

SAN JACINTO RIVER AUTHORITY

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

Year Ended August 31, 2014

	Budgeted Amounts		Actual (Budgetary Basis)	Variance Over (Under)
	Original	Final		
<u>Operating Revenues</u>				
Water and sewer service fees	\$ 34,099,673	\$ 34,099,673	\$ 30,582,811	\$ (3,516,862)
Total Revenues	<u>34,099,673</u>	<u>34,099,673</u>	<u>30,582,811</u>	<u>(3,516,862)</u>
<u>Operating Expenses</u>				
Current:				
Salaries and wages	4,448,144	4,448,144	3,899,539	(548,605)
Employee insurance and other payroll benefits	2,039,579	2,039,579	1,606,204	(433,375)
Outside services employed	2,396,235	2,396,235	2,651,126	254,891
Operating supplies and expenses	16,191,077	16,191,077	15,229,071	(962,006)
Rentals	79,850	79,850	37,539	(42,311)
Maintenance, repairs and parts	3,546,350	4,515,585	3,182,267	(1,333,318)
General and administrative	789,166	789,166	733,857	(55,309)
Asset Purchases				
Total Expenditures	<u>29,490,401</u>	<u>30,459,636</u>	<u>27,339,603</u>	<u>(3,120,033)</u>
Operating Net Income (Loss)	4,609,272	3,640,037	3,243,208	(396,829)
<u>Nonoperating Revenues</u>				
Interest income	4,500	4,500	23,344	18,844
Other			85,201	85,201
Total Nonoperating Revenues	<u>4,500</u>	<u>4,500</u>	<u>108,545</u>	<u>104,045</u>
Income (Loss) Before Contributions and Transfers	<u>\$ 4,613,772</u>	<u>\$ 3,644,537</u>	<u>\$ 3,351,753</u>	<u>\$ (292,784)</u>

NOTE TO OTHER SUPPLEMENTARY INFORMATION

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

SAN JACINTO RIVER AUTHORITY

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

Year Ended August 31, 2014

	Budgeted Amounts			Variance Over (Under)
	Original	Final	Actual	
<u>Operating Revenues</u>				
Water revenues (GRP Pumpage Fees)	\$ 34,118,874	\$ 34,118,874	\$ 31,293,612	\$ (2,825,262)
Total Revenues	<u>34,118,874</u>	<u>34,118,874</u>	<u>31,293,612</u>	<u>(2,825,262)</u>
<u>Operating Expenses</u>				
Current:				
Salaries and wages	3,219,482	3,219,482	2,141,361	(1,078,121)
Employee insurance and other payroll benefits	1,305,217	1,305,217	766,398	(538,819)
Outside services employed	1,176,071	1,176,071	613,347	(562,724)
Operating supplies and expenses	884,867	884,867	522,183	(362,684)
Raw water costs	2,859,535	2,859,535	2,982,962	123,427
Rentals	1,000	1,000		(1,000)
Maintenance, repairs and parts	16,160	16,160	14,800	(1,360)
General and administrative	850,563	850,563	651,577	(198,986)
Depreciation			292,959	292,959
Total Expenditures	<u>10,312,895</u>	<u>10,312,895</u>	<u>7,985,587</u>	<u>(2,327,308)</u>
Operating Net Income	23,805,979	23,805,979	23,308,025	(497,954)
<u>Nonoperating Revenues (Expenses)</u>				
Interest income	696,936	696,936	316,339	(380,597)
Interest expense	(14,844,598)	(14,844,598)	(21,350,629)	(6,506,031)
Other			(242,903)	(242,903)
Total Nonoperating Revenues (Expenses)	<u>(14,147,662)</u>	<u>(14,147,662)</u>	<u>(21,277,193)</u>	<u>(7,129,531)</u>
Income (Loss) Before Contributions and Transfers	<u>\$ 9,658,317</u>	<u>\$ 9,658,317</u>	<u>\$ 2,030,832</u>	<u>\$ (7,627,485)</u>

SAN JACINTO RIVER AUTHORITY

SCHEDULE OF NET POSITION

GROUNDWATER REDUCTION PLAN DIVISION

August 31, 2014

Assets

Current Assets

Cash and cash equivalents	
Unrestricted	\$ 16,036,989
Restricted for debt service	59,596,532
Restricted for construction	150,097,403
Accounts receivable and prepaids	7,193,357
Total Current Assets	<u>232,924,281</u>

Capital Assets - at cost

Land	3,105,996
Furniture and fixtures	700,489
Other machinery and equipment	7,769
Automobiles and trucks	128,504
Buildings	2,335,675
Water systems	7,678
Construction in progress	344,892,301
Accumulated Depreciation	(749,833)
Total Capital Assets	<u>350,428,579</u>
Total Noncurrent Assets	<u>350,428,579</u>
Total Assets	<u><u>\$ 583,352,860</u></u>

Liabilities

Current Liabilities

Accounts payable and accrued liabilities - unrestricted	\$ 17,034,711
Restricted for debt services - current portion of bonds	12,890,000
Restricted for debt service - accrued interest payable	8,937,498
Restricted for construction - retainage payable	12,366,075
Total Current Liabilities	<u>51,228,284</u>

Noncurrent Liabilities

First lien water revenue bonds - less current maturities	531,265,000
Unamortized bond premium or discount	100,879
Total Noncurrent Liabilities	<u>531,365,879</u>
Total Liabilities	<u>582,594,163</u>

Net Position

Net Position

Invested in capital assets - net of related debt	(56,095,972)
Restricted for debt service	50,659,034
Unrestricted	6,195,635
Total Net Position	<u><u>\$ 758,697</u></u>

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

Year Ended August 31, 2014

Operating Revenues

Water revenues (GRP Pumpage Fees)	\$ 31,293,612
Total Revenues	<u>31,293,612</u>

Operating Expenses

Current:

Salaries and wages	2,141,361
Employee insurance and other payroll benefits	766,398
Outside services employed	613,347
Operating supplies and expenses	522,183
Raw water costs	2,982,962
Rentals	
Maintenance, repairs and parts	14,800
General and administrative expenses	651,577
Depreciation	292,959
Total Expenditures	<u>7,985,587</u>

Operating Net Income (Loss) 23,308,025

Nonoperating Revenues (Expenses)

Interest income	316,339
Gain (Loss) on disposal of assets	368,123
Amortization of debt issuance costs	4,337
Interest expense on bonds	(21,350,629)
Other	(615,363)
Total Nonoperating Revenues (Expenses)	<u>(21,277,193)</u>

Income (Loss) Before Contributions and Transfers 2,030,832

Transfers (21,982)
Contributions 294,000

Change in Net Position 2,302,850

Net Position at Beginning of Year (1,544,153)

Net Position at End of Year \$ 758,697

SAN JACINTO RIVER AUTHORITY

SCHEDULE OF CASH FLOWS **GROUNDWATER REDUCTION PLAN DIVISION**

Year Ended August 31, 2014

Cash Flows from Operating Activities

Cash received from customers	\$ 30,506,969
Cash payments to suppliers for goods and services	(5,804,030)
Cash paid for employee services	(2,907,759)
Other revenues and expenses	2,129
Net Cash Provided by Operating Activities	21,797,309

Cash Flows from Noncapital Financing Activities

Transfers	(21,982)
Net Cash (Used) by Noncapital Financing Activities	(21,982)

Cash Flows from Capital and Related Financing Activities

Principal paid on bonds	(7,820,000)
Interest paid on bonds	(20,719,908)
Proceeds from bond sales	39,850,000
Bond issue expenses	(617,492)
Acquisition of capital assets	(208,131,154)
Capital contributions	294,000
Net Cash Provided by Capital and Related Financing Activities	(197,144,554)

Cash Flows from Investing Activities

Interest earned	316,339
Net Cash Flows Provided by Investing Activities	316,339

Net Increase in Cash and Cash Equivalents (175,052,888)

Cash and equivalents at beginning of year 400,783,812

Cash and Equivalents at End of Year **\$ 225,730,924**

Reconciliation of Operating Income (Loss) to Net

Cash Provided by Operating Activities

Operating Income (Loss)	\$ 23,308,025
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Other revenues	2,129
Depreciation	292,959
(Increase) in receivables	(135,066)
(Increase) in prepaids	(2,122,720)
Increase in accounts payable and accrued liabilities	451,982
Total Adjustments	(1,510,716)
Net Cash Provided by Operating Activities	\$ 21,797,309

SAN JACINTO RIVER AUTHORITY

SCHEDULE OF CAPITAL ASSETS

LAKE CONROE DAM, RESERVOIR AND RELATED EQUIPMENT

August 31, 2014

Dam and Appurtenances:

Dam and appurtenances - joint	\$ 18,288,968
Dam and appurtenances - San Jacinto River Authority	1,169,194
Total Dam and Appurtenances	19,458,162

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	196,614
Transportation equipment - joint	355,140
Transportation equipment - San Jacinto River Authority	7,370
Office furniture and fixtures - joint	14,547
Computer software - joint	166,016
Computer hardware - joint	88,062
Telephone system - joint	23,148
Laboratory equipment - joint	98,673
Miscellaneous equipment - joint	101,557
Construction and maintenance equipment - San Jacinto River Authority	45,919
Total Equipment	1,097,046

Land:

Land easements and improvements - joint	7,567,387
Land acquisition and administration - joint	5,863,768
Ayer Island improvements - joint	49,508
Land easements - Newton Park	312,928
Water supply well rehabilitation - joint	20,241
Lake Conroe land - site prep - SJRA	28,379
Land acquisition and administration - San Jacinto River Authority	580,032
Total Land	14,422,243

Total Lake Conroe Dam, Reservoir and Related Equipment 35,519,857

Less City of Houston Contribution (22,238,232)

San Jacinto River Authority's Interest in Lake Conroe Dam, Reservoir and Related Equipment 13,281,625

Less Accumulated Depreciation on San Jacinto River Authority's Interest in Assets (3,432,452)

Net Interest in Lake Conroe Dam, Reservoir and Related Equipment \$ 9,849,173

SAN JACINTO RIVER AUTHORITY

INSURANCE COVERAGE

August 31, 2014

<u>Types of Coverages</u>	<u>Amount of Coverage</u>	<u>Insurer</u>	<u>Coverage to</u>
Property Coverages			
Buildings	\$ 142,754,900	TWCA Risk Management Fund	7/1/2015
Contents	\$ 5,787,930	TWCA Risk Management Fund	7/1/2015
EDP Equipment	\$ 1,594,086	TWCA Risk Management Fund	7/1/2015
Equipment/Contractors Equip	\$ 2,117,781	TWCA Risk Management Fund	7/1/2015
Miscellaneous Property & Equipment	\$ 1,767,776	TWCA Risk Management Fund	7/1/2015
Rented Equipment	\$ 200,000	TWCA Risk Management Fund	7/1/2015
Total Property Coverages	<u>\$ 154,222,473</u>		
Boiler and Machinery	\$ 52,969,872	TWCA Risk Management Fund	7/1/2015
Automobile:			
Bodily injury and property damage	Combined limit \$ 1,000,000	TWCA Risk Management Fund	7/1/2015
Excess auto liability	\$ 9,000,000	TWCA Risk Management Fund	7/1/2015
Physical damage	Actual cash value	TWCA Risk Management Fund	7/1/2015
General Liability	\$ 1,000,000 per occurrence	TWCA Risk Management Fund	7/1/2015
Excess General Liability	\$ 9,000,000	TWCA Risk Management Fund	7/1/2015
Public Officials:			
Errors and omissions	\$ 1,000,000	TWCA Risk Management Fund	7/1/2015
Excess errors and omissions	\$ 9,000,000	TWCA Risk Management Fund	7/1/2015
GRP Review Committee	\$ 1,000,000	AWAC - Darwin Select Insurance	6/3/2015
Workers' Compensation	Statutory	TWCA Risk Management Fund	7/1/2015
Fiduciary Liability - 457 Plan	\$ 2,000,000	Chubb - Federal Insurance Co.	3/1/2015

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

SAN JACINTO RIVER AUTHORITY

PRINCIPAL OFFICIALS

August 31, 2014

Directors

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

R. Gary Montgomery, Vice President
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Conroe, Texas 77305-0329

Mary L. Rummell, Secretary
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Conroe, Texas 77305-0329

Joseph L. Stunja, Treasurer
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Fredrick Koetting, Member
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Conroe, Texas 77305-0329

John Eckstrum, Member
P.O. Box 329
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Michael G. Bleier, Member
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Staff

Jace Houston, General Manager
P.O. Box 329
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Pam J. Steiger, Controller
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Ron Kelling, P.E., Deputy General Manager
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Tom Michel, Director of Financial &
Administrative Services
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David Parkhill, P.E., Director of Raw Water Enterprise
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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	66-69
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	70-72
These schedules contain information to help the reader assess the Authority's most significant local revenue source, the water and sewer service.	
Debt Capacity	73-75
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	76-79
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	80-83
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.	

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

SAN JACINTO RIVER AUTHORITY

NET POSITION BY COMPONENT

Last Ten Fiscal Years

	2005	2006	2007	2008
Business-type activities				
Net Investment in capital assets	\$ 50,362,973	\$ 60,374,586	\$ 65,772,745	\$ 65,030,432
Restricted	31,273,497	22,324,988	18,254,369	34,936,170
Unrestricted	15,446,458	17,451,681	16,039,280	18,156,477
Total business-type activities net position	<u>\$ 97,082,928</u>	<u>\$ 100,151,255</u>	<u>\$ 100,066,394</u>	<u>\$ 118,123,079</u>
Primary government				
Net Investment in capital assets	\$ 50,362,973	\$ 60,374,586	\$ 65,772,745	\$ 65,030,432
Restricted	31,273,497	22,324,988	18,254,369	34,936,170
Unrestricted	15,446,458	17,451,681	16,039,280	18,156,477
Total primary government net position	<u>\$ 97,082,928</u>	<u>\$ 100,151,255</u>	<u>\$ 100,066,394</u>	<u>\$ 118,123,079</u>

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

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 71,921,272	\$ 39,210,018	\$ 93,493,165	\$ 81,039,024	\$ 34,279,471	\$ 52,304,682
28,654,942	65,464,657	7,778,815	27,079,260	68,491,559	59,550,621
23,616,921	21,068,435	36,370,470	34,648,654	38,155,393	34,447,449
<u>\$ 124,193,135</u>	<u>\$ 125,743,110</u>	<u>\$ 137,642,450</u>	<u>\$ 142,766,938</u>	<u>\$ 140,926,423</u>	<u>\$ 146,302,752</u>
\$ 71,921,272	\$ 39,210,018	\$ 93,493,165	\$ 81,039,024	\$ 34,279,471	\$ 52,304,682
28,654,942	65,464,657	7,778,815	27,079,260	68,491,559	59,550,621
23,616,921	21,068,435	36,370,470	34,648,654	38,155,393	34,447,449
<u>\$ 124,193,135</u>	<u>\$ 125,743,110</u>	<u>\$ 137,642,450</u>	<u>\$ 142,766,938</u>	<u>\$ 140,926,423</u>	<u>\$ 146,302,752</u>

SAN JACINTO RIVER AUTHORITY

CHANGES IN NET POSITION

Last Ten Fiscal Years

	2005	2006	2007	2008
Expenses				
Business-type activities:				
Salaries and wages	\$ 2,365,528	\$ 2,537,539	\$ 2,974,694	\$ 3,609,239
Employee insurance and other payroll benefits	1,166,323	1,352,771	1,777,904	1,802,280
Outside services employed	1,410,829	1,318,626	1,981,899	2,785,842
Operating supplies and expenses	3,355,259	4,238,291	3,871,080	4,717,992
Rentals	18,895	18,677	32,509	48,714
Maintenance, repairs and parts	1,867,411	2,966,070	2,495,369	3,456,995
Water planning study expenses	505,656	389,211	75,104	125,700
General and administrative expenses	677,448	643,248	830,749	949,078
Depreciation	4,241,197	4,501,769	4,619,949	5,747,453
Total business-type activities expenses	15,608,546	17,966,202	18,659,257	23,243,293
Total primary government expenses	\$ 15,608,546	\$ 17,966,202	\$ 18,659,257	\$ 23,243,293
Program Revenues:				
Business-type activities				
Water sales:				
Industrial	\$ 4,061,681	\$ 3,973,539	\$ 6,020,521	\$ 7,660,698
Irrigation	18,249	25,752	28,147	40,013
Water and sewer service fees	9,574,736	11,488,378	8,558,969	13,514,338
Permits, licenses, and fees	140,832	157,742	791,295	858,733
Capacity charges	4,171,424	4,202,855	4,212,228	5,149,975
Water planning study	505,656	389,211	82,726	575,909
Total business-type activities revenues	18,472,578	20,237,477	19,693,886	27,799,666
Total primary government revenues	\$ 18,472,578	\$ 20,237,477	\$ 19,693,886	\$ 27,799,666
Net (Expenses) Revenue				
Business-type activities				
Interest income	\$ 924,941	\$ 1,666,911	\$ 1,874,487	\$ 1,549,570
Gain (Loss) on disposal of capital assets	6,500	10,826	7,716	11,706
Oil and gas royalty income	57,689	82,420	35,714	51,268
Other revenues	3,584	57,313	43,313	185,648
FEMA Grant		1,262,964	408,965	
Other expenses				(17,800)
Amortization of bond premium or discounts	(736,681)	(663,089)	(631,922)	(641,709)
Interest expense on bonds	(3,445,937)	(3,445,006)	(3,344,542)	(3,814,792)
Total business-type activities	(3,189,904)	(1,027,661)	(1,606,269)	(2,676,109)
Total primary government	\$ (3,189,904)	\$ (1,027,661)	\$ (1,606,269)	\$ (2,676,109)
General Revenues and Other Change in Net Position				
Business-type activities:				
Capital Contributions	\$ 14,633,916	\$ 1,824,713	\$ 486,779	\$ 16,176,421
Total business-type activities	14,633,916	1,824,713	486,779	16,176,421
Total primary government	\$ 14,633,916	\$ 1,824,713	\$ 486,779	\$ 16,176,421
Change in Net Position				
Business-type activities	14,308,044	3,068,327	(84,861)	18,056,685
Total primary government	\$ 14,308,044	\$ 3,068,327	\$ (84,861)	\$ 18,056,685

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

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 4,213,962	\$ 4,610,165	\$ 6,702,971	\$ 7,958,296	\$ 8,392,601	\$ 8,872,719
2,057,484	2,316,454	2,783,051	2,772,375	3,476,905	3,443,181
3,279,261	2,718,636	5,053,638	3,908,048	4,072,695	4,943,193
4,499,020	5,437,305	7,595,490	7,388,455	7,797,323	9,405,454
111,362	147,150	124,643	352,479	234,674	118,467
4,174,346	2,446,618	4,133,285	4,550,249	4,538,373	3,773,308
356,123	1,026,692	157,071	197,815	257,465	520,071
1,370,683	1,971,681				
5,219,499	5,823,940	6,330,205	6,898,534	7,404,035	7,783,943
25,281,740	26,498,641	32,880,354	34,026,251	36,174,071	38,860,336
<u>\$ 25,281,740</u>	<u>\$ 26,498,641</u>	<u>\$ 32,880,354</u>	<u>\$ 34,026,251</u>	<u>\$ 36,174,071</u>	<u>\$ 38,860,336</u>
\$ 8,264,471	\$ 8,862,294	\$ 9,037,794	\$ 9,223,102	\$ 10,125,269	\$ 11,070,653
58,291	76,369	134,341	108,342	109,004	129,878
16,270,637	15,253,398	33,257,666	33,360,551	44,863,366	52,090,243
682,043	578,560	763,503	1,007,532	1,002,670	1,070,828
5,522,353	5,205,756	5,466,830	5,242,829	5,252,805	5,188,612
464,449	1,088,622	141,878	210,072	249,233	492,810
31,262,244	31,064,999	48,802,012	49,152,428	61,602,347	70,043,024
<u>\$ 31,262,244</u>	<u>\$ 31,064,999</u>	<u>\$ 48,802,012</u>	<u>\$ 49,152,428</u>	<u>\$ 61,602,347</u>	<u>\$ 70,043,024</u>
\$ 482,664	\$ 229,489	\$ 287,860	\$ 713,705	\$ 1,189,490	\$ 376,774
22,746	161,336	47,542	167,866	(144,605)	959,459
32,820	12,635	7,920	3,165		
74,016	1,932	6,305	220,754	117,973	87,035
1,910,083					
		(119,476)		(1,234,093)	(3,097,923)
(646,329)	(683,725)	(728,548)	(454,979)	77,657	166,343
(3,875,334)	(3,527,175)	(5,367,553)	(11,489,309)	(22,414,786)	(25,688,916)
(1,999,334)	(3,805,508)	(5,865,950)	(10,838,798)	(22,408,364)	(27,197,228)
<u>\$ (1,999,334)</u>	<u>\$ (3,805,508)</u>	<u>\$ (5,865,950)</u>	<u>\$ (10,838,798)</u>	<u>\$ (22,408,364)</u>	<u>\$ (27,197,228)</u>
\$ 2,088,886	\$ 789,125	\$ 1,843,632	\$ 837,109	\$ 3,300,933	\$ 1,390,869
2,088,886	789,125	1,843,632	837,109	3,300,933	1,390,869
<u>\$ 2,088,886</u>	<u>\$ 789,125</u>	<u>\$ 1,843,632</u>	<u>\$ 837,109</u>	<u>\$ 3,300,933</u>	<u>\$ 1,390,869</u>
6,070,056	1,549,975	11,899,340	5,124,488	6,320,845	5,376,329
<u>\$ 6,070,056</u>	<u>\$ 1,549,975</u>	<u>\$ 11,899,340</u>	<u>\$ 5,124,488</u>	<u>\$ 6,320,845</u>	<u>\$ 5,376,329</u>

SAN JACINTO RIVER AUTHORITY

WOODLANDS DIVISION WATER AND SEWER SERVICE FEES BY SOURCE

Last Ten Fiscal Years

Fiscal Year	Water and Sewer Fees			Total Water Direct Rate	Total Wastewater Direct Rate (1)
	Water	Sewer	Total		
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
2014	11,268,542	9,580,621	20,849,163	1.74	1.86

(1) Direct Rate based on per thousand gallons

SAN JACINTO RIVER AUTHORITY

PRINCIPAL WOODLANDS DIVISION WATER AND SEWER FEES PAYERS

August 31, 2014

Customer	2014			2004		
	Revenue Base Attributable	Rank	% Base of The total Revenue Base	Revenue Base Attributable	Rank	% Base of The total Revenue Base
MUD 6	\$ 1,222,462	8	6%	\$ 573,356	8	7%
MUD 7	1,572,104	6	8%	916,643	4	10%
MUD 36	855,929	9	4%	524,871	9	6%
MUD 39	719,246	10	4%	275,116	10	3%
MUD 40	1,327,435	7	7%	739,882	7	8%
MUD 46	4,613,669	1	23%	922,735	3	10%
MUD 47	3,122,176	2	16%	2,119,350	1	24%
MUD 60	2,291,206	4	12%	1,113,070	2	13%
MUD 67	1,651,940	5	8%	819,927	5	9%
Metro MUD	2,439,880	3	12%	786,167	6	9%

Note: The requirement for statistical data is ten years.

SAN JACINTO RIVER AUTHORITY

LIST OF PRINCIPAL CUSTOMERS

August 31, 2014

Raw Water Enterprise

ExxonMobil
Chevron Chemical Company
Entergy
Newport Municipal Utility District
LCY Elastomers, LP
ECO Services Operations, LLC
Crosby Municipal Utility District
Rhodia
Harris County MUD No. 50
Sequoia Golf Holdings

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
Sunset Harbour Resort
Lake Conroe Fisherman's Cove
Point Aquarius
SJRA-GRP Division

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.

SAN JACINTO RIVER AUTHORITY

RATIO OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

Fiscal Year	Business-Type Activities			Total Primary Government	Percentage of Revenue (1)	Percentage of Personal Income (2)	Debt per Population (2)
	Water Revenue Bonds	Special Project Revenue Bond	Loans				
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
2014 (3)	45,060,000	589,770,000	3,148,703	637,978,703	1035.64%	N/A	N/A

(1) Based on operating revenues.

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

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

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

SAN JACINTO RIVER AUTHORITY

PLEDGE - REVENUE COVERAGE

Last Ten Fiscal Years

Fiscal Year	Water Revenue Bonds										
	Less		Net Available		Debt Service		Cover Ratio				
	Operating Expenses		for Debt Service		Principal	Interest					
All Divisions Except the GRP Division											
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
2014		10,928,913		4,135,993		6,792,920		1,800,000		1,711,799	1.93

GRP Division

2010

2011

2012

2013

2014

Special Project Revenue Bonds										
		Less	Net Available		Debt Service		Cover Ratio			
Revenue		Operating Expenses	for Debt Service		Principal	Interest				
\$	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
	5,188,612		6,550		5,182,062		2,935,000		2,433,327	0.97
	1,089,476		2,447,677		(1,358,201)				238,064	(5.71)
	10,826,665		5,450,870		5,375,795				1,096,553	4.90
	14,814,666		4,132,542		10,682,124				7,208,592	1.48
	23,955,203		6,139,654		17,815,549				18,333,910	0.97
	31,293,612		7,041,051		24,252,561		7,820,000		21,350,629	0.83

SAN JACINTO RIVER AUTHORITY

DISTRICT DEMOGRAPHICS

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

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

<u>County/City</u>	<u>Population</u>
Barrett	3,199
Baytown	75,418
Crosby	5,991
Grimes County	26,859
Highlands	7,522
Liberty County	76,907
Montgomery County	499,137
San Jacinto County	26,856
Waller County	45,213
Walker County	68,817

Source US Census Bureau, Census 2010 & 2013

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

Educational Attainment

<u>County/City</u>	<u>High School</u>	<u>College</u>
Barrett	82%	13%
Baytown	75%	14%
Crosby	70%	13%
Grimes County	78%	11%
Highlands	83%	10%
Liberty County	75%	9%
Montgomery County	86%	30%
San Jacinto County	79%	12%
Waller County	80%	20%
Walker County	82%	18%

Source US Census Bureau, Census 2013

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

<u>County/City</u>	<u>Median Age</u>	<u>Largest Employers</u>
Barrett	36	Texas Department of Criminal Justice
Baytown	32	Sam Houston State University
Crosby	38	Conroe Independent School District
Grimes County	39	Anadarko Petroleum
Highlands	30	Hewitt Associates
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 2013

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

<u>County/City</u>	<u>Median Household Income (\$)</u>
Barrett	30,789
Baytown	48,782
Crosby	36,768
Grimes County	43,810
Highlands	53,825
Liberty County	48,408
Montgomery County	66,422
San Jacinto County	46,413
Waller County	51,576
Walker County	38,654

Source US Census Bureau, Census 2013

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

<u>County/City</u>	<u>Unemployment Rate</u>
Barrett	18.0%
Baytown	11.4%
Crosby	6.5%
Grimes County	6.8%
Highlands	7.2%
Liberty County	11.8%
Montgomery County	6.8%
San Jacinto County	14.2%
Waller County	7.6%
Walker County	5.3%

Source US Census Bureau, Census 2013

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

SAN JACINTO RIVER AUTHORITY

NUMBER OF EMPLOYEES BY DIVISION

Last Ten Fiscal Years

Division	Number of Full-Time				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Highlands	6	7	6	6	6
Lake Conroe	7	7	8	9	9
Woodlands	37	38	40	43	44
General & Administration	8	9	11	13	17
Groundwater Reduction Plan					
Total	58	61	65	71	76

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**

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
6	7	7	7	7
11	13	14	13	14
45	45	45	39	33
27	48	56	77	79
1	4	5	7	12
90	117	127	143	145

SAN JACINTO RIVER AUTHORITY

OPERATING STATISTICS

Last Ten Fiscal Years

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>Raw Water Enterprise (Lake Conroe and Highlands Division)</u>					
Water Delivered (Thousand Gallons)	29,486,436	22,370,584	24,192,602	25,853,331	23,461,598

Water Rights (See detail below)	5	5	5	6	7
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Woodlands Division

Water Average Pumpage (Thousand Gallons)	5,578,435	6,238,117	5,083,736	6,333,984	6,832,883
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Wastewater Average Flow (Thousand Gallons per Day)	7,107	7,253	7,682	7,624	7,756
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Water Permits	1	1	1	1	1
Wastewater Permits	3	3	3	3	3
Storm Water Permits	2	2	2	2	2

Water Rights Permitted at End of Year

<u>Source</u>	<u>Water Right Permit Number</u>	<u>Permitted Amount (afpy)</u>	<u>Date Granted</u>
Lake Conroe	COA 10-4963	33,333	1987
Lake Houston - Run of River	COA 10-4964	55,000	1987
Lake Houston - Effluent Woodlands WWTP's	Permit 5809	14,944	2004
Lake Houston - Additional Storage	Permit 5807	14,100	2008
Lake Houston - Additional Run of River	Permit 5808	40,000	2009
Trinity River - Devers	Permit 5271	56,000	1995
Trinity River - CLCND	COA 08-4279	30,000	2005

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
22,956,203	26,548,710	22,813,154	22,634,039	23,192,114
7	7	7	7	7
5,789,840	7,674,492	7,036,323	6,628,769	6,115,812
7,643	7,557	7,742	7,315	7,677
1	1	1	1	1
3	3	3	3	3
2	2	2	2	2

SAN JACINTO RIVER AUTHORITY

SCHEDULE OF CAPITAL ASSET ADDITIONS

Last Ten Fiscal Years

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Raw Water Enterprise, Highlands and General & Administration				
Land	\$	\$	\$	\$
Water permits and rights	79,824	85,669	35,235	50,330
Construction in progress		87,918	879,998	35,412
Furniture, fixtures and equipment		23,805		
Other machinery and equipment	11,515	11,369	46,316	5,034
Automobiles and trucks	51,519	93,107	52,373	49,568
Buildings	25,822		22,535	11,971
Water systems			913,252	
Lake Conroe Division				
Land				
Construction in progress	29,146		11,966	15,397
Furniture, fixtures and equipment		2,785	4,470	
Other machinery and equipment		2,388	11,133	17,447
Automobiles and trucks	8,100	6,457		8,741
Buildings			2,320	
Dams and appurtenances	270,070	2,199	2,613	
Water systems				
Woodlands Division				
Land	43,085	5,000	29,840	
Construction in progress	1,294,339	3,097,327	6,626,492	16,958,077
Furniture, fixtures and equipment	10,065	24,797		7,313
Other machinery and equipment	16,549	8,850	36,657	12,043
Automobiles and trucks	19,115	118,370	42,131	129,846
Buildings	755,422	5,000		
Dams and appurtenances		36,384		
Water systems	3,363,979	1,381,511	3,457,408	787,524
Wastewater utility systems	10,369,113	8,248,477	446,691	8,586,424
Capital Improvement Plans				
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	<u>\$ 16,347,663</u>	<u>\$ 13,241,413</u>	<u>\$ 12,621,430</u>	<u>\$ 26,675,127</u>

2009	2010	2011	2012	2013	2014
\$	\$	\$	\$	\$	\$
42,536	4,737	31,415	1,090		10,000
1,240,832	5,303,395	5,194			
59,880	3,761	7,743,714	5,804,413	13,887,890	9,772,503
162,469	128,081	888,915	130,150	18,540	160,680
35,845	55,566	102,666	223,889	300,528	361,139
	3,025	102,171	369,830	131,621	100,878
395,987	716,658	5,215,813	41,360		1,484,025
		3,308,871	2,173,361	17,875,400	2,802,551
		28,372			
69,895	74,266	63,589	15,062	63,109	501,722
3,851	1,254	75,846	292	1,134	7,055
18,446	55,156	10,774	12,721	1,828	10,864
	8,459	22,799	9,653	17,215	21,814
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	
7,348,205	5,670,466	6,398,484	7,841,826	7,662,672	6,548,527
88,005	81,356	77,986	42,559	196,702	71,413
46,909	20,822	91,258		9,849	372,450
287,450	313,628		56,106	58,209	46,058
	13,293	79,829	82,024		6,720
					256,356
21,084,196	2,665,510	4,854,789	3,798,904	5,458,285	3,783,083
613,969	2,716,115	542,695	827,430	2,511,040	3,020,956
	1,139,941		1,880,898	85,157	
	2,265,204	10,163,648	40,586,454	81,722,501	218,185,401
	15,000	78,463	320,489	104,686	189,621
		189,557			
		26,575	58,551	19,529	
			2,287,713	47,963	
		7,678			
<u>\$ 31,582,478</u>	<u>\$ 21,295,521</u>	<u>\$ 40,169,960</u>	<u>\$ 66,621,956</u>	<u>\$ 130,187,334</u>	<u>\$ 247,713,816</u>