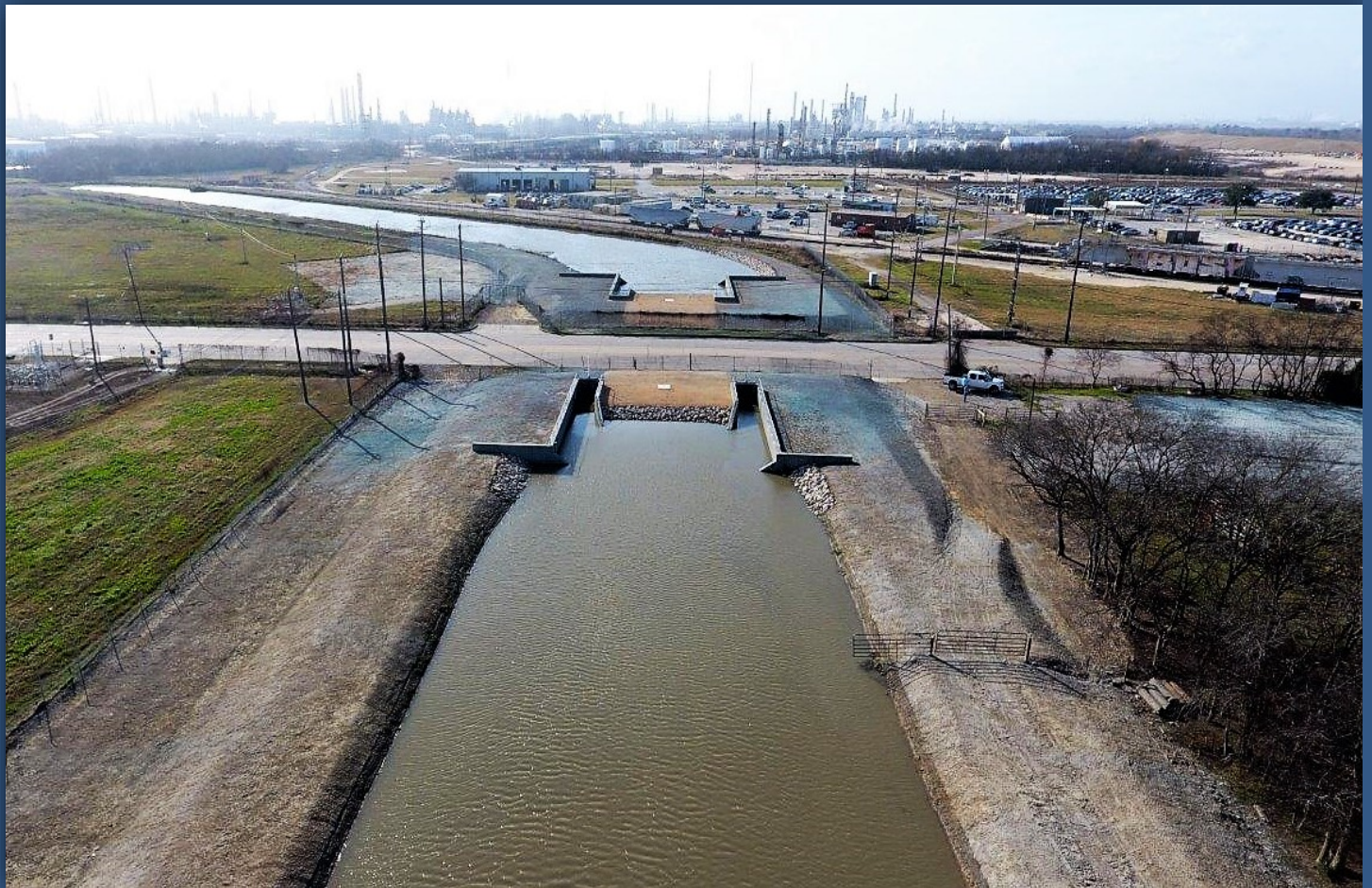


# San Jacinto River Authority

## Comprehensive Annual Financial Report



**For the Fiscal Year Ended**  
**August 31, 2018**

Prepared by the Accounting Department  
Montgomery County, Texas



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

## TABLE OF CONTENTS

San Jacinto River Authority  
Comprehensive Annual Financial Report for Fiscal Year Ended August 31, 2018

	<b><u>Page</u></b>
<b><i>Introductory Section</i></b>	
Letter of Transmittal	i-vi
Certificate of Achievement for Excellence in Financial Reporting	vii
Organizational Chart	viii
Board of Directors	ix
<b><i>Financial Section</i></b>	
Independent Auditors' Report	3-4
Management Discussion and Analysis	5-12
Basic Financial Statements	
Statement of Net Position	14-17
Statement of Revenues, Expenses and Changes In Net Position	18-19
Statement of Cash Flows	20-23
Notes to Financial Statements	25-60
Required Supplementary Information	
Governmental Accounting Standards Board Statement Nos. 67 & 68, Defined Benefit Pension Plan, Schedule of Changes in Net Pension Liability and Related Ratios	62-63
Governmental Accounting Standards Board Statement Nos. 67 & 68, Defined Benefit Pension Plan, Schedule of Employer Contributions	64
Governmental Accounting Standards Board Statement Nos. 67 & 68, Defined Benefit Pension Plan, Schedule of Investment Returns	65
Governmental Accounting Standards Board Statement Nos. 74 & 75, Post-Employment Benefits Other Than Pension, Schedule of Changes in Net Pension Liability and Related Ratios	66-67
Schedule of Employer Contributions and Funding Progress for the Retiree Healthcare (OPEB) Plan	68
Other Supplementary Information	
Schedule of Revenues and Expenses – Budget and Actual – Raw Water Enterprise	70
Schedule of Revenues and Expenses – Budget and Actual (Budgetary Basis) – Woodlands Division	71
Schedule of Revenues and Expenses – Budget and Actual – Groundwater Reduction Plan Division	72
Schedule of Net Position–Groundwater Reduction Plan	73
Schedule of Revenues and Expenses – Groundwater Reduction Plan Division	74
Schedule of Cash Flows-Groundwater Reduction Plan Division	75
Schedule of Capital Assets-Lake Conroe Dam, Reservoir and Related Equipment	76
Insurance Coverage	77
Principal Officials	78

***Statistical Section***

Index and Explanation	79
Net Position by Component	80-81
Changes in Net Position	82-83
Woodlands Division Water and Sewer Service Fees by Source	84
Principal Woodlands Division Water and Sewer Fee Payers	85
List of Principal Customers	86
Ratio of Outstanding Debt by Type	87
Pledge – Revenue Coverage	88-89
District Demographics	90-91
Number of Employees by Division	92-93
Operating Statistics	94-95
Schedule of Capital Asset Additions	96-97

# INTRODUCTORY SECTION



**(This Page Intentionally Left Blank)**



# San Jacinto River Authority

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

December 6, 2018

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, 2018. 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, Knox Cox & 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, 2018. The independent auditor's report is located at the front of the financial section of the CAFR.

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

## *Profiles of the Government*

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

---

LAKE CONROE DIVISION  
P.O. Box 329  
Conroe, Texas 77305  
(T) 936.588.1111  
(F) 936.588.1114

GRP DIVISION  
P.O. Box 329  
Conroe, Texas 77305  
(T) 936.588.1662  
(F) 936.588.7182

i

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  
(T) 281.843.3300  
(F) 281.426.2877



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 five 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 Division operates a pump station to transfer raw water from the Trinity River via the Coastal Water Authority to the Highland Division's East Canal. 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 and 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 Lake Conroe costs. In addition to operating and maintaining the dam, this Division handles the licensing, regulation, and enforcement functions related to onsite sewage facilities immediately around Lake Conroe, boat sanitation, piers, boat slips, boathouses, marinas, and other facilities operated or constructed around or on Lake Conroe. The Lake Conroe Division 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 114,600 person community of The Woodlands (The Woodlands Development Corporation data as of August 2017). To provide these services, the SJRA operates wastewater treatment plants, lift stations, water wells, water plants, water booster pump stations, elevated and ground storage tanks, and miles of wastewater conveyance and water transmission facilities. The Woodlands Division purchases surface water from the Groundwater Reduction Plan (GRP) Division to blend with groundwater provided by the water wells.

The **Groundwater Reduction Plan (GRP) Division**, with its office located at the Lake Conroe dam, is responsible for implementing an alternative water supply program



for its participants that meets the groundwater reduction requirements of the Lone Star Groundwater Conservation District (LSGCD) and ensure reliable, long-term water supplies for its participants in Montgomery County. The GRP Division designed, constructed, operates, maintains, and administers a surface water treatment plant and transmission lines. The GRP Division withdraws raw surface water from Lake Conroe, treats it to meet or exceed drinking water standards, and then transmit it to selected customer cities and water utilities within Montgomery County.

The **Flood Management Division** was created in the spring of 2018 to develop short-term and long-term regional flood management strategies within the San Jacinto River Basin. The intent is to build partnerships with federal, state, and local governmental entities; identify funding options and/or revenue sources; and coordinate, collaborate, and partner with other flood management entities within the San Jacinto River Basin.

### ***ECONOMIC CONDITION AND OUTLOOK***

*The Texas Economy.* According to the Texas Comptroller of Public Accounts Key Economic Indicators as of August 2018: Unemployment Rate for both Texas and the U.S was 3.9%; Measures of Inflation CPI change from previous year for Texas was 2.8% while the U.S. was 2.7%; and Consumer Confidence Index for Texas was -0.1% while the U.S. was 11.9%. The Comptroller issued the “The Gulf Coast Region: 2018 Regional Report” and the “2018 Texas Regional Report” showing population growth to be 16.1% in the Region vs. 12.6% for Texas and 5.5% for the U.S. for 2010-2017. In addition, the “Regional Snapshot: Gulf Coast Region” report issued by the Comptroller in September 2016, showed Per Capita Personal Income Growth to be 49% for the Region, 47% for Texas, and 34% for the U.S. for 2004-2014.

*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 greater 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. 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 encourages readers to 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 2018 was the creation of the Flood Management Division. To lead this effort, the SJRA has put in place a new senior management position, Director of Flood Management. The SJRA Board of Directors voted to enact seasonal lowering of Lake Conroe as a temporary flood mitigation strategy while the US Army Corp of Engineers' emergency dredging project along the West Fork of the San Jacinto River is completed. The Flood Management Division has applied for grant funds becoming available by the Texas Water Development Board for Flood Protection Planning. In addition to this funding, the Flood Management Division has secured pledges from other local entities to match up to the \$400,000 of grant funds potentially awarded from this grant application.

A major initiative in Fiscal Year 2018 was the completion of critical facility rehabilitation within the SJRA's raw water delivery system in the Highlands as primarily financed by low interest bonds from the Texas Water Development Board. This multi-year program included removal and replacement of multiple siphons, canal improvements, and rehabilitation of and improvements to the existing South Canal Transfer Pump Station. This program has increased the capabilities and reliability of the delivery system.

During Fiscal Year 2018, SJRA continued 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 watershed protections plans.

The Lake Conroe Division has completed improvements to the Lake Conroe service outlet discharge pond and channel resolving erosion issues by removing concrete slope pavement and replacing it with riprap. The Lake Conroe Division also completed upgrades to its flood early warning alert system utilizing grant funds and interlocal funds as part of the Texas Water Development Board Flood Protection Plan Grant awarded on

August 25, 2016. The flood protection planning tasks associated with this grant will continue into Fiscal Year 2019.

*For the Future.* In November 2009, the LSGCD adopted final regulations that required certain groundwater users to prepare and submit a Groundwater Reduction Plan by April 1, 2010, outlining how large volume groundwater users intended to meet a January 2016 deadline for the reduction of groundwater use and conversion to alternative water supplies. The SJRA met this regulatory requirement with the development of a long-term approach that will provide a compliance solution for participants within 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 GRP Pumpage Fee and GRP Surface Water Fees monthly. For fiscal year 2018, the GRP Pumpage Fee was set at \$2.64 per thousand gallons of groundwater pumped by the participating entity and is billed monthly. The GRP Surface Water Fee was set at \$2.83 per thousand gallons of surface water received by the participating entity. It is anticipated that these fees will increase in the future if costs are incurred for planning and implementation of future phases as needed and operation, maintenance and repair of the necessary infrastructure to continue to deliver surface water and contributions to reserves. SJRA Board approved the Fiscal Year 2019 rates to remain the same. The total cost of the entire surface water system that was constructed to meet the 2016 deadline was \$490 million. As of the end of the 2018 fiscal year, 151 participants have joined the SJRA GRP representing approximately 80 percent of the water use in Montgomery County. The GRP Division was responsible for implementing the surface water program, constructing, operating, and maintaining the necessary infrastructure that started delivering surface water in mid-September 2015, ahead of the January 1, 2016 deadline. The real key is the reduction of groundwater pumped in calendar year 2016, which the Authority has met.

The Woodlands aging Wastewater System is in need of rehabilitation. The Woodlands issued \$42.9 million in bonds on November 7, 2017 to address major rehabilitation needs. This is in addition to the continued annual rehabilitation of the system that is paid for by the Woodlands Repair and Replacement Fund.

The Highlands Division initiatives will include the replacement of the siphon at East Canal and Wallisville Road, installation of a bypass system at Siphon 7 to accommodate installation of a bridge crossing and removal of Siphon 7 by the Texas Department of Transportation, and rehabilitation of existing Lake Houston Pump Station discharge piping.

During Fiscal Year 2019, the Lake Conroe Division will perform the design of a new maintenance facility to replace the aging, existing maintenance infrastructure. This facility will increase efficiency, safety, and maintenance capabilities of Lake Conroe Division maintenance staff. Projects to repair the Lake Conroe service outlet structure and conduit, as well as continuing rehabilitation of the westside diversion channel and the dam relief well system, are also planned for Fiscal Year 2019.

***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 Knox Cox & Co., LLP was selected to conduct the FY2018 financial audit. 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, and Texas Water Development Board.

*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, 2017. This was the ninth consecutive year that the SJRA has achieved this prestigious award. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.


In order to be awarded a Certificate of Achievement, 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’s requirements, and we are submitting it to the GFOA to determine its eligibility for a certificate for Fiscal Year 2018.

*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

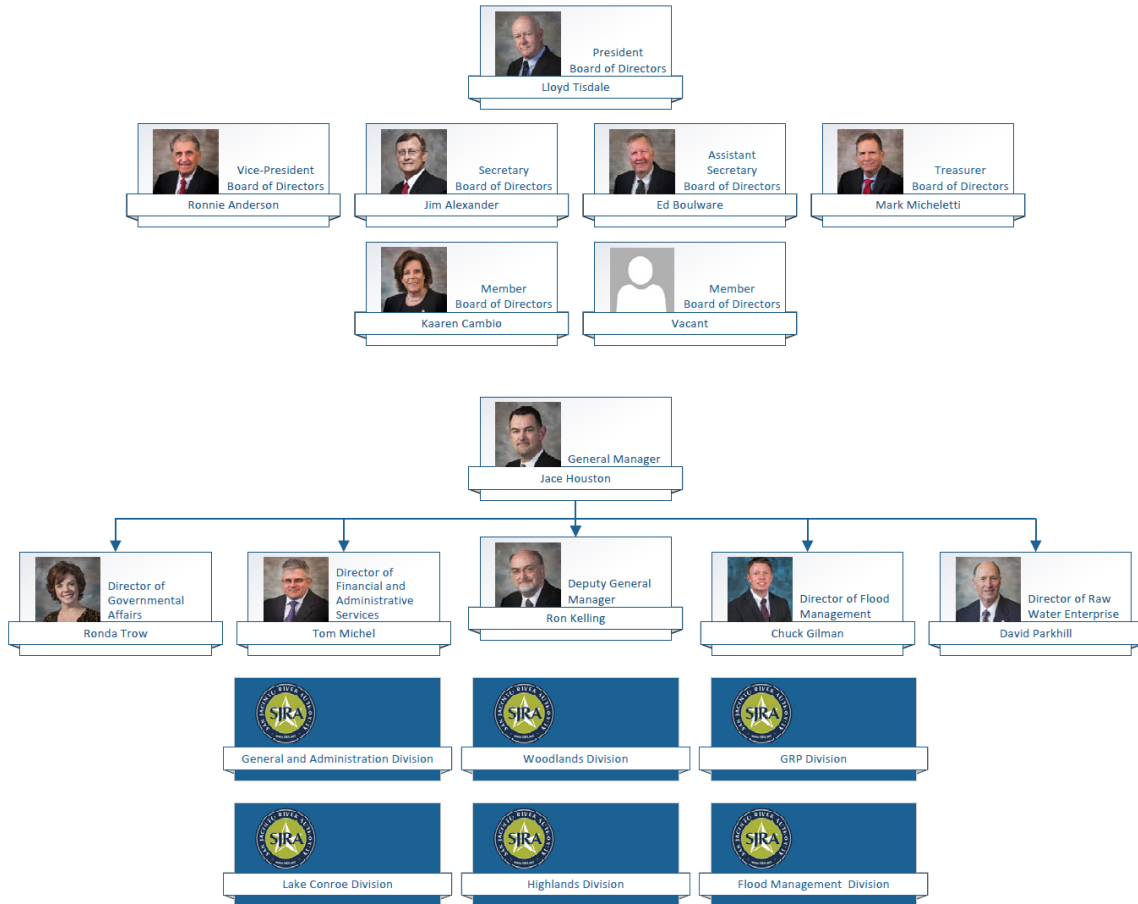
**August 31, 2017**

*Christopher P. Morrell*

Executive Director/CEO

# ***SAN JACINTO RIVER AUTHORITY***

## **Organizational Chart**



# ***SAN JACINTO RIVER AUTHORITY***

## **Board of Directors**

	<b><u>Term Expires</u></b>
Lloyd B. Tisdale, President	2019
Ronnie Anderson, Vice President	2021
Jim Alexander, Secretary	2019
Ed Boulware, Assistant Secretary	2023
Mark Micheletti, Treasurer	2023
Kaaren Cambio, Member	2019
Vacant, Member	2021

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.



**(This Page Intentionally Left Blank)**

**FINANCIAL SECTION**





## **Independent Auditors' Report**

Board of Directors  
San Jacinto River Authority  
Montgomery County, Texas

We have audited the accompanying financial statements of the business-type activities of the San Jacinto River Authority, as of and for the year ended August 31, 2018, 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, 2018, 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 60-64 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*

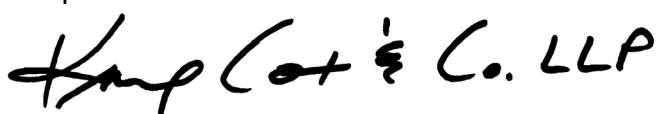
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Jacinto River Authority's basic financial statements. The introductory section, other supplementary information and statistical section are presented for purposes of additional analysis 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 December 6, 2018, 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 solely 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 the effectiveness of the San Jacinto River Authority's 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  
December 6, 2018

# **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 fiscal year ended August 31, 2018. 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 and deferred outflows of resources were \$827.6 million; of this amount, approximately \$635.4 million represents net capital assets and \$192.2 million represents cash and cash equivalents under current, noncurrent and deferred assets.
- Liabilities for the Authority totaled \$664.7 million of which \$626.3 million accounts for obligations under long-term debt.
- The Authority's total assets exceeded liabilities by approximately \$160.7 million. This amount represents net position; of this amount, \$51.7 million is net investment in capital assets. An additional \$60.5 million is restricted net position and the remaining \$48.5 million represents unrestricted net position.
- Operating revenues, net of eliminations, for the Authority at year-end were \$101.1 million. The major revenue sources, net of eliminations, were wholesale water and wastewater treatment service fees to Woodlands' MUDs of \$39.4 million; Groundwater Reduction Plan fees of \$38.6 million; untreated water sales to industrial, municipal and agricultural customers of \$14.6 million; and capacity charges of \$3.9 million.
- Operating expenses totaled \$67.9 million. Highlights within operating expenses were salaries, wages and employee benefits of \$17.4 million, operating supplies of \$11.8 million and depreciation of \$24.4 million.
- Non-operating expenses exceeded non-operating revenues by approximately \$24.1 million. This was primarily attributable to interest expense paid on bonds that totaled \$25.5 million as of year-end.
- Capital distributions exceeded capital contributions by \$1.1 million due to the net impact of contributions from a Highlands industrial customer and distributions of completed infrastructure project to several GRP customers.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The Management 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
- Flood Management
- 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:

- Net 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" was 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 \$160.7 million at the close of the most recent fiscal year.

	<b>As of August 31, 2018 and 2017</b>	
	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Current assets	\$ 189,989,820	\$ 146,068,679
Noncurrent assets	472,943	945,887
Capital assets	<u>635,401,186</u>	<u>647,440,968</u>
<b>Total Assets</b>	<b>825,863,949</b>	<b>794,455,534</b>
Deferred Outflows of Resources	1,765,608	1,986,178
<b>Liabilities</b>		
Current liabilities	36,599,829	35,883,416
Noncurrent liabilities	<u>628,147,190</u>	<u>606,695,952</u>
<b>Total Liabilities</b>	<b>664,747,019</b>	<b>642,579,368</b>
Deferred Inflows of Resources	2,139,126	1,114,565
<b>Net Position</b>		
Net Investment in		
Capital Assets	51,689,036	54,705,951
Restricted:		
Debt service	58,101,252	54,078,797
Other	2,418,869	2,042,453
Unrestricted	<u>48,534,255</u>	<u>41,920,578</u>
<b>Total Net Position</b>	<b><u>\$ 160,743,412</u></b>	<b><u>\$ 152,747,779</u></b>

- Current assets increased by \$43.9 million which represents a 30% increase from the prior year primarily due to an increase in cash related to the Woodlands bonds sale. Within Current Assets, Accounts Receivable has two GRP customers that are not paying the full invoiced amount and are part of current lawsuits. The Authority has commenced litigation in an effort to collect the past due amounts as well as late fees and interest thereon.

<u>Balance Status</u>	<u>City of Conroe</u>	<u>City of Magnolia</u>
Current	\$ 1,276,480	\$ 65,330
Past Due	1,725,045	89,371
Late Fees & Interest	241,148	13,341
Total at August 31, 2018	<u>\$ 3,242,673</u>	<u>\$ 168,042</u>

- Capital assets decreased by \$12.0 million, primarily due to the net effect of increase in Land for the Highlands South Canal improvements, a decrease to capital assets for the distribution of capital projects to GRP customers, and an increase in accumulated depreciation. During the construction of the transmission lines, some GRP customers received financing to enable their facilities to receive surface water delivery.

- Current liabilities increased by \$0.7 million, a 2% increase primarily due to entering the first year of payments on the Woodlands 2017 bonds.
- Noncurrent liabilities increased by \$21.5 million, a 4% increase primarily due to the issuance of the Woodlands 2017 bonds.
- Total liabilities increased by \$22.2 million, a 3% increase from the prior year primarily due to the issuance of bonds for the Woodlands Division projects.

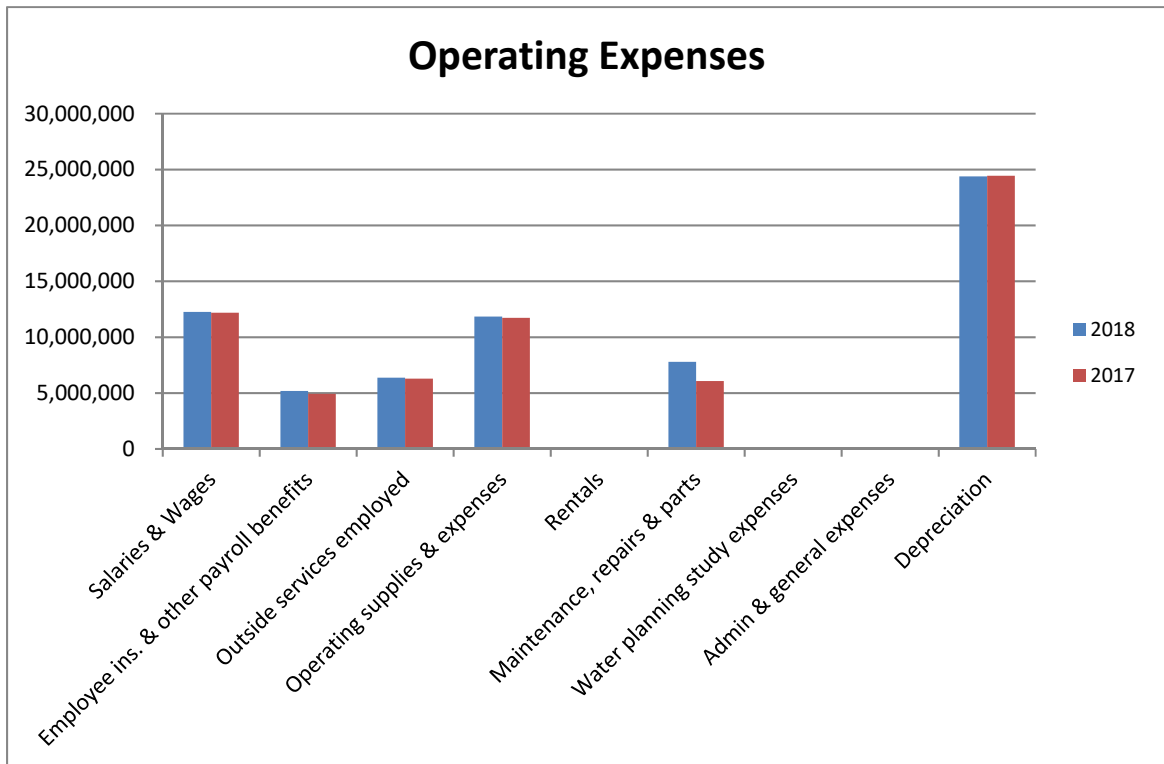
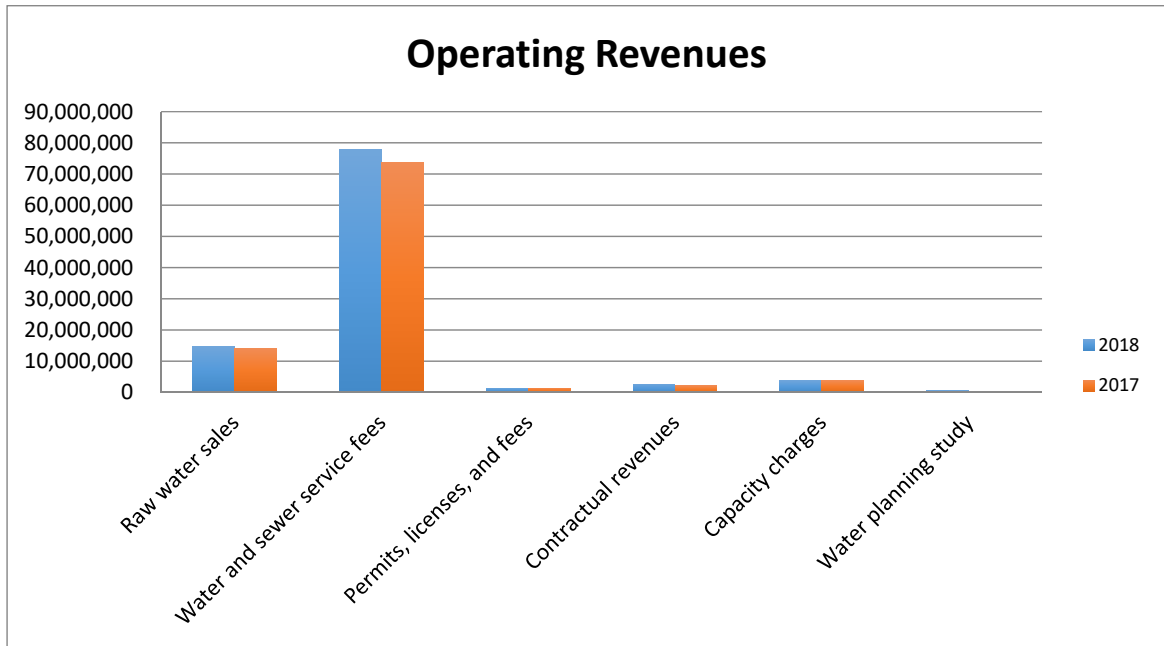
## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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 while providing 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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Operating Revenues:</b>		
Raw water sales	\$ 14,692,012	\$ 13,919,246
Water and sewer service fees	77,933,431	73,566,211
Permits, licenses and fees	1,334,353	1,351,718
Contractual revenues	2,617,142	2,065,619
Capacity charges	3,846,463	3,856,538
Water planning study (Region H)	667,766	112,377
<b>Total Operating Revenues</b>	<u>101,091,167</u>	<u>94,871,709</u>
<b>Operating Expenses:</b>		
Salaries and wages	12,255,875	12,182,806
Employee insurance and other payroll benefits	5,179,617	4,924,773
Outside services employed	6,367,524	6,283,542
Operating supplies & expenses	11,849,544	11,732,077
Rentals	80,229	75,774
Maintenance, repairs and parts	7,792,350	6,080,155
Water planning study expenses (Region H)	1,479	1,943
Depreciation	24,381,708	24,446,476
<b>Total Operating Expenses</b>	<u>67,908,326</u>	<u>65,727,546</u>
<b>Operating Income</b>	33,182,841	29,144,163
<b>Nonoperating Revenues (Expenses)</b>	(24,083,143)	(23,579,686)
<b>Contributed Capital/(Distribution)</b>	<u>(1,104,065)</u>	<u>(21,992,683)</u>
<b>Net Income</b>	7,995,633	(16,428,206)
Net position at beginning of year	<u>152,747,779</u>	<u>169,175,985</u>
<b>Net Position at End of Year</b>	<u>\$ 160,743,412</u>	<u>\$ 152,747,779</u>

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



- Maintenance, repairs and parts expenses increased by \$1.7 million, an increase of 28% over the previous year. Increase of \$0.4 million, primarily due to the repair of 11 water line breaks in the Woodlands and \$1.3 million increase for various planned lift station rehabilitation projects in the Woodlands.

## **CAPITAL ASSETS AND LONG-TERM DEBT**

### **CAPITAL ASSETS**

The Authority's net capital assets as of August 31, 2018 totaled \$635.4 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 decrease in the Authority's investment in net capital assets for the current fiscal year was \$12.0 million, a 2% decrease.

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

- The Authority added \$4.4 million for land primarily related to improvements to the South Canal levees in the Highlands and improvements to the Lake Conroe outlet channel.
- The Authority added \$2.2 million for a transmission line and a receiving facility to serve MUD 99. The GRP also had capital distributions totaling \$2.6 million for improvements/modifications to customer's existing systems to receive surface water.
- The Authority added \$1.8 million for replacement of and improvements to Siphon 28, \$1.8 million for the replacement of and improvements to Siphon 31, \$1.1 million for improvements to the Lake Houston Pump Station, and \$1.7 million for improvements to the South Canal Transfer Pump Station.

	<b><u>2018</u></b>	<b><u>2017</u></b>
<b>Capital Assets</b> - at cost		
Land	\$ 30,372,062	\$ 25,973,800
Water permits and rights	30,947,801	30,947,801
Office furniture, fixtures & equip	5,305,790	5,221,854
Other machinery and equipment	4,071,140	3,778,643
Automobiles and trucks	2,834,824	2,735,604
Buildings	26,400,045	26,326,020
Dams and appurtenances	10,136,107	9,647,026
Water systems	597,405,346	588,724,301
Wastewater utility systems	101,653,954	101,507,457
Capital improvement plans	376,882	376,882
Construction in progress	11,737,350	14,175,694
Less accumulated depreciation	<u>(185,840,115)</u>	<u>(161,974,114)</u>
<b>Total Capital Assets</b>	<b><u>\$ 635,401,186</u></b>	<b><u>\$ 647,440,968</u></b>

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 \$626.3 million. The debt primarily represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

### As of August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Long-Term Debt</b>		
First Lien Bonds-		
less current maturities	\$ 621,040,000	\$ 597,495,000
Notes payable less current	1,698,617	2,011,671
Unamortized bond premium	<u>3,563,734</u>	<u>3,878,355</u>
<b>Total Long-Term Debt</b>	<u>\$ 626,302,351</u>	<u>\$ 603,385,026</u>

The Authority's total first lien bonds increased a net of \$23.5 million from the previous year due to the issuance of 2017 Woodlands Water System and Wastewater Bonds.

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, 2018

	<b>Business Type Activities -</b>				
	<b>Total</b>	<b>Eliminations</b>	<b>Raw Water Enterprise</b>		
			<b>Raw Water Supply</b>	<b>Highlands Division</b>	<b>Lake Conroe Division</b>
<b><u>Assets and Deferred Outflows</u></b>					
<b>Current Assets</b>					
Cash and cash equivalents					
Unrestricted	\$ 37,237,144	\$	\$	\$ 21,538,195	\$ 3,329,660
Restricted:					
Debt service	68,549,990			8,319,188	
Construction	62,707,242			6,764,489	44,192
Other	2,758,987				
Accounts receivable	16,322,773	(3,515,186)	1,375,212	417,673	940,408
Inventory	253,547			11,076	
Prepaid expenses	2,160,137		17	60,500	77,395
<b>Total Current Assets</b>	<b>189,989,820</b>	<b>(3,515,186)</b>	<b>1,375,229</b>	<b>37,111,121</b>	<b>4,391,655</b>
<b>Noncurrent Assets</b>					
Prepaid reservations fees	472,943				
<b>Capital Assets- at cost</b>					
Land	27,873,274			5,486,549	5,403,672
Land Improvements	2,498,788				
Water permits and rights	30,947,801		30,947,801		
Furniture, fixtures and equipment	5,305,790			269,389	188,057
Other machinery and equipment	4,071,140			1,909,496	294,673
Automobiles and trucks	2,834,824			292,654	150,050
Buildings	26,400,045			1,623,840	243,321
Dams and appurtenances	10,136,107				8,326,858
Water systems	597,405,346			70,570,135	6,747
Wastewater utility systems	101,653,954				
Capital improvement plans	376,882				
Construction in progress	11,737,350			4,207,048	45,996
Accumulated depreciation	(185,840,115)			(13,542,395)	(4,107,476)
<b>Total Capital Assets</b>	<b>635,401,186</b>		<b>30,947,801</b>	<b>70,816,716</b>	<b>10,551,898</b>
<b>Deferred Outflows of Resources</b>					
Deferred pension related items	1,765,608				
<b>Total Assets and Deferred Outflows</b>	<b>\$ 827,629,557</b>	<b>\$ (3,515,186)</b>	<b>\$ 32,323,030</b>	<b>\$ 107,927,837</b>	<b>\$ 14,943,553</b>

See Notes to Financial Statements.

**Enterprise Funds**

<b>Woodlands Division</b>	<b>Groundwater Reduction Plan Division</b>	<b>Flood Management</b>	<b>Bear Branch</b>	<b>Region H</b>	<b>General and Administration Division</b>
\$ 4,515,572	\$ 3,572,777	\$	\$	\$	\$ 4,280,940
5,601,636	54,629,166				
53,457,866	2,440,695				
2,047,168			124,206	443,234	144,379
6,010,188	9,894,237				1,200,241
194,226	48,245				
338,695	780,056		1,921		901,553
<u>72,165,351</u>	<u>71,365,176</u>		<u>126,127</u>	<u>443,234</u>	<u>6,527,113</u>
	472,943				
1,829,065	14,306,656		847,332		
28,095	2,470,693				
1,053,237	2,353,997				1,441,110
1,226,471	625,556				14,944
1,173,201	474,539				744,380
2,814,140	15,601,688				6,117,056
			1,809,249		
105,444,264	421,205,526				178,674
101,653,954					
376,882					
7,341,541	43,898				98,867
(118,438,289)	(46,291,657)		(340,254)		(3,120,044)
<u>104,502,561</u>	<u>410,790,896</u>		<u>2,316,327</u>		<u>5,474,987</u>
					1,765,608
<u>\$ 176,667,912</u>	<u>\$ 482,629,015</u>	<u>\$</u>	<u>\$ 2,442,454</u>	<u>\$ 443,234</u>	<u>\$ 13,767,708</u>

# SAN JACINTO RIVER AUTHORITY

## STATEMENT OF NET POSITION

**August 31, 2018**

<u>Liabilities</u>	<b>Business - Type Activities -</b>				
	<u>Total</u>	<u>Eliminations</u>	<b>Raw Water Enterprise</b>		
			<b>Raw Water Supply</b>	<b>Highlands Division</b>	<b>Lake Conroe Division</b>
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities - unrestricted	\$ 5,550,725	\$ (3,515,186)	\$ 46,044	\$ 870,461	\$ 555,980
Restricted for Debt service:					
Current portion of bonds	19,350,000		1,330,000	2,035,000	
Current portion of notes	312,238				
Accrued interest payable	10,607,166		158,428	932,290	
Restricted for Construction:					
Accounts payable					
Retainage payable	454,803				
Unearned revenue	324,897		4,300		164,297
<b>Total Current Liabilities</b>	<b>36,599,829</b>	<b>(3,515,186)</b>	<b>1,538,772</b>	<b>3,837,751</b>	<b>720,277</b>
<b>Noncurrent Liabilities</b>					
Net Pension obligation	2,966				
Net OPEB obligation	1,841,873			351,570	659,048
<b>Total Noncurrent Liabs</b>	<b>1,844,839</b>			<b>351,570</b>	<b>659,048</b>
<b>Long-Term Debt</b>					
First lien water revenue bonds - less current maturities	624,603,734		8,961,323	57,069,422	
Notes payable less current	1,698,617				
<b>Total Long-Term Debt</b>	<b>626,302,351</b>		<b>8,961,323</b>	<b>57,069,422</b>	
<b>Total Liabilities</b>	<b>664,747,019</b>	<b>(3,515,186)</b>	<b>10,500,095</b>	<b>61,258,743</b>	<b>1,379,325</b>
<b>Deferred Inflows of Resources</b>					
Deferred inflows related to pension and OPEB	2,139,126				
<b>Fund Equity</b>					
<b>Net Position</b>					
Net investment in capital assets	51,689,036		20,656,478	18,476,783	10,596,090
Restricted:					
Debt service	58,101,252			7,386,898	
Other	2,418,869				
Unrestricted	48,534,255		1,166,457	20,805,413	2,968,138
<b>Total Net Position</b>	<b>160,743,412</b>		<b>21,822,935</b>	<b>46,669,094</b>	<b>13,564,228</b>
<b>Total Liabilities, Deferred Inflows and Fund Equity</b>	<b>\$ 827,629,557</b>	<b>\$ (3,515,186)</b>	<b>\$ 32,323,030</b>	<b>\$ 107,927,837</b>	<b>\$ 14,943,553</b>

See Notes to Financial Statements.

**Enterprise Funds**

<b>Woodlands Division</b>	<b>Groundwater Reduction Plan Division</b>	<b>Flood Management</b>	<b>Bear Branch</b>	<b>Region H</b>	<b>General and Administration Division</b>
\$ 4,959,438	\$ 1,525,728	\$ 20,259	\$ 24,526	\$ 161,213	\$ 902,262
2,335,000	13,650,000				312,238
812,688	8,703,760				
454,803				156,300	
<u>8,561,929</u>	<u>23,879,488</u>	<u>20,259</u>	<u>24,526</u>	<u>317,513</u>	<u>1,214,500</u>
					2,966
<u>697,441</u>					<u>133,814</u>
<u>697,441</u>					<u>136,780</u>
77,855,564	480,717,425				1,698,617
<u>77,855,564</u>	<u>480,717,425</u>				<u>1,698,617</u>
<u>87,114,934</u>	<u>504,596,913</u>	<u>20,259</u>	<u>24,526</u>	<u>317,513</u>	<u>3,049,897</u>
					<u>2,139,126</u>
77,315,060	(81,135,834)		2,316,327		3,464,132
4,788,948	45,925,406				
2,047,168			101,601	125,721	144,379
<u>5,401,802</u>	<u>13,242,530</u>	<u>(20,259)</u>			<u>4,970,174</u>
<u>89,552,978</u>	<u>(21,967,898)</u>	<u>(20,259)</u>	<u>2,417,928</u>	<u>125,721</u>	<u>8,578,685</u>
<u>\$ 176,667,912</u>	<u>\$ 482,629,015</u>	<u>\$</u>	<u>\$ 2,442,454</u>	<u>\$ 443,234</u>	<u>\$ 13,767,708</u>

# SAN JACINTO RIVER AUTHORITY

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

**Year Ended August 31, 2018**

	Business - Type Activities -				
	Total	Eliminations	Raw Water Enterprise		
			Raw Water Supply	Highlands Division	Lake Conroe Division
<b>Operating Revenues:</b>					
Water sales:					
Industrial and Municipal	\$ 14,571,525	\$ (2,506,132)	\$ 17,077,657	\$	\$
Irrigation	120,487		120,487		
Water and sewer service fees	77,933,431	(16,600,635)			
Permits, licenses and fees	1,334,353				1,129,253
Contractual revenues	2,617,142				2,617,142
Capacity charges	3,846,463				
Water planning grant	667,766				
<b>Total Operating Revenues</b>	<b>101,091,167</b>	<b>(19,106,767)</b>	<b>17,198,144</b>		<b>3,746,395</b>
<b>Operating Expenses:</b>					
Salaries and wages	12,255,875		158,689	1,770,517	1,681,337
Employee insurance and other payroll benefits	5,179,617		64,848	770,110	761,953
Outside services employed	6,367,524	(16,600,635)	336,764	473,938	1,167,410
Operating supplies and expenses	11,849,544	(2,506,132)	321	314,091	253,410
Rentals	80,229	(36,923)		3,828	45,504
Maintenance, repairs & parts	7,792,350			776,564	721,856
Water planning grant expenses	1,479				
General and admin. expenses allocated			40,715	315,143	696,995
Depreciation	24,381,708			2,187,798	193,683
<b>Total Operating Expenses</b>	<b>67,908,326</b>	<b>(19,143,690)</b>	<b>601,337</b>	<b>6,611,989</b>	<b>5,522,148</b>
<b>Operating Income (Loss)</b>	<b>33,182,841</b>	<b>36,923</b>	<b>16,596,807</b>	<b>(6,611,989)</b>	<b>(1,775,753)</b>
<b>Nonoperating Revenues (Expenses)</b>					
Interest income	1,408,665		3	87,811	179
Gain (Loss) on disposal of assets	557,773			132,241	17,268
Other revenues	574,180	(36,923)		54,457	232,466
Amortization of bond premium/discounts	314,621		37,892	15,133	
Bond issuance costs	(1,420,700)				
Interest expense	(25,517,682)		(384,008)	(2,241,684)	
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(24,083,143)</b>	<b>(36,923)</b>	<b>(346,113)</b>	<b>(1,952,042)</b>	<b>249,913</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>9,099,698</b>		<b>16,250,694</b>	<b>(8,564,031)</b>	<b>(1,525,840)</b>
<b>Transfers</b>			<b>(14,908,318)</b>	<b>14,480,011</b>	<b>831,467</b>
<b>Capital Contributions/(Distributions)</b>	<b>(1,104,065)</b>			<b>1,258,150</b>	
<b>Change in Net Position</b>	<b>7,995,633</b>		<b>1,342,376</b>	<b>7,174,130</b>	<b>(694,373)</b>
Net Position at Beginning of Year	152,747,779		20,480,559	39,494,964	14,258,601
<b>Net Position at End of Year</b>	<b>\$ 160,743,412</b>	<b>\$</b>	<b>\$ 21,822,935</b>	<b>\$ 46,669,094</b>	<b>\$ 13,564,228</b>

See Notes to Financial Statements.

**Enterprise Funds**

<b>Woodlands Division</b>	<b>Groundwater Reduction Plan Division</b>	<b>Flood Management</b>	<b>Bear Branch</b>	<b>Region H</b>	<b>General and Administratio Division</b>
\$	\$	\$	\$	\$	\$
39,356,579	55,177,487				
205,100					
3,846,463					
				667,766	
<u>43,408,142</u>	<u>55,177,487</u>			<u>667,766</u>	
4,567,156	3,360,771	111,082	16,457		589,866
2,033,856	1,403,978	38,934	5,927		100,011
17,741,086	2,391,542		1,025	420,093	436,301
3,892,715	9,115,771	29	2,152		777,187
26,238					41,582
5,085,805	1,013,372		95,741		99,012
				1,479	
770,219	405,005	28,944	12,141		(2,269,162)
<u>6,710,684</u>	<u>15,018,338</u>		<u>21,705</u>		<u>249,500</u>
<u>40,827,759</u>	<u>32,708,777</u>	<u>178,989</u>	<u>155,148</u>	<u>421,572</u>	<u>24,297</u>
<u>2,580,383</u>	<u>22,468,710</u>	<u>(178,989)</u>	<u>(155,148)</u>	<u>246,194</u>	<u>(24,297)</u>
422,067	606,156		358		292,091
250,790	156,079				1,395
217,432	66,925				39,823
254,584	7,012				
(1,420,700)					
<u>(1,883,543)</u>	<u>(20,914,988)</u>				<u>(93,459)</u>
<u>(2,159,370)</u>	<u>(20,078,816)</u>		<u>358</u>		<u>239,850</u>
421,013	2,389,894	(178,989)	(154,790)	246,194	215,553
(119,112)	(50,733)	158,730	(251)	(138,520)	(253,274)
<u>132,710</u>	<u>(2,594,462)</u>		<u>99,537</u>		
434,611	(255,301)	(20,259)	(55,504)	107,674	(37,721)
<u>89,118,367</u>	<u>(21,712,597)</u>		<u>2,473,432</u>	<u>18,047</u>	<u>8,616,406</u>
<u>\$ 89,552,978</u>	<u>\$ (21,967,898)</u>	<u>\$ (20,259)</u>	<u>\$ 2,417,928</u>	<u>\$ 125,721</u>	<u>\$ 8,578,685</u>

# SAN JACINTO RIVER AUTHORITY

## STATEMENT OF CASH FLOWS

Year Ended August 31, 2018

	Business - Type Activities -				
	Total	Eliminations	Raw Water Enterprise		
			Raw Water Supply	Highlands Division	Lake Conroe Division
<b>Cash Flows from Operating Activities</b>					
Cash received from customers	\$ 98,861,709	\$ (19,106,767)	\$ 17,176,924	\$ (418,937)	\$ 4,001,870
Cash payments to suppliers for goods and services	(25,458,581)	19,143,690	(362,148)	(2,435,362)	(2,228,850)
Cash paid for employee services	(17,656,448)		(223,537)	(2,560,795)	(2,481,096)
Other revenues	574,180	(36,923)		54,457	232,466
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>56,320,860</u>		<u>16,591,239</u>	<u>(5,360,637)</u>	<u>(475,610)</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
Transfers			(14,908,318)	14,480,011	831,467
<b>Net Cash Provided (Used) by Noncapital Finance Activities</b>			<u>(14,908,318)</u>	<u>14,480,011</u>	<u>831,467</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Principal paid on bonds	24,050,000		(1,280,000)	(1,980,000)	
Principal paid on notes	(300,040)				
Interest paid	(25,535,734)		(402,924)	(2,262,620)	
Proceeds from bond sales					
Bond issue expenses	(1,420,700)				
Acquisition of facilities and equipment	(11,826,215)			(7,515,424)	(78,011)
Proceeds from the sale of assets	42,062			(207,529)	9,654
Capital contributions/(distributions)	(1,104,065)			1,258,150	
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(16,094,692)</u>		<u>(1,682,924)</u>	<u>(10,707,423)</u>	<u>(68,357)</u>

**Enterprise Funds**

<b>Woodlands Division</b>	<b>Groundwater Reduction Plan Division</b>	<b>Flood Management</b>	<b>Bear Branch</b>	<b>Region H</b>	<b>General and Administration Division</b>
\$ 42,126,061	\$ 51,573,266	\$ (28,944)	\$ (12,141)	\$ 712,675	\$ 2,837,702
(25,289,267)	(12,669,862)	20,230	(105,177)	(372,645)	(1,159,190)
(6,641,021)	(4,764,749)	(150,016)	(22,384)		(812,850)
217,432	66,925				39,823
<u>10,413,205</u>	<u>34,205,580</u>	<u>(158,730)</u>	<u>(139,702)</u>	<u>340,030</u>	<u>905,485</u>
<u>(119,112)</u>	<u>(50,733)</u>	<u>158,730</u>	<u>(251)</u>	<u>(138,520)</u>	<u>(253,274)</u>
<u>(119,112)</u>	<u>(50,733)</u>	<u>158,730</u>	<u>(251)</u>	<u>(138,520)</u>	<u>(253,274)</u>
40,625,000	(13,315,000)				(300,040)
(1,731,912)	(21,044,819)				(93,459)
(1,420,700)					
(6,042,584)	1,883,881				(74,077)
150,957	156,079				(67,099)
132,710	(2,594,462)		99,537		
<u>31,713,471</u>	<u>(34,914,321)</u>		<u>99,537</u>		<u>(534,675)</u>



# SAN JACINTO RIVER AUTHORITY

## STATEMENT OF CASH FLOWS

Year Ended August 31, 2018

	<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>
<b>Cash Flows from Investing Activities</b>					
Interest earned	1,408,665		3	87,811	179
<b>Net Cash Provided by Investing Activities</b>	<u>1,408,665</u>		<u>3</u>	<u>87,811</u>	<u>179</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	41,634,833			(1,500,238)	287,679
Cash and equivalents at beginning of year	<u>129,618,530</u>			<u>38,122,110</u>	<u>3,086,173</u>
<b>Cash and Equivalents at End of Year</b>	<u>\$ 171,253,363</u>	<u>\$</u>	<u>\$</u>	<u>\$ 36,621,872</u>	<u>\$ 3,373,852</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>					
Operating Income (Loss)	\$ 33,182,841	\$ 36,923	\$ 16,596,807	\$ (6,611,989)	\$ (1,775,753)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Other revenues and expenses	574,180	(36,923)		54,457	232,466
Depreciation	24,381,708			2,187,798	193,683
(Increase) decrease in receivables	1,527,295	3,515,186	326,500	(103,794)	927,551
(increase) decrease in inventory	(112,593)			(4,497)	
(Increase) decrease in prepaid expenses and deposits	386,492		(17)	(11,678)	(39,764)
Increase (decrease) in net pension liability	(1,360,438)				
Increase (decrease) in accounts payable and accrued liabilities	(3,156,540)	(3,515,186)	(25,046)	(850,766)	(906)
Increase (decrease) in OPEB obligation	(105,649)			(20,168)	(37,806)
Increase (decrease) in deferred outflows	220,570				
Increase (decrease) in deferred inflows	1,024,561				
Increase (decrease) in unearned revenue	(241,567)		(307,005)		24,919
<b>Total Adjustments</b>	<u>23,138,019</u>	<u>(36,923)</u>	<u>(5,568)</u>	<u>1,251,352</u>	<u>1,300,143</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 56,320,860</u>	<u>\$</u>	<u>\$ 16,591,239</u>	<u>\$ (5,360,637)</u>	<u>\$ (475,610)</u>

See Notes to Financial Statements.

## Enterprise Funds

<b>Woodlands Division</b>	<b>Groundwater Reduction Plan Division</b>	<b>Flood Management</b>	<b>Bear Branch</b>	<b>Region H</b>	<b>General and Administration Division</b>
422,067	606,156		358		292,091
422,067	606,156		358		292,091
42,429,631	(153,318)		(40,058)	201,510	409,627
23,192,611	60,795,956		164,264	241,724	4,015,692
<u>\$ 65,622,242</u>	<u>\$ 60,642,638</u>	<u>\$</u>	<u>\$ 124,206</u>	<u>\$ 443,234</u>	<u>\$ 4,425,319</u>
			124,206		
\$ 2,580,383	\$ 22,468,710	\$	\$ (155,148)	\$ 246,194	\$ (24,297)
217,432	66,925				39,823
6,710,684	15,018,338		21,705		249,500
(511,862)	(3,194,826)				568,540
(73,047)	(35,049)				
(32,078)	625,705		(98)		(155,578)
					(1,360,438)
1,561,702	(739,833)	20,259	(6,161)	48,927	350,470
(40,009)					(7,666)
					220,570
					1,024,561
	(4,390)			44,909	
<u>7,832,822</u>	<u>11,736,870</u>	<u>20,259</u>	<u>15,446</u>	<u>93,836</u>	<u>929,782</u>
<u>\$ 10,413,205</u>	<u>\$ 34,205,580</u>	<u>\$ 20,259</u>	<u>\$ (139,702)</u>	<u>\$ 340,030</u>	<u>\$ 905,485</u>

**(This Page Intentionally Left Blank)**

# **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, debt service 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 five operating divisions, Region H and Bear Branch and their time and salary and benefit costs are allocated to each division based on time worked. The majority of the growth occurring during and after 2009 (see Number of Employees by Division, pages 92-93) was directly related to the planning and implementation of a groundwater reduction program in response to regulations adopted by the Lone Star Groundwater Conservation District. The Authority now performs in-house services that were not provided in 2009.

# **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 near-term future water supplies by customers. In all such contracts, the Authority has reserved the right from time to time to adjust its rates for the sale and for reservation of raw water.

### **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 permitted water rights of Lake Conroe. The Authority, in whom the legal title to the physical properties is vested, owns the remaining one-third of the permitted water rights. The Authority operates Lake Conroe for the benefit of the customers it serves and for the benefit of the City of Houston and the 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 two-thirds interest of \$24,900,950 in Lake Conroe are excluded from the capital asset totals presented.

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 wholesale 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 eleven 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 groundwater reduction program administered by the Authority’s GRP Division. The GRP pumpage fee and surface water fee income and related payments are reflected in the eliminations column of the financial statements.

All activities necessary to provide wholesale 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 wholesale 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, 2018, the following municipal utility districts have purchased reserve capacity in such Central Facilities: Montgomery County Municipal Utility District Nos. 6, 7, 36, 39, 46, 47, 60 and 67, The Woodlands Municipal Utility District No. 1, The Woodlands Metro Center Municipal Utility District and Harris- Montgomery Counties Municipal Utility District No. 386 (Montgomery County side only). Per the Sixth and Final Accounting, the municipal utility districts have until December 2018 to make their final payments.

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.

# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **Flood Management Fund (“Flood Management Division”)**

The Flood Management Division was created in the spring of 2018 to develop short-term and long-term regional flood management strategies within the San Jacinto River Basin. The intent is to build partnerships with federal, state, and local governmental entities; identify funding options and/or revenue sources; and coordinate, and partner with other flood management entities within the San Jacinto River Basin.

### **Groundwater Reduction Plan Fund (“Groundwater Reduction Plan Division”)**

As authorized by the Board of Directors, the Authority developed 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 surface water treatment and transmission 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 fully executed 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 and capital expenses for the Lake Conroe Division. 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 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, 2018, 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.

# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **C. Measurement Focus and Basis of Accounting**

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

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and 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, 2018, no allowance for bad debts is recorded.



# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **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 five years or greater. The useful lives by the type of assets are as follows:

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

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

### **G. 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 December 6, 2018, which is the date the financial statements were available to be issued.

### **I. Net Position**

Net position represents 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 represents the remaining portion of net position.

# SAN JACINTO RIVER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

A summary of **net investment in capital assets** as of August 31, 2018 follows:

	<b>Capital Assets - Net of Depreciation</b>	<b>Capital Asset Grants</b>	<b>Notes and Bonds Payable</b>	<b>Total</b>
General and Administration Division	\$ 5,474,987	\$	\$ (2,010,855)	\$ 3,464,132
Raw Water Supply	30,947,801		(10,291,323)	20,656,478
Highlands Division	70,816,716		(52,339,933)	18,476,783
Lake Conroe Division	10,551,898	44,192		10,596,090
Woodlands Division	104,502,561		(27,187,501)	77,315,060
Groundwater Reduction Plan Division	410,790,896		(491,926,730)	(81,135,834)
Bear Branch	2,316,327			2,316,327
<b>Total</b>	<b>\$ 635,401,186</b>	<b>\$ 44,192</b>	<b>\$ (583,756,342)</b>	<b>\$ 51,689,036</b>

A summary of net position restricted for **debt service** as of August 31, 2018 follows:

	<b>Restricted Cash for Debt Service</b>	<b>Liabilities Payable from Restricted Cash for Debt Service</b>	<b>Total</b>
Highlands Division	\$ 8,319,188	\$ (932,290)	\$ 7,386,898
Woodlands Division	5,601,636	(812,688)	4,788,948
Groundwater Reduction Plan Division	54,629,166	(8,703,760)	45,925,406
<b>Total</b>	<b>\$ 68,549,990</b>	<b>\$ (10,448,738)</b>	<b>\$ 58,101,252</b>

A summary of net position restricted for **construction** as of August 31, 2018 follows:

	<b>Restricted Cash for Construction</b>	<b>Bonds Payable</b>	<b>Liabilities Payable from Restricted Cash for Construction</b>	<b>Total</b>
Highlands Division	\$ 6,764,489	\$ (6,764,489)	\$	\$ -
Lake Conroe Division	44,192		(44,192)	-
Woodlands Division	53,457,866	(53,003,063)	(454,803)	-
Groundwater Reduction Plan Division	2,440,695	(2,440,695)		-
<b>Total</b>	<b>\$ 62,707,242</b>	<b>\$ (62,208,247)</b>	<b>\$ (498,995)</b>	<b>\$ -</b>

# SAN JACINTO RIVER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

A summary of net position restricted for **other** as of August 31, 2018 follows:

	<b>Emergency Reserve</b>	<b>Grants</b>	<b>Total</b>
General and Administration Division	\$ 144,379	\$	\$ 144,379
Woodlands Division	2,047,168		2,047,168
Bear Branch	101,601		101,601
Region H		125,721	125,721
<b>Total</b>	<b>\$ 2,293,148</b>	<b>\$ 125,721</b>	<b>\$ 2,418,869</b>

A summary of net position – **unrestricted** as of August 31, 2018 follows:

	<b>Designated</b>			<b>Undesignated</b>	<b>Total</b>
	<b>Operating Reserve</b>	<b>Emergency</b>	<b>Capital Reserve and Replacement</b>		
General & Administration Div.	\$ 1,589,315	\$ 1,589,315	\$ 940,091	\$ 851,453	\$ 4,970,174
Raw Water Supply				1,166,457	1,166,457
Highlands Division	2,753,196	2,753,196	4,736,853	10,562,168	20,805,413
Lake Conroe Division	941,179	941,179	1,447,002	(361,222)	2,968,138
Woodlands Division	804,562			4,597,240	5,401,802
Flood Management				(20,259)	(20,259)
Groundwater Reduct. Plan Div.				13,242,530	13,242,530
<b>Total</b>	<b>\$ 6,088,252</b>	<b>\$ 5,283,690</b>	<b>\$ 7,123,946</b>	<b>\$ 30,038,367</b>	<b>\$ 48,534,255</b>

### 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 U.S. Bank and are carried at market value.

	<b>Book Balance</b>	<b>Bank Balance</b>	<b>Insurance &amp; Market Value of Collateral</b>
Collateral held by pledging banks in the Authority's name	\$ 21,388,360	\$ 21,971,780	\$ 28,217,715
Cash equivalents, not requiring pledging by banks, money funds & Pools	149,865,003	149,865,003	N/A
<b>Total Cash and Cash Equivalents</b>	<b>\$ 171,253,363</b>	<b>\$ 171,836,783</b>	

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

# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **Investment Policy**

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

### **Investments**

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

- Obligations of the U.S. or its agencies
- 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, 2018.

### **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. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 79, investment pools use amortized cost (which excludes unrealized gains and losses) to compute share price. An external investment pool qualifies for amortized cost reporting if it transacts with its participants at a stable net asset value per share and meets various portfolio maturity, quality, diversification liquidity and pricing requirements. Investments in pools are deemed to have a weighted average maturity of one day. At August 31, 2018, the Authority participated in TexPool (\$53,746,910) and TexStar (\$4,956,634).

### **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 AAAM by Standard and Poor's.

# **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, 2018 follow:

	<u>Receivables</u>	<u>Payables</u>
Enterprise Funds:		
Raw Water Supply	\$ 266,304	\$
General and Administration Division	1,184,703	367
Highlands Division	88,899	
Woodlands Division	84	2,728,104
Groundwater Reduction Plan Division	1,975,196	780,193
Bear Branch		6,522
	<u>\$ 3,515,186</u>	<u>\$ 3,515,186</u>

Interfund balances and transfers primarily result from payroll transactions with related employee benefits, and GRP pumpage fees and GRP surface water 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 and surface water fees which is sources of revenue to the GRP Division and expenses 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:

	<u>Balance at Sept. 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at Aug. 31, 2018</u>
<b>Business-Type Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 23,475,012	\$ 4,398,262	\$	\$ 27,873,274
Water permits and rights	30,947,801			30,947,801
Construction in progress	14,175,694	14,134,633	(16,572,977)	11,737,350
Total Capital Assets Not Being Depreciated	<u>68,598,507</u>	<u>18,532,895</u>	<u>(16,572,977)</u>	<u>70,558,425</u>
Capital Assets Being Depreciated:				
Land improvements	2,498,788			2,498,788
Furniture, fixtures and equipment	5,221,854	218,804	(134,868)	5,305,790
Other machinery and equipment	3,778,643	412,067	(119,570)	4,071,140
Automobiles and trucks	2,735,604	139,219	(39,999)	2,834,824
Buildings	26,326,020	74,025		26,400,045
Dams and appurtenances	9,647,026	489,081		10,136,107
Water systems	588,724,301	8,915,707	(234,662)	597,405,346
Wastewater utility systems	101,507,457	146,497		101,653,954
Capital improvement plans	376,882			376,882
Total Capital Assets Being Depreciated	<u>740,816,575</u>	<u>10,395,400</u>	<u>(529,099)</u>	<u>750,682,876</u>
Less Accumulated Depreciation for:				
Roads	661,014	124,457		785,471
Furniture, fixtures and equipment	3,402,450	471,574	(97,982)	3,776,042
Other machinery and equipment	2,205,898	346,061	(119,783)	2,432,176
Automobiles and trucks	2,206,898	246,579	(39,999)	2,413,478
Buildings	3,564,934	572,803	(36,673)	4,101,064
Dams and appurtenances	3,654,819	139,880		3,794,699
Water systems	88,515,689	19,294,818	(221,275)	107,589,232
Wastewater utility systems	57,524,843	3,185,541		60,710,384
Capital improvement plans	237,569			237,569
Total Accumulated Depreciation	<u>161,974,114</u>	<u>24,381,713</u>	<u>(515,712)</u>	<u>185,840,115</u>
Total Capital Assets Being Depreciated, Net	<u>578,842,461</u>	<u>(13,986,313)</u>	<u>(13,387)</u>	<u>564,842,761</u>
<b>Business-Type Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 647,440,968</u>	<u>\$ 4,546,582</u>	<u>\$ (16,586,364)</u>	<u>\$ 635,401,186</u>

Construction in progress deletions for the current year exceeded additions to capital assets due to the distribution of completed infrastructure projects to GRP customers.

# 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:

	<b>Original Bond Premium or (Discount)</b>	<b>Balance at Sept. 1, 2017</b>	<b>Current Year Amortization</b>	<b>Balance at Aug. 31, 2018</b>
<b>Raw Water Supply</b>				
Water Revenue Refunding Bonds:				
Series 2010	\$ 421,941	\$ 214,672	\$ 29,610	\$ 185,062
Series 2012	70,827	54,543	8,282	46,261
<b>Total Raw Water Supply</b>	<u>492,768</u>	<u>269,215</u>	<u>37,892</u>	<u>231,323</u>
<b>Highlands Division</b>				
Water Revenue Bonds:				
Series 2010	130,316	94,178	5,161	89,017
Series 2013	265,830	221,562	10,031	211,531
Series 2014	(1,348)	(1,185)	(59)	(1,126)
<b>Total Highlands Division</b>	<u>394,798</u>	<u>314,555</u>	<u>15,133</u>	<u>299,422</u>
<b>Total Raw Water Enterprise</b>	<u>887,566</u>	<u>583,770</u>	<u>53,025</u>	<u>530,745</u>
<b>Woodlands Division</b>				
Special Project Revenue Refunding Bonds:				
Series 2010	103,982			
Series 2010	252,508	77,216	24,048	53,168
Series 2014	1,183,116	987,108	101,288	885,820
Series 2014	2,488,017	2,075,825	129,248	1,946,577
<b>Total Woodlands Division</b>	<u>4,027,623</u>	<u>3,140,149</u>	<u>254,584</u>	<u>2,885,565</u>
<b>GRP Division</b>				
Special Project Revenue Bonds:				
Series 2011	114,995	87,750	4,353	83,397
Series 2016	69,788	66,686	2,659	64,027
<b>Total GRP Division</b>	<u>184,783</u>	<u>154,436</u>	<u>7,012</u>	<u>147,424</u>
<b>Totals</b>	<u>\$ 5,099,972</u>	<u>\$ 3,878,355</u>	<u>\$ 314,621</u>	<u>\$ 3,563,734</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, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at Aug. 31, 2018</u>	<u>Due Within One Year</u>
<b>Raw Water Supply</b>							
Water Revenue Refunding Bonds:							
Series 2010	3.00-4.25%	14,000,000	\$ 8,695,000	\$	\$ 990,000	\$ 7,705,000	\$ 1,030,000
Series 2012	2.00-3.00%	3,710,000	2,645,000		290,000	2,355,000	300,000
<b>Total Raw Water Supply</b>			<u>11,340,000</u>		<u>1,280,000</u>	<u>10,060,000</u>	<u>1,330,000</u>
<b>Highlands Division</b>							
Water Revenue Bonds:							
Series 2010	3.00-4.38%	25,380,000	21,220,000		790,000	20,430,000	820,000
Series 2013	2.00-5.00%	6,730,000	6,195,000		185,000	6,010,000	190,000
Series 2014	2.00-3.50%	5,360,000	5,205,000		160,000	5,045,000	165,000
Series 2015	0.89-4.28%	29,000,000	28,165,000		845,000	27,320,000	860,000
<b>Total Highlands Division</b>			<u>60,785,000</u>		<u>1,980,000</u>	<u>58,805,000</u>	<u>2,035,000</u>
<b>Total Raw Water Enterprise</b>			<u>72,125,000</u>		<u>3,260,000</u>	<u>68,865,000</u>	<u>3,365,000</u>
<b>Woodlands Division</b>							
Special Project Revenue Bonds:							
Series 2007	5.25-5.50%	14,435,000					
Special Project Revenue Refunding Bonds:							
Series 2010	4.00-5.00%	4,440,000	1,985,000		465,000	1,520,000	485,000
Series 2014	2.00-5.00%	11,355,000	9,935,000		550,000	9,385,000	560,000
Series 2014	3.00-5.00%	26,700,000	24,760,000		1,255,000	23,505,000	1,290,000
Series 2017	0.00-1.710%	42,895,000		42,895,000		42,895,000	
<b>Total Woodlands Division</b>			<u>36,680,000</u>	<u>42,895,000</u>	<u>2,270,000</u>	<u>77,305,000</u>	<u>2,335,000</u>
<b>Groundwater Reduction Plan Division</b>							
Special Project Revenue Bonds:							
Series 2009	0.85-2.66%	21,500,000	21,500,000		1,635,000	19,865,000	1,650,000
Series 2011	3.00-5.25%	83,155,000	76,855,000		2,260,000	74,595,000	2,355,000
Series 2011A	1.47-4.97%	67,470,000	59,110,000		2,190,000	56,920,000	2,245,000
Series 2012	1.47-4.62%	175,000,000	155,450,000		5,105,000	150,345,000	5,225,000
Series 2012A	1.67-4.62%	165,000,000	155,365,000		1,095,000	154,270,000	1,120,000
Series 2013	0.53-4.76%	39,850,000	37,025,000		970,000	36,055,000	990,000
Series 2016	2.00-4.00%	2,305,000	2,230,000		60,000	2,170,000	65,000
<b>Total Groundwater Reduction Plan Division</b>			<u>507,535,000</u>		<u>13,315,000</u>	<u>494,220,000</u>	<u>13,650,000</u>
<b>Total Bonds Payable</b>			<u>\$ 616,340,000</u>	<u>\$ 42,895,000</u>	<u>\$ 18,845,000</u>	<u>\$ 640,390,000</u>	<u>\$ 19,350,000</u>

Of the \$640,390,000 of bonds payable, \$621,040,000 is considered long-term and \$19,350,000 is considered current.



# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

The Water Revenue Bonds within Raw Water Enterprise 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.

The Woodlands Division 2017 Special Project Revenue Bond resolutions require that the gross revenues of the Woodlands, 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.

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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>Raw Water Enterprise</b>			
2019	\$ 3,365,000	\$ 2,567,877	\$ 5,932,877
2020	3,470,000	2,465,528	5,935,528
2021	3,580,000	2,356,879	5,936,879
2022	3,700,000	2,238,116	5,938,116
2023	3,840,000	2,109,052	5,949,052
2024-2028	15,425,000	8,714,909	24,139,909
2029-2033	15,315,000	5,890,259	21,205,259
2034-2038	15,525,000	2,469,303	17,994,303
2039-2043	4,645,000	189,242	4,834,242
	<u>\$ 68,865,000</u>	<u>\$ 29,001,165</u>	<u>\$ 97,866,165</u>
<b>Woodlands Division</b>			
2019	\$ 2,335,000	\$ 1,933,730	\$ 4,268,730
2020	4,050,000	1,847,993	5,897,993
2021	4,130,000	1,756,675	5,886,675
2022	3,675,000	1,679,506	5,354,506
2023	3,755,000	1,592,454	5,347,454
2024-2028	20,285,000	6,313,794	26,598,794
2029-2033	18,900,000	2,866,212	21,766,212
2034-2038	10,120,000	1,207,125	11,327,125
2039-2043	10,055,000	428,282	10,483,282
	<u>\$ 77,305,000</u>	<u>\$ 19,625,771</u>	<u>\$ 96,930,771</u>
<b>Groundwater Reduction Plan Division</b>			
2019	\$ 13,650,000	\$ 20,713,575	\$ 34,363,575
2020	14,020,000	20,340,105	34,360,105
2021	14,430,000	19,930,199	34,360,199
2022	14,875,000	19,482,237	34,357,237
2023	15,375,000	18,983,208	34,358,208
2024-2028	86,090,000	85,696,306	171,786,306
2029-2033	106,025,000	65,779,794	171,804,794
2034-2038	133,365,000	38,441,974	171,806,974
2039-2043	96,390,000	6,824,272	103,214,272
	<u>\$ 494,220,000</u>	<u>\$ 296,191,670</u>	<u>\$ 790,411,670</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 was 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 and interest on the unpaid balance has been repaid. 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 at 4.25%, principal and interest payments of \$32,792 until such time as all principal and interest on the unpaid balance has been repaid. The Authority's balance of the note at August 31, 2018 was \$2,010,855.

Notes payable activity for the year ended August 31, 2018 follows:

Balance at beginning of year	\$	2,310,895
Additions		
Retirements		(300,040)
Balance at end of year	\$	<u>2,010,855</u>

Maturities of the loan commitments for the balances outstanding as of August 31, 2018 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>General and Administration Division</b>			
2019	\$ 314,119	\$ 79,385	\$ 393,504
2020	327,728	65,776	393,504
2021	341,931	51,573	393,504
2022	356,749	36,755	393,504
2023	372,210	21,294	393,504
2024	298,118	5,452	303,570
	<u>\$ 2,010,855</u>	<u>\$ 260,235</u>	<u>\$ 2,271,090</u>

### **NOTE 7 – GENERAL AND ADMINISTRATIVE EXPENSES**

The general and administrative 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, 2018.

# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 8 – PENSION PLAN**

#### **Defined Contribution Pension Plan**

In August 2016, the Authority adopted the San Jacinto River Authority 401(a) Plan with ICMA-RC and also the existing 457(B) Deferred Compensation Plan from the Standard to ICMA-RC.

ICMA-RC is the trustee of the 401(a) and 457(b) Plans.

*Eligibility.* Employees hired prior to August 1, 2016 are covered under the Defined Benefit Pension Plan and are not eligible for the new 401(a) Plan. Employees hired on or after August 1, 2016 are eligible to receive employer contributions under the new 401(a) Plan. All employees are eligible to make elective deferrals to the existing 457(b) Plan.

*Benefits Provided.* The Authority provides a Fixed Employer Contribution of 8% earnings on behalf of each participant for the Plan year and provides Variable Employer Match of 100% up to 4% of employee elective deferrals made to the 457(b) Plan as a matching contribution to the 401(a) Plan.

*Vesting.* Participants are vested 25% after three years, 50% after four years, and 100% after five years of service in the 401(a) Plan. Participants are always 100% vested in the 457(b) Plan.

Contributions to each employee's 401(a) and 457(b) plans are invested in accordance with employee's instructions. Individual accounts are maintained for each participant.

# SAN JACINTO RIVER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### Defined Benefit Pension Plan

#### Statement of Net Position

	<u>October 31, 2016</u>	<u>October 31, 2017</u>
<b><u>Assets</u></b>		
Cash and cash equivalents	\$ 1,764,156	\$ 2,047,415
Investments:		
Fixed income	8,144,283	9,728,305
Stocks	3,285,771	4,357,100
Real estate	638,470	809,961
<b>Total Investments</b>	<u>12,068,524</u>	<u>14,895,366</u>
<b>Total Assets</b>	<u>\$ 13,832,680</u>	<u>\$ 16,942,781</u>
<b><u>Net Position Restricted for Pensions</u></b>	<u>\$ 13,832,680</u>	<u>\$ 16,942,781</u>

#### Statement of Changes in Fiduciary Net Position

<b><u>Additions</u></b>	
Employer contributions	\$ 1,446,275
<b>Total Contributions</b>	<u>1,446,275</u>
Investment income (loss):	
Net increase in fair value of investments	<u>2,338,816</u>
<b>Net Investment Income</b>	<u>2,338,816</u>
<b>Total Additions</b>	<u>3,785,091</u>
<b><u>Deductions</u></b>	
Service benefits	667,764
Administrative expenses	7,226
<b>Total Deductions</b>	<u>674,990</u>
<b>Net Increase (Decrease)</b>	3,110,101
<b><u>Net Position Restricted for Pensions</u></b>	
Beginning of year (October 31, 2016)	<u>13,832,680</u>
<b>End of Year (October 31, 2017)</b>	<u>\$ 16,942,781</u>

# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **Summary of Significant Accounting Policies**

*Method used to value investments.* Investments are reported at fair value.

*Pensions.* For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the San Jacinto River Authority Pension Plan and additions to/deductions from the San Jacinto River Authority Pension Plan's fiduciary net position have been determined on the same basis as they are reported by the San Jacinto River Authority. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **Plan Description (Pension Plan)**

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

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

*Significant Changes.* The Plan was amended effective August 1, 2016 to 1) freeze participation (i.e. employees hired on or after August 1, 2016 are not eligible for the Plan), 2) modify the definition of Actuarial Equivalence to 6.5% and applicable mortality, and 3) offer a lump sum option form of payment up to \$50,000.

*Benefits Provided.* The Plan is available to all active employees hired before August 1, 2016, who have completed one year of service and attained age 21. Normal retirement age is 65. The Plan also provides benefits for early and late retirement. The retirement benefit at normal retirement is equal to 1.00% of average monthly compensation up to a participant's covered compensation level plus 0.55% of average monthly compensation in excess of the covered compensation level multiplied by the number of years of credited service not to exceed 40 years. The retirement benefit is payable monthly during the life of the retired participant. The Plan also provides death and disability benefits. A member is 100% vested in the accrued benefit upon completion of 5 years of service.

# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

*Plan Membership.* At November 1, 2016, there were 201 plan members including 150 active members, 29 terminated vested members, and 22 retirees and beneficiaries.

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

### **Investments**

*Investment policy.* It is the policy of the Authority's Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Board's adopted asset allocation policy as of August 31, 2016.

<b><u>Asset Class</u></b>	<b><u>Target Allocation</u></b>
Fixed Income	35%
Domestic Equities	50%
Foreign Equities	10%
Real Estate	<u>5%</u>
Total	100%

*Rate of return.* For the plan year ended October 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.95%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

# SAN JACINTO RIVER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### Calculation of Money-Weighted Rate of Return

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

<u>Interest</u>	<u>Net External Cash Flows</u>	<u>Periods Invested</u>	<u>Period Weight</u>	<u>Net External Cash Flows With Interest</u>
Beginning Value - November 1, 2016	\$ 13,832,680	12.00	1.00	\$ 16,039,451
Monthly Net External Cash Flows:				
November	(56,249)	12.00	1.00	(65,223)
December	(56,249)	11.00	0.92	(65,455)
January	1,390,026	10.00	0.83	1,571,730
February	(56,249)	9.00	0.75	(62,853)
March	(56,249)	8.00	0.67	(62,113)
April	(56,249)	7.00	0.58	(61,292)
May	(56,249)	6.00	0.50	(60,570)
June	(56,249)	5.00	0.42	(59,857)
July	(56,249)	4.00	0.33	(59,065)
August	(56,249)	3.00	0.25	(58,370)
September	(56,249)	2.00	0.17	(57,683)
October	(56,249)	1.00	0.08	(56,919)
Ending Value - October 31, 2017	\$ 16,942,781			<u>\$ 16,941,781</u>
Money-Weighted Rate of Return	15.95%			



# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

*Return on assets.* The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practice as of June 30, 2017.

<b><u>Asset Class</u></b>	<b><u>Index</u></b>	<b><u>Target Allocation</u></b>	<b><u>Long-Term Expected Arithmetic Real Rate of Return</u></b>
US Core Fixed Income	Barclays Aggregate	15.00%	2.02%
US Interm Bonds	Barclays IT Gvt/Credit	10.00%	1.66%
US Inflation-Indexed Bonds	Barclays US TIPs	5.00%	1.38%
US High Yield Bonds	BAML High Yield	5.00%	4.86%
US Large Caps	S&P 500	12.00%	4.40%
US Small & Mid Caps	Russell 2500	4.00%	5.30%
US Large Growth	Russell 1000 Growth	8.00%	4.94%
US Large Value	Russell 1000 Value	8.00%	4.13%
US Small Growth	Russell 2000 Growth	4.00%	6.35%
US Small Value	Russell 2000 Value	4.00%	4.88%
US MidCap Growth	Russell MidCap Growth	5.00%	5.60%
US MidCap Value	Russell MidCap Value	5.00%	4.45%
Foreign Developed Equity	MSCI EAFE NR	10.00%	5.23%
US REITs	FTSE NAREIT Equity REIT	5.00%	4.56%
Assumed Inflation - Mean			2.32%
Assumed Inflation - Standard Deviation			1.85%
Portfolio Real Mean Return			3.95%
Portfolio Nominal Mean Deviation			6.27%
Portfolio Standard Deviation			11.38%
<b>Long-Term Expected Rate of Return</b>			<b>6.25%</b>

# SAN JACINTO RIVER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### Net Pension Liability

	<b>October 31, 2016</b>	<b>October 31, 2017</b>
Total pension liability	\$ 15,196,084	\$ 16,945,747
Fiduciary net position	13,832,680	16,942,781
<b>Net Pension Liability</b>	<b>\$ 1,363,404</b>	<b>\$ 2,966</b>
Fiduciary net position as a % of total pension liability	91.03%	99.98%
Covered payroll	\$ 10,585,540	\$ 11,051,082
Net pension liability as a % of covered payroll	12.88%	0.03%

*Actuarial Assumptions.* The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date taking into account any significant changes between the valuation date and the fiscal year end as prescribed by GASB 67 and 68.

### Discount Rate

	<b>October 31, 2016</b>	<b>October 31, 2017</b>
Discount rate	6.50%	6.25%
Long-term expected rate of return, net of investment expense	6.50%	6.25%
Municipal bond rate	N/A	N/A

### Other Key Actuarial Assumptions

	<b>October 31, 2016</b>	<b>October 31, 2017</b>
Valuation date	November 1, 2015	November 1, 2016
Measurement date	October 31, 2016	October 31, 2017
Inflation	2.30%	2.30%
Salary increases including inflation	5.00%	5.00%
Mortality	RP-2000 w/ generational projection per Scale BB	RP-2000 w/ generational projection per Scale BB
Actuarial cost method	Entry Age Normal	Entry Age Normal

*Discount rate.* The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

# SAN JACINTO RIVER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the Authority, calculated using the discount rate of 6.25%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
	<b>5.25%</b>	<b>Discount Rate</b>	<b>7.25%</b>
	<b>5.25%</b>	<b>6.25%</b>	<b>7.25%</b>
Total pension liability	\$ 19,653,112	\$ 16,945,747	\$ 14,716,878
Fiduciary net position	16,942,781	16,942,781	16,972,781
<b>Net Pension Liability</b>	<b>\$ 2,710,331</b>	<b>\$ 2,966</b>	<b>\$ (2,255,903)</b>

### Changes in Net Pension Liability

	<b>Increase (Decrease)</b>		
	<b>Total Pension</b>	<b>Plan Fiduciary</b>	<b>Net Pension</b>
	<b>Liability</b>	<b>Net Position</b>	<b>Liability</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a)-(b)</b>
Balances as of August 31, 2017	\$ 15,196,084	\$ 13,832,680	\$ 1,363,404
Changes for the year:			
Service cost	1,200,814		1,200,814
Interest on total pension liability	1,057,429		1,057,429
Effect of economic/demographic gains or losses	(376,723)		(376,723)
Effect of assumptions changes or inputs	535,907		535,907
Benefit payments	(667,764)	(667,764)	
Administrative expenses		(7,226)	7,226
Net investment income		2,338,816	(2,338,816)
Employer contributions		1,446,275	(1,446,275)
<b>Balances as of August 31, 2018</b>	<b>\$ 16,945,747</b>	<b>\$ 16,942,781</b>	<b>\$ 2,966</b>

# SAN JACINTO RIVER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued San Jacinto River Authority financial report (i.e. GASB 67 disclosure requirements).

### Pension Expense

<b>Pension Expense</b>	<b>September 01, 2017 to August 31, 2018</b>
Service cost	\$ 1,200,814
Interest on total pension liability	1,057,429
Administrative expenses	7,226
Expected investment return net of investment expenses	(923,796)
Recognition of economic/demographic gains and losses	(110,455)
Recognition of assumption changes or inputs	25,637
Recognition of investment gains and losses	(132,939)
	\$ 1,123,916

As of August 31, 2018, the deferred inflows and outflows of resources are as follows:

	<b>Deferred Inflows of Resources</b>	<b>Deferred Outflows of Resources</b>
Contributions made subsequent to measurement date	\$	\$ 1,281,550
Difference between expected and actual experience	970,157	
Changes in assumptions	205,840	484,058
Net difference between projected and actual earnings	742,178	
<b>Total</b>	\$ 1,918,175	\$ 1,765,608

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended August 31:</b>	
2019	\$ (217,758)
2020	(198,056)
2021	(297,814)
2022	(367,822)
2023	(84,818)
Thereafter*	(267,849)

\* Note that additional future deferred inflows and outflows of resources may impact these numbers.

# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **Depletion Date Projection**

GASB 67 and 68 generally require that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 67 and 68 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB 67 and 68 (paragraph 29) do allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for the Authority.

- The Authority has a least a 5-year history of paying at least 100% of the Actuarially Determined Contribution (previously termed the Annual Required Contribution).
- The Actuarially Determined Contribution is based on a closed amortization period, which means that payment of the Actuarially Determined Contribution each year will bring the plan to a 100% funded position by the end of the amortization period.
- GASB 67 and 68 specify that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

Based on these circumstances, it is Milliman's professional opinion that the detailed depletion date projects outlined in GASB 67 and 68 will show that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

#### **Plan Description**

The Authority provides other post-employment 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 responsibility 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. The Authority paid an estimated \$52,564 for OPEB medical insurance coverage for retired employees covered under the OPEB plan during the fiscal year ending August 31, 2018. After review, the Authority deems no reserve necessary for OPEB healthcare plan.

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

#### **Funding Policy**

The contribution required from OPEB plan members may be amended by the Authority's Board of 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 an estimated \$52,564 for OPEB medical insurance coverage for retired employees covered under the OPEB plan during the fiscal year ending August 31, 2018. After review, the Authority deems no reserve necessary for OPEB healthcare plan.

#### **Benefits Provided**

The Authority provides healthcare benefits for retirees and their dependents. Employees hired prior to 1990 and who are continuously employed by the Authority through age 65 are eligible for retiree health benefits. Spouses of eligible retirees are also eligible for coverage. Eligible retirees and spouses may choose to enroll in the fully insured Medicare Supplement medical plan. The benefit terms provide for payment of 100% of the total premium of the fully insured Medicare Supplement plan for eligible retirees and spouses.

#### **Employees Covered by Benefit Terms**

As of August 31, 2018, ten former employees, dependents, and surviving spouses 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.

# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **Total OPEB Liability**

The total OPEB liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB 75

### **OPEB Liability**

	<b><u>August 31, 2017</u></b>	<b><u>August 31, 2018</u></b>
Total OPEB liability	\$ 1,947,522	\$ 1,841,872
Covered payroll	\$ 393,447	\$ 322,115
Total OPEB liability as a % of covered payroll	494.99%	571.81%

### **Discount Rate**

The discount rate was based on the Bond Buyer General Obligation 20-bond municipal index.

### **Discount Rate**

	<b><u>August 31, 2017</u></b>	<b><u>August 31, 2018</u></b>
Discount rate	3.51%	3.96%
20 Year Tax-Exempt Municipal Bond Yield	3.51%	3.96%

# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **Other Key Actuarial Assumptions**

The actuarial assumptions that determined the total OPEB liability as of August 31, 2018 were based on the results of an actuarial experience study for the period November 1, 2011- November 1, 2015

### **Other Key Actuarial Assumptions**

	<b><u>August 31, 2017</u></b>	<b><u>August 31, 2018</u></b>
Valuation date	September 1, 2016	September 1, 2016
Measurement date	August 31, 2017	August 31, 2018
Inflation	2.30%	2.30%
Salary increases including inflation	5.00%	5.00%
Mortality	RP-2000 Mortality For Employees, Healthy Annuitants, and Dissabled Annuitants with generational projection per Scale BB	RP-2000 Mortality For Employees, Healthy Annuitants, and Dissabled Annuitants with generational projection per Scale BB
Actuarial cost method	Entry Age Normal	Entry Age Normal

### **Changes in OPEB Liability**

	<b><u>Total OPEB Liability</u></b>
Balances as of September 1, 2017	\$ 1,947,522
Changes for the year:	
Service cost	22,695
Interest on total pension liability	68,240
Effect of assumptions changes or inputs	(144,021)
Benefit payments	(52,564)
<b>Balances as of August 31, 2018</b>	<b><u>\$ 1,841,872</u></b>



# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **Sensitivity Analysis.**

The following presents the total OPEB liability of the Authority, calculated using the discount rate of 3.96 percent, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.96 percent) or 1-percentage-point higher (4.96 percent) than the current rate:

	<b>1% Decrease</b>	<b>Discount Rate</b>	<b>1% Increase</b>
	<b>2.96%</b>	<b>3.96%</b>	<b>4.96%</b>
Total OPEB Liability	\$ 2,183,004	\$ 1,841,872	\$ 1,568,919

The following presents the total OPEB liability of the Authority, calculated using the current trend rates, as well as what the Authority's total OPEB liability would be if it were calculated using trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current trend rates:

	<b>1% Decrease</b>	<b>Current Trend Rate</b>	<b>1% Increase</b>
Total OPEB Liability	\$ 1,523,269	\$ 1,841,872	\$ 2,252,477

### ***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

For the year ended August 31, 2018, the Authority recognized OPEB expense of \$-10,759.

#### **OPEB Expense**

	<b>September 01, 2017 to August 31, 2018</b>
<b>OPEB Expense</b>	
Service cost	\$ 22,695
Interest on total OPEB liability	68,240
Effect of plan changes	
Recognition of economic/demographic gains and losses	
Recognition of assumption changes or inputs	(101,694)
	<u>\$ (10,759)</u>

# SAN JACINTO RIVER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

At August 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Difference between expected and actual experience	\$	\$
Changes in assumptions	220,951	
<b>Total</b>	<u>\$ 220,951</u>	<u>\$</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended August 31:</u>	
2018	\$ (101,694)
2019	(88,936)
2020	(30,321)
2021	
2022	
Thereafter*	

\* Note that additional future deferred inflows and outflows of resources may impact these numbers.

### NOTE 10 – MAJOR CUSTOMERS

Industrial and municipal water sales totaling \$14,901,755 were invoiced to the Authority's three largest customers of the Raw Water Supply Division. This accounts for 87% of the Raw Water Supply Division water sales revenues for the year ended August 31, 2018.

Revenues totaling \$2,617,142 accrued from the Authority's primary contractual partner (City of Houston) in the Lake Conroe reservoir project. This accounts for 70% of the Lake Conroe Division's operating revenues for the year ended August 31, 2018.

Water pumpage and surface water fees totaling \$27,545,958 were invoiced to the Authority's two largest customers of the Groundwater Reduction Plan Division. This accounts for 50% of Groundwater Reduction Plan Division's operating revenues for the year ended August 31, 2018.

Water and sewer service fees and capacity charges totaling \$28,011,177 were invoiced to the Authority's five largest customers of the Woodlands Division. This accounts for 65% of The Woodlands Division's operating revenues for the year ended August 31, 2018.

# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 11 – CONTINGENCIES**

On June 20, 2016, the Authority adopted a Rate Order setting revised rates applicable to its GRP Participants. The rate revisions were to take effect on September 1, 2016.

On August 16, 2016, the City of Conroe, Texas, the second-largest rate payer in the Authority's GRP, adopted an ordinance that, among other things, directed City staff not to pay the revised rates adopted by the Authority.

On August 31, 2016, the San Jacinto River Authority filed suit in the District Court of Travis County, Texas, pursuant to Chapter 1205 of the Texas Government Code, seeking a declaratory judgment that (i) the Authority is authorized to set rates for its GRP Participants pursuant to the procedures set forth in the contracts between the Authority and its GRP Participants (the "GRP Contracts), (ii) the Authority adopted its fiscal year 2017 Rate Order, including the setting of its fiscal year 2017 rates, in accordance with the procedures set forth in the GRP Contracts, (iii) the Authority's fiscal year 2017 rates, the Rate Order, and the GRP Contract are legal and valid, and (iv) the City of Conroe's refusal to pay the fiscal year 2017 rate is illegal and invalid, and its failure to pay is a breach of its GRP Contract. The Cities of Conroe, Magnolia, and Splendora, Texas, along with two privately-owned water utilities, Quadvest, L.P. and Woodlands Oaks Utility, L.P., have intervened in opposition to the Authority's suit.

In August 2018, the Third Court of Appeals, Austin, affirmed the trial court's ruling that it was a proper venue for the suit and had jurisdiction, and the Cities of Conroe, Magnolia, and Splendora, Texas have petitioned the Texas Supreme Court for review of the Third Court's affirmance. As a result, the suit is currently stayed pending the Supreme Court's decision on whether to review. The Authority cannot predict the outcome of the suit at this time. As such, the Authority cannot make a statement regarding the impact the resolution of the suit may have upon the Authority's financial condition. The Authority has expended approximately \$939,720 in legal fees and costs related to the suit and additional expenditures are anticipated to be incurred by the Authority in the future.

During the Authority's fiscal year 2018, the City of Conroe and City of Magnolia paid the fiscal year 2016 rates (not fiscal year 2018 rates) and are incurring late fees and finance fees on unpaid balances from fiscal year 2018 and prior fiscal years. As of August 31, 2018, the past due balance (including late fees and interest) for the City of Conroe was \$1,966,193 and for the City of Magnolia was \$102,712. All other participants paid the fiscal year 2018 rates during the Authority's fiscal year 2018.

# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO 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.

There are twenty one (21) active lawsuits that have been filed against the Authority on behalf of approximately nine hundred (900) plaintiffs alleging the release of water from the Lake Conroe Dam following Hurricane Harvey caused flooding on their properties in violation of the Takings Clause of the Texas Constitution. Another two thousand (2,000) individuals have submitted notices of potential claims under the Texas Tort Claims Act, but have not yet filed a lawsuit. The Authority is contesting all of these claims vigorously and intends to continue to do so. In all of the filed lawsuits, the Authority has filed a motion to dismiss or a plea to the court's jurisdiction. All cases are now either in the Courts of Appeals, stayed by agreement, or awaiting a ruling on the motion. The Authority cannot express a judgement as to the potential outcome of the claims, estimate the amount or range of potential losses related to the claims, or estimate legal expenses that may be incurred in contesting the claims. No inference should be drawn from the foregoing.

### **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 75<sup>th</sup> Texas Legislature in 1997, Senate Bill 2 was enacted by the 77<sup>th</sup> Texas Legislature in 2001 and Senate Bill 3 was enacted by the 80<sup>th</sup> 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, 2018, 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
- 5-19.99 years of employment                    30 hours per quarter
- 20 plus 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 automatically be donated to the Sick Leave Pool, 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 separation of employment, employees will be paid for up to four quarters of unused vacation time. Unused vacation time over four quarters will be automatically donated to the Sick Leave Pool. The liability and annual expense for accrued vacation was calculated based on the employee's pay rate times the accrued vacation hours plus applicable employee benefits as of the end of the fiscal year.

#### **Sick Leave**

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

Accrual: Sick leave will accrue at the rate of eight hours per month. No more than 36 eight-hour days (288 hours) of accrued sick leave may be carried forward from one fiscal year to the next. Balances in excess of 36 days (288 hours) will be canceled on August 31 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 Authority'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 36 days (288 hours).

#### **Compensatory Time**

Non-exempt employees may accrue compensatory time (comp time) in lieu of being paid overtime compensation at the discretion of the Authority. Compensatory time is accrued at the rate of one and one-half times the number of hours worked in excess of 40 hours in the work week.

# **SAN JACINTO RIVER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

Accrued Compensatory time is limited based on the operational 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 – 20 actual hours = 30 compensatory time hours

Woodlands Employees – 20 actual hours = 30 compensatory time hours

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

Highlands Employees – 80 actual hours = 120 compensatory time hours

GRP Employees – 20 actual hours = 30 compensatory time hours

Compensatory time may be used for personal leave of absences that regular sick and/or vacation would not cover. 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, transfer 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.

# **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><b>Sept. 1, 2017</b></u>	<u><b>Additions</b></u>	<u><b>Reductions</b></u>	<u><b>Aug. 31, 2018</b></u>
Lake Conroe Vacation	\$ 29,122	\$ 3,792	\$	\$ 32,914
Highlands Vacation	15,515	1,775		17,290
General & Admin Vacation	186,848	14,572		201,420
Woodlands Vacation	94,210		3,285	90,925
GRP Vacation	48,241	5,039		53,280
Vacation Total	<u>373,936</u>	<u>25,178</u>	<u>3,285</u>	<u>395,829</u>
Lake Conroe Sick Leave				
Highlands Sick Leave				
General & Admin Sick Leave	25,930	15,601		41,531
Woodlands Sick Leave	1,454	383		1,837
GRP Sick Leave	19,008			19,008
Sick Leave Total	<u>46,392</u>	<u>15,984</u>		<u>62,376</u>
Lake Conroe Comp Time	1,419	343		1,762
Highlands Comp Time	5,700		1,138	4,562
General & Admin Comp Time	7,331		2,750	4,581
Woodlands Comp Time	182	855		1,037
GRP Comp Time	572	410		982
Compensatory Time Total	<u>15,204</u>	<u>1,608</u>	<u>3,888</u>	<u>12,924</u>
<b>Total</b>	<u>\$ 435,532</u>	<u>\$ 42,770</u>	<u>\$ 7,173</u>	<u>\$ 471,129</u>

The current year expense and ending fiscal year 2018 liability for compensatory time is calculated based on the total employee hours accrued times the end of fiscal year 2018 pay rate.

**REQUIRED SUPPLEMENTARY INFORMATION**





# SAN JACINTO RIVER AUTHORITY

## GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NOS. 67 & 68, DEFINED BENEFIT PENSION PLAN, SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

### Year Ended August 31, 2018

<b>Fiscal Year Ending August 31</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b><u>Total Pension Liability</u></b>				
Service cost	\$ 1,200,814	\$ 1,045,193	\$ 1,000,263	\$ 904,125
Interest on total pension liability	1,057,429	938,603	882,137	805,717
Effect of plan changes				
Effect of assumption changes or inputs	(376,723)	(258,264)		
Effect of economic/demographic gains or (losses)	535,907	(467,654)	(336,786)	
Benefit payments	(667,764)	(359,464)	(306,775)	(280,659)
Net change in total pension liability	1,749,663	898,414	1,238,839	1,429,183
Total pension liability, beginning	15,196,084	14,297,670	13,058,831	11,629,648
<b>Total Pension Liability, Ending (a)</b>	<b>\$ 16,945,747</b>	<b>\$ 15,196,084</b>	<b>\$ 14,297,670</b>	<b>\$ 13,058,831</b>
<b><u>Fiduciary Net Position</u></b>				
Employer contributions	\$ 1,446,275	\$ 1,225,120	\$ 1,222,436	\$ 1,200,435
Member contributions				
Investment income net of investment expenses	2,338,816	488,949	265,496	754,693
Benefit payments	(667,764)	(359,464)	(306,775)	(280,659)
Administrative expenses	(7,226)	(6,875)	(7,379)	(11,471)
Net Change in Plan Fiduciary Net Position	3,110,101	1,347,730	1,173,778	1,662,998
Fiduciary net position, beginning	13,832,680	12,484,950	11,311,172	9,648,174
<b>Fiduciary Net Position, Ending (b)</b>	<b>\$ 16,942,781</b>	<b>\$ 13,832,680</b>	<b>\$ 12,484,950</b>	<b>\$ 11,311,172</b>
<b>Net Pension Liability, Ending (a)-(b)</b>	<b>\$ 2,966</b>	<b>\$ 1,363,404</b>	<b>\$ 1,812,720</b>	<b>\$ 1,747,659</b>
Fiduciary Net Position as a % of total pension liability	99.98%	91.03%	87.32%	86.62%
Covered Payroll	\$ 11,051,082	\$ 10,585,540	\$ 9,452,146	\$ 8,773,266
Net Pension Liability as a % of Covered Payroll	0.03%	12.88%	19.18%	19.92%

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$	\$	\$	\$	\$	\$
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
\$	\$	\$	\$	\$	\$
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
\$ 7,693,148	\$ 6,776,385	\$ 5,939,787	\$ 4,728,214	\$ 4,129,705	\$ 4,013,370

# SAN JACINTO RIVER AUTHORITY

## GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NOS. 67 & 68, DEFINED BENEFIT PENSION PLAN, SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended August 31, 2018

Fiscal Year Ended August 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2009	\$ 397,109	\$ 437,482	\$ (40,373)	\$ 4,013,370	10.90%
2010	551,847	572,069	(20,222)	4,129,705	13.85%
2011	562,406	583,621	(21,215)	4,728,214	12.34%
2012	648,608	670,841	(22,233)	5,939,787	11.29%
2013	798,954	807,782	(8,828)	6,776,385	11.92%
2014	951,702	958,987	(7,285)	7,693,148	12.47%
2015	1,090,455	1,200,435	(109,980)	8,773,266	13.68%
2016	1,091,804	1,222,436	(130,632)	9,452,146	12.93%
2017	1,172,614	1,225,120	(52,506)	10,585,540	11.57%
2018	1,281,074	1,446,275	(165,201)	11,051,082	13.09%

### Actuarial Methods and Assumptions Used for Funding Policy

The following actuarial methods and assumptions were used in the November 1, 2016 funding valuation. Each assumption is individually reasonable and, in combination, offer our best estimate of anticipated experience under the plan at the time.

#### Valuation Timing

The valuation is performed as of November 1 and the actuarially determined contribution is determined as of midyear (i.e. April 1).

#### Actuarial Cost Method

Entry Age Normal

#### Amortization Method

Level percent or level dollar

Level dollar

Closed, open, or layered periods

Layered

Amortization Period at 11/1/2016

25 years for IUAAL, 5 years for subsequent gains/losses, expected future service for plan amendments and assumption changes

Amortization Growth Rate

N/A

#### Asset Valuation Method

Smoothing period

N/A, Market Value

Recognition method

Market Value

Corridor

None

#### Inflation

2.30%

#### Salary Increases

5.00%

6.25%, based on the Plan's investment policy, including target asset allocation, and Milliman's capital market expectations.

#### Investment Rate of Return

#### Cost of Living Adjustment

None

#### Retirement Age

Annual rates of retirement are shown below

Age 55-64-Rate 5%

Age 65- Rate 100%

#### Turnover

Crocker-Sarason T-3 Table

#### Mortality

RP-2000 Mortality with generational projection per Scale BB

# **SAN JACINTO RIVER AUTHORITY**

## **GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NOS. 67 & 68, *DEFINED BENEFIT PENSION PLAN*, SCHEDULE OF INVESTMENT RETURNS**

**Year Ended August 31, 2018**

<b><u>Fiscal Year Ended August 31</u></b>	<b><u>Net Money- Weighted Rate of Return</u></b>
2009	3.99%
2010	3.93%
2011	3.55%
2012	3.09%
2013	2.89%
2014	3.73%
2015	7.42%
2016	2.20%
2017	3.73%
2018	15.95%

# SAN JACINTO RIVER AUTHORITY

## GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NOS. 74 & 75, POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS

### Year Ended August 31, 2018

<b>Fiscal Year Ending August 31</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b><u>Total OPEB Liability</u></b>				
Service cost	\$ 22,695	\$ 28,903	\$	\$
Interest on total OPEB liability	68,240	61,195		
Changes of benefit terms				
Effect of economic/demographic gains or (losses)				
Effect of assumption changes or inputs	(144,021)	(242,418)		
Benefit payments	(52,564)	(51,636)		
Change in total OPEB liability	(105,650)	(203,956)		
Total OPEB liability, beginning	1,947,522	2,151,478		
<b>Total OPEB Liability, Ending</b>	<b>\$ 1,841,872</b>	<b>\$ 1,947,522</b>	<b>\$</b>	<b>\$</b>
Covered Payroll	\$ 322,115	\$ 393,447	\$ 352,848	\$ 347,971
Net Pension Liability as a % of Covered Payroll	571.81%	494.99%		

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$	\$	\$	\$	\$	\$
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
\$ 336,482	\$ 413,753	\$ 474,846	\$ 463,099	\$ 469,053	\$ 455,791

# SAN JACINTO RIVER AUTHORITY

## GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NOS. 74 & 75, POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS SCHEDULE OF EMPLOYER CONTRIBUTIONS

### Year Ended August 31, 2018

<u>Fiscal Year Ended August 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contribution as a % of Covered Payroll</u>
2009	\$ 44,444	\$ 44,444	\$	\$ 455,791	9.75%
2010	46,113	46,113	\$	469,053	9.83%
2011	41,303	41,303	\$	463,099	8.92%
2012	43,828	43,828	\$	474,846	9.23%
2013	49,250	49,250	\$	413,753	11.90%
2014	49,446	49,446	\$	336,482	14.69%
2015	51,223	51,223	\$	347,971	14.72%
2016	52,301	52,301	\$	352,848	14.82%
2017	51,636	51,636	\$	393,447	13.12%
2018	52,564	52,564	\$	322,115	16.32%

#### **Actuarial Methods and Assumptions Used for Funding Policy**

The Authority does not pre-fund benefits. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis and there is not a trust for accumulating plan assets. The following actuarial methods and assumptions were used in the September 1, 2016 accounting valuation.

#### **Valuation Timing**

Actuarial valuations are performed biennially as of September 1 for accounting purposes only. The most recent valuation was performed as of September 1, 2016.

#### **Actuarial Cost Method**

Entry Age Normal

#### **Amortization Method**

Level percent or level dollar

N/A

Closed, open, or layered periods

N/A

Amortization Period at September 1, 2016

N/A

Amortization Growth Rate

N/A

#### **Inflation**

2.30%

#### **Salary Increases**

5.00%

#### **Discount Rate**

September 1, 2016: 2.84%

August 31, 2017: 3.51%

#### **Healthcare Cost Trend Rates**

6.3% for 2016, gradually decreasing to an ultimate rate of 4.1% for 2096 and beyond

#### **Retirement**

100% at age 65

#### **Mortality**

RP-2000 Mortality for Employees, Healthy Annuitants and Disabled Annuitants with generational projection per Scale BB

## **OTHER SUPPLEMENTARY INFORMATION**





# SAN JACINTO RIVER AUTHORITY

## SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL - RAW WATER ENTERPRISE

Year Ended August 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Operating Revenues</u></b>				
Water revenues	\$ 20,868,481	\$ 20,868,481	\$ 19,815,286	\$ (1,053,195)
Permits, licenses and fees	1,045,000	1,045,000	1,129,253	84,253
<b>Total Revenues</b>	<u>21,913,481</u>	<u>21,913,481</u>	<u>20,944,539</u>	<u>(968,942)</u>
<b><u>Operating Expenses</u></b>				
<b>Current:</b>				
Salaries and wages	4,113,542	4,113,542	3,610,543	(502,999)
Employee insurance and other payroll benefits	2,258,813	2,258,813	1,596,911	(661,902)
Outside services employed	2,629,911	3,054,911	1,978,112	(1,076,799)
Operating supplies and expenses	823,000	823,000	567,822	(255,178)
Rentals	61,235	61,235	49,332	(11,903)
Maintenance, repairs and parts	2,721,254	2,696,254	1,498,420	(1,197,834)
General and administrative	1,594,345	1,594,345	1,052,853	(541,492)
Depreciation			2,381,481	2,381,481
<b>Total Expenditures</b>	<u>14,202,100</u>	<u>14,602,100</u>	<u>12,735,474</u>	<u>(1,866,626)</u>
<b>Operating Net Income</b>	7,711,381	7,311,381	8,209,065	897,684
<b><u>Nonoperating Revenues (Expenses)</u></b>				
Interest income	16,000	16,000	87,993	71,993
Interest expense on bonds	(2,625,692)	(2,625,692)	(2,625,692)	
Other	636,000	636,000	489,457	(146,543)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(1,973,692)</u>	<u>(1,973,692)</u>	<u>(2,048,242)</u>	<u>(74,550)</u>
<b>Income (Loss) Before Contributions and Transfers</b>	<u>\$ 5,737,689</u>	<u>\$ 5,337,689</u>	<u>\$ 6,160,823</u>	<u>\$ 823,134</u>

# **SAN JACINTO RIVER AUTHORITY**

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

**Year Ended August 31, 2018**

	<b>Budgeted Amounts</b>		<b>Actual (Budgetary Basis)</b>	<b>Variance Over (Under)</b>
	<b>Original</b>	<b>Final</b>		
<b><u>Operating Revenues</u></b>				
Water and sewer service fees	\$ 40,780,299	\$ 40,780,299	\$ 39,356,579	\$ (1,423,720)
Permits, licenses and fees	205,100	205,100	205,100	
Capacity charges	3,846,463	3,846,463	3,846,463	
<b>Total Revenues</b>	<b>44,831,862</b>	<b>44,831,862</b>	<b>43,408,142</b>	<b>(1,423,720)</b>
<b><u>Operating Expenses</u></b>				
<b>Current:</b>				
Salaries and wages	4,708,824	4,708,824	4,567,156	(141,668)
Employee insurance and other payroll benefits	2,488,058	2,488,058	2,033,856	(454,202)
Outside services employed	18,900,945	19,000,945	17,741,086	(1,259,859)
Operating supplies and expenses	4,299,502	4,299,502	3,892,715	(406,787)
Rentals	31,050	31,050	26,238	(4,812)
Maintenance, repairs and parts	6,089,382	6,489,382	5,085,805	(1,403,577)
General and administrative	822,232	822,232	770,219	(52,013)
Depreciation			6,710,684	6,710,684
<b>Total Expenditures</b>	<b>37,339,993</b>	<b>37,839,993</b>	<b>40,827,759</b>	<b>2,987,766</b>
<b>Operating Net Income (Loss)</b>	<b>7,491,869</b>	<b>6,991,869</b>	<b>2,580,383</b>	<b>(4,411,486)</b>
<b><u>Nonoperating Revenues (Expenses)</u></b>				
Interest income	29,350	29,350	422,067	392,717
Interest expense	(1,997,038)	(1,997,038)	(1,883,543)	113,495
Bond issuance costs	(660,050)	(660,050)	(1,420,700)	(760,650)
Other			722,806	722,806
<b>Total Nonoperating Revenues</b>	<b>(2,627,738)</b>	<b>(2,627,738)</b>	<b>(2,159,370)</b>	<b>468,368</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>\$ 4,864,131</b>	<b>\$ 4,364,131</b>	<b>\$ 421,013</b>	<b>\$ (3,943,118)</b>

### **NOTES 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.

Revenues and expenses are below budget due to a record year of excess rainfall; therefore, less water usage and less expenditures were incurred than budgeted.

**SAN JACINTO RIVER AUTHORITY**  
**SCHEDULE OF REVENUES AND EXPENSES -**  
**BUDGET AND ACTUAL**  
**GROUNDWATER REDUCTION PLAN DIVISION**  
**Year Ended August 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b><u>Operating Revenues</u></b>				
Water revenues (GRP Pumpage Fees)	\$ 59,702,576	\$ 59,702,576	\$ 55,177,487	\$ (4,525,089)
<b>Total Revenues</b>	<u>59,702,576</u>	<u>59,702,576</u>	<u>55,177,487</u>	<u>(4,525,089)</u>
<b><u>Operating Expenses</u></b>				
<b>Current:</b>				
Salaries and wages	3,583,563	3,583,563	3,360,771	(222,792)
Employee insurance and other payroll benefits	1,746,953	1,746,953	1,403,978	(342,975)
Outside services employed	2,910,331	2,910,331	2,391,542	(518,789)
Operating supplies and expenses	12,029,930	12,029,930	9,115,771	(2,914,159)
Rentals	6,000	6,000		(6,000)
Maintenance, repairs and parts	1,118,401	1,118,401	1,013,372	(105,029)
General and administrative	688,592	688,592	405,005	(283,587)
Depreciation			15,018,338	15,018,338
<b>Total Expenditures</b>	<u>22,083,770</u>	<u>22,083,770</u>	<u>32,708,777</u>	<u>10,625,007</u>
<b>Operating Net Income</b>	37,618,806	37,618,806	22,468,710	(15,150,096)
<b><u>Nonoperating Revenues (Expenses)</u></b>				
Interest income	47,500	47,500	606,156	558,656
Interest expense	(20,914,988)	(20,914,988)	(20,914,988)	
Other	17,688	17,688	230,016	212,328
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(20,849,800)</u>	<u>(20,849,800)</u>	<u>(20,078,816)</u>	<u>770,984</u>
<b>Income (Loss) Before Contributions and Transfers</b>	<u>\$ 16,769,006</u>	<u>\$ 16,769,006</u>	<u>\$ 2,389,894</u>	<u>\$ (14,379,112)</u>

Revenues are below budget due to a record year of excess rainfall; therefore, less water was used than budgeted.

**SAN JACINTO RIVER AUTHORITY**  
**SCHEDULE OF NET POSITION**  
**GROUNDWATER REDUCTION PLAN DIVISION**

**August 31, 2018**

**Assets**

**Current Assets**

Cash and cash equivalents	
Unrestricted	\$ 3,572,777
Restricted for debt service	54,629,166
Restricted for construction	2,440,695
Accounts receivable and prepaids	10,722,538
<b>Total Current Assets</b>	<b>71,365,176</b>

<b>Noncurrent Asset</b> - Prepaid reservation fees	472,943
--	---------

**Capital Assets** - at cost

Land	14,306,656
Land improvements	2,470,693
Furniture and fixtures	2,353,997
Other machinery and equipment	625,556
Automobiles and trucks	474,539
Buildings	15,601,688
Water systems	421,205,526
Construction in progress	43,898
Accumulated Depreciation	(46,291,657)

<b>Total Capital Assets</b>	<b>410,790,896</b>
-----------------------------	--------------------

<b>Total Noncurrent and Capital Assets</b>	<b>411,263,839</b>
--	--------------------

<b>Total Assets</b>	<b>\$ 482,629,015</b>
---------------------	-----------------------

**Liabilities**

**Current Liabilities**

Accounts payable and accrued liabilities - unrestricted	\$ 1,525,728
Restricted for debt services - current portion of bonds	13,650,000
Restricted for debt services - accrued interest payable	8,703,760
Restricted for construction - retainage payable	0
Unearned Revenue	0

<b>Total Current Liabilities</b>	<b>23,879,488</b>
----------------------------------	-------------------

**Noncurrent Liabilities**

First lien water revenue bonds - less current maturities	480,570,000
Unamortized bond premium or discount	147,425

<b>Total Noncurrent Liabilities</b>	<b>480,717,425</b>
-------------------------------------	--------------------

<b>Total Liabilities</b>	<b>504,596,913</b>
--------------------------	--------------------

**Net Position**

**Net Position**

Invested in capital assets - net of related debt	(81,135,834)
Restricted for debt service	45,925,406
Unrestricted	13,242,530

<b>Total Net Position</b>	<b>\$ (21,967,898)</b>
---------------------------	------------------------

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

**Year Ended August 31, 2018**

**Operating Revenues**

Water revenues (GRP Pumpage and Surface Water Fees)	\$ 55,177,487
<b>Total Revenues</b>	<b>55,177,487</b>

**Operating Expenses**

**Current:**

Salaries and wages	3,360,771
Employee insurance and other payroll benefits	1,403,978
Outside services employed	2,391,542
Operating supplies and expenses	9,115,771
Rentals	
Maintenance, repairs and parts	1,013,372
General and administrative expenses	405,005
Depreciation	15,018,338
<b>Total Expenditures</b>	<b>32,708,777</b>

**Operating Net Income (Loss)** 22,468,710

**Nonoperating Revenues (Expenses)**

Interest income	606,156
Gain (Loss) on disposal of assets	156,079
Amortization of debt issuance costs	7,012
Interest expense on bonds	(20,914,988)
Other	66,925

**Total Nonoperating Revenues (Expenses)** (20,078,816)

**Income (Loss) Before Transfers and Contributions** 2,389,894

**Transfers** (50,733)  
**Contributions** (2,594,462)

**Change in Net Position** (255,301)

Net Position at Beginning of Year (21,712,597)

**Net Position at End of Year** \$ (21,967,898)

# **SAN JACINTO RIVER AUTHORITY**

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

**Year Ended August 31, 2018**

<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 51,573,266
Cash payments to suppliers for goods and services	(12,669,862)
Cash paid for employee services	(4,764,749)
Other revenues and expenses	66,925
<b>Net Cash Provided by Operating Activities</b>	<b><u>34,205,580</u></b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers	<u>(50,733)</u>
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b><u>(50,733)</u></b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Principal paid on bonds	(13,315,000)
Interest paid on bonds	(21,044,819)
Bond issue expenses	0
Acquisition of capital assets	1,883,881
Proceeds from the sale of assets	156,079
Capital contributions	(2,594,462)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<b><u>(34,914,321)</u></b>
<b>Cash Flows from Investing Activities</b>	
Interest earned	<u>606,156</u>
<b>Net Cash Flows Provided by Investing Activities</b>	<b><u>606,156</u></b>
<b>Net (Decrease) in Cash and Cash Equivalents</b>	<b>(153,318)</b>
Cash and equivalents at beginning of year	<u>67,414,986</u>
<b>Cash and Equivalents at End of Year</b>	<b><u>\$ 67,261,668</u></b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>	
Operating Income (Loss)	\$ 22,468,710
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Other revenues and expenses	66,925
Depreciation	15,018,338
(Increase) in receivables	(3,194,826)
(Increase) in inventory	(35,049)
Decrease in prepaids	625,705
(Decrease) in accounts payable and accrued liabilities	(739,833)
Increase in unearned revenue	<u>(4,390)</u>
<b>Total Adjustments</b>	<b><u>11,736,870</u></b>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 34,205,580</u></b>

# SAN JACINTO RIVER AUTHORITY

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

August 31, 2018

**Dam and Appurtenances:**

Dam and appurtenances - joint	\$ 21,478,133
Dam and appurtenances - San Jacinto River Authority	1,169,194
<b>Total Dam and Appurtenances</b>	<u>22,647,327</u>

**Buildings and Residences:**

Office building - joint	224,369
Warehouse building - joint	31,342
Residences - joint	295,692
Boat house - joint	108,347
Storage building - San Jacinto River Authority	23,404
<b>Total Buildings and Residences</b>	<u>683,154</u>

**Equipment:**

Construction and maintenance equipment - joint	249,140
Transportation equipment - joint	428,041
Transportation equipment - San Jacinto River Authority	7,371
Office furniture and fixtures - joint	5,000
Computer software - joint	442,902
Computer hardware - joint	93,115
Telephone system - joint	23,148
Laboratory equipment - joint	98,673
Radio communications equipment-joint	191,567
Miscellaneous equipment - joint	206,876
Construction and maintenance equipment - San Jacinto River Authority	45,919
<b>Total Equipment</b>	<u>1,791,752</u>

**Land:**

Land easements and improvements - joint	7,575,609
Land acquisition and administration - joint	5,871,391
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
<b>Total Land</b>	<u>14,438,088</u>

**Total Lake Conroe Dam, Reservoir and Related Equipment** 39,560,321

**Less City of Houston Contribution** (24,900,950)

**San Jacinto River Authority's Interest in Lake Conroe Dam, Reservoir  
and Related Equipment** 14,659,371

**Less Accumulated Depreciation on San Jacinto River Authority's Interest  
in Assets** (4,107,476)

**Net Interest in Lake Conroe Dam, Reservoir and Related Equipment** \$ 10,551,895

# SAN JACINTO RIVER AUTHORITY

## INSURANCE COVERAGES

**August 31, 2018**

<u>Types of Coverages</u>	<u>Amount of Coverage</u>	<u>Insurer</u>	<u>Coverage to</u>
Property Coverages			
Buildings	\$ 221,726,658	TWCA Risk Management Fund	7/1/2019
Contents	6,347,059	TWCA Risk Management Fund	7/1/2019
EDP Equipment	1,107,133	TWCA Risk Management Fund	7/1/2019
Equipment/Contractors Equip	2,431,281	TWCA Risk Management Fund	7/1/2019
Miscellaneous Property & Equipment	5,467,655	TWCA Risk Management Fund	7/1/2019
Rented Equipment	200,000	TWCA Risk Management Fund	7/1/2019
Boiler and Machinery	156,170,918	TWCA Risk Management Fund	7/1/2019
<b>Total Property Coverages</b>	<b><u><u>\$393,450,704</u></u></b>		
Automobile:			
Bodily injury and property damage	Combined limit \$1,000,000	TWCA Risk Management Fund	7/1/2019
Excess auto liability	\$9,000,000	TWCA Risk Management Fund	7/1/2019
Physical damage	Actual cash value	TWCA Risk Management Fund	7/1/2019
General Liability	\$1,000,000	TWCA Risk Management Fund	7/1/2019
	per occurrence		
Excess General Liability	\$9,000,000	TWCA Risk Management Fund	7/1/2019
Public Officials:			
Errors and omissions	\$1,000,000	TWCA Risk Management Fund	7/1/2019
Excess errors and omissions	\$9,000,000	TWCA Risk Management Fund	7/1/2019
GRP Review Committee	\$1,000,000	JI Special Risk Insurance Agency	6/3/2019
Workers' Compensation	Statutory	TWCA Risk Management Fund	7/1/2019

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, 2018**

### **Directors**

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

Ronnie Anderson, Vice-President  
P.O. Box 329  
Conroe, Texas 77305-0329

Jim Alexander, Secretary  
P.O. Box 329  
Conroe, Texas 77305-0329

Mark Micheletti, Treasurer  
P.O. Box 329  
Conroe, Texas 77305-0329

Ed Boulware, Assistant Secretary  
P.O. Box 329  
Conroe, Texas 77305-0329

Kaaren Cambio  
P.O. Box 329  
Conroe, Texas 77305-0329

### **Staff**

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

Tom Michel, Director of Financial &  
Administrative Services  
P.O. Box 329  
Conroe, Texas 77305-0329

Ronald Kelling, P.E., Deputy General Manager  
P.O. Box 329  
Conroe, Texas 77305-0329

Chuck Gilman, Director of Flood  
Management  
P.O. Box 329  
Conroe, Texas 77305-0329

David Parkhill, P.E., Director of Raw Water Enterprise  
P.O. Box 329  
Conroe, Texas 77305-0329

Pam J. Steiger, Controller  
P.O. Box 329  
Conroe, Texas 77305-0329

Ronda Trow, Director of Governmental Affairs  
P.O. Box 329  
Conroe, Texas 77305-0329

### **Consultants**

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

Bond Financial Advisor  
Jan Bartholomew  
Robert W. Baird & Co.  
1331 Lamar, Suite 1360  
Houston, Texas 77010

# 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.

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b>	80-83
These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.	
<b>Revenue Capacity</b>	84-86
These schedules contain information to help the reader assess the Authority's most significant local revenue source, the water and sewer service.	
<b>Debt Capacity</b>	87-89
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.	
<b>Demographic and Economic Information</b>	90-93
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.	
<b>Operating Information</b>	94-97
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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Business-type activities				
Net Investment in capital assets	\$ 71,921,272	\$ 39,210,018	\$ 93,493,165	\$ 81,039,024
Restricted	28,654,942	65,464,657	7,778,815	27,079,260
Unrestricted	23,616,921	21,068,435	36,370,470	34,648,654
Total business-type activities net position	<u>\$ 124,193,135</u>	<u>\$ 125,743,110</u>	<u>\$ 137,642,450</u>	<u>\$ 142,766,938</u>
Primary government				
Net Investment in capital assets	\$ 71,921,272	\$ 39,210,018	\$ 93,493,165	\$ 81,039,024
Restricted	28,654,942	65,464,657	7,778,815	27,079,260
Unrestricted	23,616,921	21,068,435	36,370,470	34,648,654
Total primary government net position	<u>\$ 124,193,135</u>	<u>\$ 125,743,110</u>	<u>\$ 137,642,450</u>	<u>\$ 142,766,938</u>

Notes: The Authority can be involved in governmental activities and business-type activities which would be reported separately in this schedule. The Authority does not currently have any governmental activities.

**Fiscal Year**

<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
\$ 34,279,471	\$ 52,304,682	\$ 81,417,800	\$ 76,461,833	\$ 54,705,951	\$ 51,689,036
68,491,559	59,550,621	52,279,716	54,932,005	56,121,250	60,520,121
38,155,393	34,447,449	33,386,039	38,519,086	41,920,578	48,534,255
<u>\$ 140,926,423</u>	<u>\$ 146,302,752</u>	<u>\$ 167,083,555</u>	<u>\$ 169,912,924</u>	<u>\$ 152,747,779</u>	<u>\$ 160,743,412</u>
\$ 34,279,471	\$ 52,304,682	\$ 81,417,800	\$ 76,461,833	\$ 54,705,951	\$ 51,689,036
68,491,559	59,550,621	52,279,716	54,932,005	56,121,250	60,520,121
38,155,393	34,447,449	33,386,039	38,519,086	41,920,578	48,534,255
<u>\$ 140,926,423</u>	<u>\$ 146,302,752</u>	<u>\$ 167,083,555</u>	<u>\$ 169,912,924</u>	<u>\$ 152,747,779</u>	<u>\$ 160,743,412</u>

# SAN JACINTO RIVER AUTHORITY

## CHANGES IN NET POSITION

### Last Ten Fiscal Years

	2009	2010	2011	2012
<b>Expenses</b>				
Business-type activities:				
Salaries and wages	\$ 4,213,962	\$ 4,610,165	\$ 6,702,971	\$ 7,958,296
Employee insurance and other payroll benefits	2,057,484	2,316,454	2,783,051	2,772,375
Outside services employed	3,279,261	2,718,636	5,053,638	3,908,048
Operating supplies and expenses	4,499,020	5,437,305	7,595,490	7,388,455
Rentals	111,362	147,150	124,643	352,479
Maintenance, repairs and parts	4,174,346	2,446,618	4,133,285	4,550,249
Water planning study expenses	356,123	1,026,692	157,071	197,815
General and administrative expenses	1,370,683	1,971,681		
Depreciation	5,219,499	5,823,940	6,330,205	6,898,534
Total business-type activities expenses	25,281,740	26,498,641	32,880,354	34,026,251
Total primary government expenses	\$ 25,281,74	\$ 26,498,64	\$ 32,880,35	\$ 34,026,25
<b>Program Revenues:</b>				
Business-type activities				
Water sales:				
Industrial	\$ 8,264,471	\$ 8,862,294	\$ 9,037,794	\$ 9,223,102
Irrigation	58,291	76,369	134,341	108,342
Water and sewer service fees	16,270,637	15,253,398	33,257,666	33,360,551
Permits, licenses, and fees	682,043	578,560	763,503	1,007,532
Contractual revenues				
Capacity charges	5,522,353	5,205,756	5,466,830	5,242,829
Water planning study	464,449	1,088,622	141,878	210,072
Total business-type activities revenues	31,262,244	31,064,999	48,802,012	49,152,428
Total primary government revenues	\$ 31,262,24	\$ 31,064,99	\$ 48,802,01	\$ 49,152,42
<b>Net (Expenses) Revenue</b>				
Business-type activities				
Interest income	\$ 482,664	\$ 229,489	\$ 287,860	\$ 713,705
Gain (Loss) on disposal of capital assets	22,746	161,336	47,542	167,866
Oil and gas royalty income	32,820	12,635	7,920	3,165
Other revenues	74,016	1,932	6,305	220,754
FEMA Grant	1,910,083			
Other expenses			(119,476)	
Amortization of bond premium or discounts	(646,329)	(683,725)	(728,548)	(454,979)
Interest expense on bonds	(3,875,334)	(3,527,175)	(5,367,553)	(11,489,309)
Total business-type activities	(1,999,334)	(3,805,508)	(5,865,950)	(10,838,798)
Total primary government	\$ (1,999,334)	\$ (3,805,508)	\$ (5,865,950)	\$ (10,838,798)
<b>General Revenues and Other Change in Net Position</b>				
Business-type activities:				
Capital Contributions/(Distributions)	\$ 2,088,886	\$ 789,125	\$ 1,843,632	\$ 837,109
Total business-type activities	2,088,886	789,125	1,843,632	837,109
Total primary government	\$ 2,088,88	\$ 789,12	\$ 1,843,63	\$ 837,10
<b>Change in Net Position</b>				
Business-type activities	6,070,056	1,549,975	11,899,340	5,124,488
Total primary government	\$ 6,070,05	\$ 1,549,97	\$ 11,899,34	\$ 5,124,48

Notes: The Authority can be involved in governmental activities and business-type activities which would be reported separately in this schedule. The Authority does not currently have any governmental activities.

Fiscal Year						
	2013	2014	2015	2016	2017	2018
\$	8,392,601	\$ 8,872,719	\$ 10,720,810	\$ 11,724,348	\$ 12,182,806	\$ 12,255,875
	3,476,905	3,443,181	4,255,143	4,715,723	4,924,773	5,179,617
	4,072,695	4,943,193	3,759,083	5,042,298	6,283,542	6,367,524
	7,797,323	9,405,454	6,754,835	11,252,100	11,732,077	11,849,544
	234,674	118,467	69,320	85,327	75,774	80,229
	4,538,373	3,773,308	4,113,761	5,279,400	6,080,155	7,792,350
	257,465	520,071	802,042	17,877	1,943	1,479
	7,404,035	7,783,943	8,753,185	23,527,194	24,446,476	24,381,708
	36,174,071	38,860,336	39,228,179	61,644,267	65,727,546	67,908,326
\$	<u>36,174,07</u>	<u>\$ 38,860,33</u>	<u>\$ 39,228,17</u>	<u>\$ 61,644,26</u>	<u>\$ 65,727,54</u>	<u>\$ 67,908,32</u>
\$	10,125,269	\$ 11,070,653	\$ 10,550,443	\$ 12,622,941	\$ 13,553,382	\$ 14,571,525
	109,004	129,878	141,375	139,677	204,387	120,487
	44,863,366	52,090,243	60,607,860	67,391,878	73,727,688	77,933,431
	1,002,670	1,070,828	1,131,372	1,125,274	1,351,718	1,334,353
			1,716,011	1,486,056	2,065,619	2,617,142
	5,252,805	5,188,612	5,022,163	3,834,462	3,856,538	3,846,463
	249,233	492,810	759,984	359,554	112,377	667,766
	61,602,347	70,043,024	79,929,208	86,959,842	94,871,709	101,091,167
\$	<u>61,602,34</u>	<u>\$ 70,043,02</u>	<u>\$ 79,929,20</u>	<u>\$ 86,959,84</u>	<u>\$ 94,871,70</u>	<u>\$ 101,091,16</u>
\$	1,189,490	\$ 376,774	\$ 238,633	\$ 396,775	\$ 527,927	\$ 1,408,665
	(144,605)	959,459	(33,748)	452,827	588,168	557,773
	117,973	87,035	40,825	39,697	675,300	574,180
	(1,234,093)	(3,097,923)	(799,966)	(108,133)		(1,420,700)
	77,657	166,343	278,431	278,666	273,179	314,621
	(22,414,786)	(25,688,916)	(25,183,782)	(24,954,257)	(25,644,260)	(25,517,682)
	(22,408,364)	(27,197,228)	(25,459,607)	(23,894,425)	(23,579,686)	(24,083,143)
\$	<u>(22,408,364</u>	<u>\$ (27,197,228</u>	<u>\$ (25,459,607</u>	<u>\$ (23,894,425</u>	<u>\$ (23,579,686</u>	<u>\$ (24,083,143</u>
\$	3,300,933	\$ 1,390,869	\$ 4,030,000	\$ 1,408,219	\$ (21,992,683)	\$ (1,104,065)
	3,300,933	1,390,869	4,030,000	1,408,219	(21,992,683)	(1,104,065)
\$	<u>3,300,93</u>	<u>\$ 1,390,86</u>	<u>\$ 4,030,00</u>	<u>\$ 1,408,21</u>	<u>\$ (21,992,683</u>	<u>\$ (1,104,065</u>
	6,320,845	5,376,329	19,271,422	2,829,369	(16,428,206)	7,995,633
\$	<u>6,320,84</u>	<u>\$ 5,376,32</u>	<u>\$ 19,271,42</u>	<u>\$ 2,829,36</u>	<u>\$ (16,428,206</u>	<u>\$ 7,995,63</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		
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	\$ 3.31
2013	\$ 10,903,899	\$ 10,265,798	\$ 21,169,697	\$ 1.64	\$ 3.64
2014	\$ 11,268,542	\$ 9,580,621	\$ 20,849,163	\$ 1.74	\$ 3.74
2015	\$ 10,144,585	\$ 11,578,793	\$ 21,723,378	\$ 1.99	\$ 3.95
2016	\$ 10,863,349	\$ 12,105,737	\$ 22,969,086	\$ 2.10	\$ 4.30
2017	\$ 11,604,919	\$ 13,289,956	\$ 24,894,875	\$ 2.10	\$ 4.30
2018	\$ 11,279,001	\$ 13,286,432	\$ 24,565,433	\$ 2.10	\$ 4.30

(1) Direct Rate based on per thousand gallons

# SAN JACINTO RIVER AUTHORITY

## PRINCIPAL WOODLANDS DIVISION WATER AND SEWER FEES PAYERS

**August 31, 2018**

<u>Customer</u>	<u>2017</u>			<u>2009</u>		
	<u>Revenue Base Attributable</u>	<u>Rank</u>	<u>% Base of The total Revenue Base</u>	<u>Revenue Base Attributable</u>	<u>Rank</u>	<u>% Base of The total Revenue Base</u>
MUD 6	\$ 1,360,709	8	6%	\$ 766,909	9	5%
MUD 7	\$ 1,798,896	6	7%	\$ 1,257,936	5	8%
MUD 36	\$ 966,392	9	4%	\$ 846,534	8	5%
MUD 39	\$ 917,734	10	4%	\$ 590,875	10	4%
MUD 1*	\$ 1,748,174	7	7%	\$ 1,251,697	6	8%
MUD 46	\$ 5,467,971	1	23%	\$ 3,540,007	1	22%
MUD 47	\$ 4,112,494	2	17%	\$ 3,126,680	2	20%
MUD 60	\$ 2,572,618	4	11%	\$ 1,978,344	3	12%
MUD 67	\$ 2,175,404	5	9%	\$ 1,273,465	4	8%
Metro MUD	\$ 2,978,226	3	12%	\$ 1,245,330	7	8%

Note: The requirement for statistical data is ten years.

\*Previously reported as MUD 2 & MUD 40



# **SAN JACINTO RIVER AUTHORITY**

## **LIST OF PRINCIPAL CUSTOMERS**

**August 31, 2018**

### **Raw Water Enterprise**

Bentwater Yacht & County Club-Grand Pines  
Chevron Phillips Chemical Company  
Crosby Municipal Utility District  
ECO Services Operations, LLC  
Entergy  
ExxonMobil  
Harris County Municipal Utility District 50  
LCY Elastomers, LP  
Newport Municipal Utility District  
SJRA - GRP Division

### **Woodlands Division**

Municipal Utility District 1  
Municipal Utility District 6  
Municipal Utility District 7  
Municipal Utility District 36  
Municipal Utility District 39  
Municipal Utility District 46  
Municipal Utility District 47  
Municipal Utility District 60  
Municipal Utility District 67  
Metro Municipal Utility District

### **Lake Conroe Division**

April Sound Marine, Inc.  
Bentwater Yacht & Country Club  
Harbour Town Club  
Pier 105 Marina, LLC  
Seven Coves Association  
SHM Walden Marina  
Sports Harbour, LLC  
Stow-A-Way Marina  
The Palms Marina  
Waterpoint Marina, Inc.

### **Groundwater Reduction Plan Division**

City of Conroe  
Montgomery Co. MUD 99, MUD 115 & MUD 127  
Montgomery Co. MUD No. 89 & MUD 88  
MSEC Enterprises Montgomery Trace/  
Crown Oaks/Highland Ranch  
New Caney MUD  
Quadvest, LP Benders Landing  
Rayford Road Municipal Utility District  
SJRA - Woodlands Division  
Southern Mont. Co. Municipal Utility District  
Spring Creek Utility District

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				
2009	\$ 56,540,000	\$ 23,550,000	\$	\$ 80,090,000	305.67%	N/A	N/A
2010 (3)	\$ 86,240,000	\$ 36,860,000	\$ 1,947,767	\$ 125,047,767	260.05%	N/A	N/A
2011 (3)	\$ 84,910,000	\$ 118,625,000	\$ 3,926,810	\$ 207,461,810	417.02%	N/A	N/A
2012 (3)	\$ 81,160,000	\$ 360,330,000	\$ 3,723,667	\$ 445,213,667	426.35%	N/A	N/A
2013 (3)	\$ 46,860,000	\$ 561,830,000	\$ 3,414,305	\$ 612,104,305	902.61%	N/A	N/A
2014 (3)	\$ 45,060,000	\$ 589,770,000	\$ 3,148,703	\$ 637,978,703	1035.64%	N/A	N/A
2015 (4)	\$ 77,385,000	\$ 573,355,000	\$ 2,870,882	\$ 653,610,882	1061.02%	N/A	N/A
2016	\$ 75,285,000	\$ 559,405,000	\$ 2,597,001	\$ 637,287,001	732.85%	N/A	N/A
2017	\$ 72,708,771	\$ 547,509,584	\$ 2,310,895	\$ 622,529,250	652.09%	N/A	N/A
2018 (5)	\$ 68,865,000	571,525,000	2,010,855	\$ 642,400,855	677.13%	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.

(4) Increases are reflective of the Highlands bond issuances.

(5) Increases are reflective of the Woodlands 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						Cover Ratio	
	Revenue	Less Operating Expenses	Net Available for Debt Service	Debt Service		Cover Ratio		
				Principal	Interest			
<b><u>All Divisions Except the GRP Division</u></b>								
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	\$	
2015	\$ 12,456,148	\$ 4,208,932	\$ 8,247,216	\$ 2,035,000	\$ 1,677,115	2.22	\$	
2016	\$ 15,253,673	\$ 5,122,763	\$ 10,130,910	\$ 2,100,000	\$ 2,796,584	2.07	\$	
2017	\$ 16,679,811	\$ 4,600,229	\$ 12,079,582	\$ 3,160,000	\$ 2,757,433	2.04	\$	
2018	\$ 17,198,144	\$ 5,025,528	\$ 12,172,616	\$ 3,260,000	\$ 2,625,692	2.07	\$	
<b><u>GRP Division</u></b>								
2010	\$	\$	\$	\$	\$		\$	
2011	\$	\$	\$	\$	\$		\$	
2012	\$	\$	\$	\$	\$		\$	
2013	\$	\$	\$	\$	\$		\$	
2014	\$	\$	\$	\$	\$		\$	
2015	\$	\$	\$	\$	\$		\$	
2016	\$	\$	\$	\$	\$		\$	
2017	\$	\$	\$	\$	\$		\$	
2018	\$	\$	\$	\$	\$		\$	

**Special Project Revenue Bonds**

<b>Revenue</b>	<b>Less Operating Expenses</b>	<b>Net Available for Debt Service</b>	<b>Debt Service</b>		<b>Cover Ratio</b>
			<b>Principal</b>	<b>Interest</b>	
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
5,022,163	\$ 13,450	\$ 5,008,713	\$ 3,525,000	\$ 1,450,666	1.01
3,834,462	\$ 3,750	\$ 3,830,712	\$ 3,245,000	\$ 725,139	0.96
3,856,538	\$ 7,776	\$ 3,848,762	\$ 2,095,000	\$ 1,628,000	1.03
3,846,463	\$ 2,250	\$ 3,844,213	\$ 2,270,000	\$ 1,517,719	1.01
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
38,529,534	\$ 7,122,884	\$ 31,406,650	\$ 12,890,000	\$ 21,341,076	0.92
45,655,158	\$ 15,577,960	\$ 30,077,198	\$ 13,010,000	\$ 21,316,968	0.88
50,469,701	\$ 19,627,649	\$ 30,842,052	\$ 13,025,000	\$ 21,337,138	0.90
55,177,487	\$ 17,690,439	\$ 37,487,048	\$ 13,315,000	\$ 20,914,988	1.10

# SAN JACINTO RIVER AUTHORITY

## AUTHORITY DEMOGRAPHICS

The SJRA's area comprises all of the territory within the watershed of the San Jacinto River and its tributaries, except the portion of the watershed that lies within the boundaries of Harris County. Such geographical areas consist of all of Montgomery County and parts of Waller, Grimes, Walker, San Jacinto, Liberty and Fort Bend Counties. The SJRA's service area includes all of 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.

<b><u>County/City</u></b>	<b><u>Population</u></b>
Barrett	4,737
Baytown	75,310
Crosby	2,647
Grimes County	27,140
Highlands	7,386
Liberty County	83,658
Montgomery County	570,934
San Jacinto County	27,172
Walker County	72,245
Waller County	47,049

*CensusReporter.org*

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

<b><u>Educational Attainment</u></b>		
<b><u>County/City</u></b>	<b><u>High School</u></b>	<b><u>College</u></b>
Barrett	81%	21%
Baytown	77%	15%
Crosby	81%	10%
Grimes County	78%	13%
Highlands	83%	8%
Liberty County	76%	7%
Montgomery County	89%	33%
San Jacinto County	83%	10%
Waller County	88%	23%
Walker County	78%	19%

*Source CensusReporter.org*

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

<b><u>County/City</u></b>	<b><u>Median Age</u></b>	<b><u>Largest Employers</u></b>
Barrett	33	Texas Department of Criminal Justice
Baytown	32	Sam Houston State University
Crosby	32	Conroe Independent School District
Grimes County	40	Anadarko Petroleum
Highlands	35	Hewitt Associates
Liberty County	36	Memorial Hermann The Woodlands Hospital
Montgomery County	37	St. Luke's The Woodlands Hospital
San Jacinto County	43	Huntsville Independent School District
Waller County	35	Huntsman Company, LLC
Walker County	29	Woodforest National Bank

Source CensusReporter.org

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

<b><u>County/City</u></b>	<b><u>Median Household Income (\$)</u></b>
Barrett	32,929
Baytown	49,930
Crosby	36,954
Grimes County	47,839
Highlands	58,295
Liberty County	45,614
Montgomery County	76,811
San Jacinto County	44,878
Waller County	40,936
Walker County	53,508

CensusReporter.org

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

<b><u>County/City</u></b>	<b><u>Unemployment Rate</u></b>
Barrett	9.0%
Baytown	6.0%
Crosby	4.0%
Grimes County	5.3%
Highlands	11.0%
Liberty County	7.1%
Montgomery County	4.3%
San Jacinto County	5.6%
Waller County	4.6%
Walker County	4.9%

Source Txcip.org & towncharts.com

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

# SAN JACINTO RIVER AUTHORITY

## NUMBER OF EMPLOYEES BY DIVISION

### Last Ten Fiscal Years

<u>Division</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Highlands	6	6	7	7	7
Lake Conroe	9	11	13	14	13
Woodlands	44	45	45	45	39
General & Administration	17	27	48	56	77
Groundwater Reduction Plan		1	4	5	7
Total	76	90	117	127	143

Note: This table reports the number of filled, full-time employees positions based on the division in which they are employed. Table does not include 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 2009 has been directly related to the planning and implementation of a surface water program in response to regulations adopted by the Lone Star Groundwater Conservation District. The Authority now performs in-house services that were not provided in 2008.

<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
7	7	6	10	11
14	14	14	13	14
33	38	42	39	39
79	83	86	80	74
12	23	29	27	29
<hr/>				
145	165	177	169	167
<hr/> <hr/>				



# SAN JACINTO RIVER AUTHORITY

## OPERATING STATISTICS

### Last Ten Fiscal Years

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b><u>Raw Water Enterprise (Lake Conroe and Highlands Division)</u></b>					
Water Delivered (Thousand Gallons)	23,461,598	22,956,203	26,548,710	22,813,154	22,634,039
Water Rights (See detail below)	7	7	7	7	7

#### **Woodlands Division**

Water Average Pumpage (Thousand Gallons)	6,832,883	5,789,840	7,674,492	7,036,323	6,628,769
Wastewater Average Flow (Thousand Gallons per Day)	7,756	7,643	7,557	7,742	7,315
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**

<b><u>Source</u></b>	<b><u>Water Right Permit Number</u></b>	<b><u>Permitted Amount (afpy)</u></b>	<b><u>Date Granted</u></b>
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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
23,192,114	23,611,611	24,583,145	32,205,585	30,832,121
7	7	7	7	7
6,115,812	5,529,976	6,015,090	6,132,615	5,927,160
7,677	7,746	7,960	7,864	7,689
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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Raw Water Enterprise, Highlands and General &amp; Administration</b>				
Land	\$	\$	\$ 31,415	\$
Water permits and rights	42,536	4,737	5,194	1,090
Construction in progress	1,240,832	5,303,395	7,743,714	5,804,413
Furniture, fixtures and equipment	59,880	3,761	888,915	130,150
Other machinery and equipment	162,469	128,081	102,666	223,889
Automobiles and trucks	35,845	55,566	102,171	369,830
Buildings		3,025	5,215,813	41,360
Water systems	395,987	716,658	3,308,871	2,173,361
<b>Lake Conroe Division</b>				
Land			28,372	
Construction in progress	69,895	74,266	63,589	15,062
Furniture, fixtures and equipment	3,851	1,254	75,846	292
Other machinery and equipment	18,446	55,156	10,774	12,721
Automobiles and trucks		8,459	22,799	9,653
Buildings	23,933	6,936	46,370	2,656
Dams and appurtenances	17,676	7,528	5,711	40,289
Water systems			6,747	
<b>Woodlands Division</b>				
Land	42,394	25,364	31	14,236
Construction in progress	7,348,205	5,670,466	6,398,484	7,841,826
Furniture, fixtures and equipment	88,005	81,356	77,986	42,559
Other machinery and equipment	46,909	20,822	91,258	
Automobiles and trucks	287,450	313,628		56,106
Buildings		13,293	79,829	82,024
Dams and appurtenances				
Water systems	21,084,196	2,665,510	4,854,789	3,798,904
Wastewater utility systems	613,969	2,716,115	542,695	827,430
Capital Improvement Plans				
<b>Groundwater Reduction Plan Division</b>				
Land		1,139,941		1,880,898
Construction in Progress		2,265,204	10,163,648	40,586,454
Furniture, fixtures and equipment		15,000	78,463	320,489
Other machinery and equipment			189,557	
Automobiles and trucks			26,575	58,551
Buildings				2,287,713
Water systems			7,678	
<b>Total Capital Asset Additions</b>	<u>\$ 31,582,478</u>	<u>\$ 21,295,521</u>	<u>\$ 40,169,960</u>	<u>\$ 66,621,956</u>

<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
\$	\$ 10,000	\$ 58,876	\$ 462,528	\$ 31,328	\$ 3,811,415
13,887,890	9,772,503	7,427,025	12,317,956	9,439,000	7,808,330
18,540	160,680	134,167	52,201	70,175	171,677
300,528	361,139	70,271	178,617	11,732	189,732
131,621	100,878	65,171	86,271	66,379	16,066
	1,484,025	774	147,491	12,628	
17,875,400	2,802,551	8,574,076	1,378,675	19,779,516	6,434,762
		2,596	1,833	2,541	
63,109	501,722	642,080	64,925	609,074	60,182
1,134	7,055	39,036	56,850	2,912	907
1,828	10,864	43,014		16,624	76,639
17,215	21,814	12,854	10,400	11,373	9,172
			87		72,154
6,908		1,132,947			489,081
6,568		23,194			
7,662,672	6,548,527	5,020,431	7,941,930	2,318,762	5,850,096
196,702	71,413	386,203	14,261	66,713	26,764
9,849	372,450	49,496	337,314	46,714	53,589
58,209	46,058	7,410	129,939	57,982	73,207
	6,720				
	256,356				
5,458,285	3,783,083	3,296,024	1,758,450	3,297,838	
2,511,040	3,020,956	1,801,043	1,660,236	7,610,604	146,497
85,157		500,536		12,583,964	586,852
81,722,501	218,185,401	111,689,168	25,045,377	3,239,805	416,023
104,686	189,621	534,634	1,088,875	10,543	19,455
			342,658	168,058	107,072
19,529		206,776	113,450		25,808
47,963		43,153	13,186,309	34,680	1,870
			417,692,912	1,023,991	2,480,945
<u>\$ 130,187,334</u>	<u>\$ 247,713,816</u>	<u>\$ 141,760,955</u>	<u>\$ 484,069,545</u>	<u>\$ 60,512,936</u>	<u>\$ 28,928,295</u>