



**Comprehensive Annual Financial Report**  
**Gulf Coast Water Authority**  
**Texas City, Texas**  
**For the Fiscal Year Ended August 31, 2016**

**Prepared by:**

**Ivan Langford**  
**General Manager**

**Bob Webb**  
**Business Manager**



Gulf Coast Water Authority  
3636 FM 1765  
Texas City, Texas 77591

**GULF COAST WATER AUTHORITY**  
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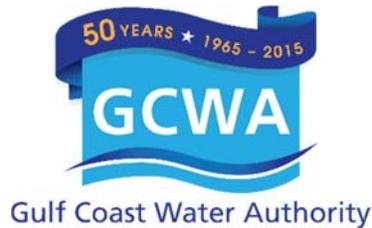
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## **INTRODUCTORY SECTION**



Gulf Coast Water Authority



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April 28, 2017

To the Board of Directors  
Gulf Coast Water Authority  
Texas City, Texas

We are pleased to submit the Comprehensive Annual Financial Report (the “CAFR”) of the Gulf Coast Water Authority (the “Authority”) for the fiscal year ended August 31, 2016. The purpose of the CAFR is to provide reliable financial information about the Authority to the Authority’s Board of Directors, customers, and other interested parties. The Authority’s Accounting Department has prepared the CAFR in accordance with generally accepted accounting principles (“GAAP”). Management assumes full responsibility for the completeness and reliability of the information contained in the CAFR, based upon a comprehensive framework of internal controls that are established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective of such internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Our auditor, Whitley Penn, LLP, Certified Public Accountants, has issued an unmodified (“clean”) opinion on the Authority’s financial statements for the year ended August 31, 2016. The independent auditors’ report is located at the front of the financial section of the CAFR.

Management’s Discussion and Analysis (“MD&A”) immediately follows the independent auditors’ 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.

***Profile of the Government Agency***

The Gulf Coast Water Authority (then named the Galveston County Water Authority) was created in 1965 by the 59th regular session of the Texas Legislature. The 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.

The Authority provides water for industry, agriculture, and municipalities in Brazoria, Fort Bend, and Galveston counties.

You can trace the beginnings of the Authority back to 1908 with the creation of the Cane and Rice Belt Irrigation Company and construction of a pump station on the Brazos River. In the early 1930s, additional pump stations and re-lift stations on the system were added as well as extensions to the canal system, eventually running through Brazoria County and reaching into Galveston County. In 1940, the Briscoe Irrigation System consisting of an additional pump station on the Brazos and more canals were established. These two original systems were purchased by the Brazos River Authority in 1966 and 1967. In 1988, the Authority bought the Canal Division from the Brazos River Authority. This allowed the Authority to

provide water supply for industry, irrigation, and municipal use in what ultimately became certain portions of the three-county area of Brazoria, Fort Bend, and Galveston. In 2006, the Authority purchased the Chocolate Bayou Water Company's assets, aka Juliff Canal System, which included another pump station on the Brazos River as well as pump stations on three bayous in Brazoria County: Chocolate, Mustang and Halls.

The Authority is governed by a ten (10) member Board of Directors, as established by The 83<sup>rd</sup> Texas Legislature passed HB 4168 sponsored by Representative Dennis Bonnen and becoming effective on June 18, 2015. The Board of Directors are appointed in the following manner:

- Five (5) by the Galveston County Commissioners Court with two (2) being representatives of Industry, one (1) being a representative of Municipalities and two (2) being representatives at-large;
- Three (3) by the Brazoria County Commissioners Court with one (1) being a representative of Industry, one (1) being a representative of Municipalities and one (1) being a representative of Agriculture;
- Two (2) by Fort Bend County Commissioners with one (1) being a representative of Municipalities and one (1) being a representative At-Large.

Appointees serve two year terms, staggered five (5) one year and five (5) the next year. Term of office coincides with the Authority's fiscal year, beginning September 1<sup>st</sup>.

The Authority's operations are divided into three separate divisions as described below.

**Canal Division** - The Authority's Canal Division operates out of its office located in Alvin. The division operates the American, Briscoe, and Juliff/Chocolate Bayou Canal systems. This includes approximately 400 miles of main-line canals and laterals, and about 380,000 ac-ft. of water rights on the lower basin of the Brazos River. Historically, river water is delivered to 1) approximately 16,000 acres of commercial and hybrid seed rice in Brazoria and Galveston Counties as well as a Rice Research Facility located outside of Alvin, Texas, a provider of world-wide technology for the rice industry, 2) industrial customers served by the Canal Division include INEOS Olefins and Polymers, and Ascend Performance Materials, 3) municipal customers served include the cities of Sugar Land, Pearland and Missouri City, as well as Ft. Bend WCID #2 and Pecan Grove MUD, and 4) to the Industrial and Municipal divisions in Galveston County.

**Industrial Division** - Prompted by land subsidence caused by the over withdrawal of groundwater, a private venture by Texas City industries in the late 1940's constructed an extension of the Briscoe and American canal system to provide surface water to the rapidly growing industrial complex following World War II. Through acquisitions and exchanges, the Industrial Division was acquired by the Authority in 1971. The Industrial Division operates an 8,700 acre-feet off-channel reservoir, a canal system, and a pump station delivering 60 million gallons of surface water per day to Texas City industries. Industrial customers served include DOW/Union Carbide Corp., Marathon Galveston Bay Refinery, Marathon Texas Refining, Valero Refining Texas, Eastman Chemical Company, and Ashland Specialty Chemicals.

**Water Treatment** – The Authority owns and operates the Thomas S. Mackey Water Treatment Plant located in Texas City. The 50 million gallon per day (MGD) conventional surface water plant serves 13 water utilities in Galveston County. The plant was originally constructed by the City of Texas City in 1978 and acquired by the Authority in 1983. Those customers include the cities of Texas City, La Marque, Galveston, Hitchcock, League City, GCWCID #1, GCWCID #8, GCWCID #12, GCFWD #6, GCMUD 12, Bacliff MUD, Bayview MUD and San Leon MUD.

The Authority's Administrative Office is located in Texas City where all management, financial, human resources, purchasing, and land administration are provided. The Authority's Board of Directors meets at the Administrative Office on the third Thursday of each month. Board members are actively engaged in the operation of the Authority through its five standing board committees, Finance & Insurance, Personnel & Compensation, Safety, Capital Improvements, and Long-range Planning.

## ***ECONOMIC CONDITIONS AND OUTLOOK***

*The Texas Economy.* According to the Texas Comptroller of Public Accounts June 2016 issue of “The Texas Economy-Economic Outlook,” Texas added jobs in 7 of 11 the major industries. “Pre-recession Texas employment peaked at 10,638,100 in August 2008, a level that was surpassed in November 2011, and by January 2016 Texas added an additional 1,322,600 jobs. The U.S. recovered all recession-hit jobs by April 2016 and by January 2016 added an additional 4,856,000 jobs...Texas’ unemployment was 4.4 percent for February 2016, equal to the 4.4 percent in February 2015. The Texas unemployment rate has been at or below the national rate for 110 consecutive months.”

*The Local & Regional Economy.* The Authority and its customers are part of the Greater Houston Metropolitan Area. According to the Texas Workforce Commission, the Houston Metro Area added 6,000 jobs in April ’16. Local unemployment has been gradually rising over the last year (4.8%), up seven-tenths of a percentage from April 2015 and currently higher than the nation rate for the first time since November 2006. The overall outlook for 2016 is for continued weakness in sectors supporting the energy industry, which will spread to other sectors as consumers are forced to reduce discretionary spending. As part The Houston-Galveston Area Council (HGAC), Our Great Region 2040 plan, as many as 2.0 million jobs will be added to the 13 counties and 134 cities and towns by 2040. Continued population growth within the Authority’s service area will necessitate the demand for more water. Continued population growth within the Authority’s service area will necessitate the demand for more water.

The Authority does not receive money from the State of Texas, nor does it collect any type of tax revenue. Income is primarily derived from the sale and distribution of water. This revenue covers the cost of operation and maintenance as well as repayment of outstanding debt. Revenue bonds are sold to finance large, capital improvement projects needed to maintain the Authority’s vast investment in infrastructure to insure reliable delivery of water to its customers.

## ***IMPACT OF TEXAS DROUGHT AND RECOVERY***

No financial report on any Texas surface water provider would be complete without a discussion of the most recent Texas drought. For the Authority, recognition of the drought began in 2009 and ended in 2015. Each year following the drought, the Authority has struggled with securing enough stored water commitments from the Brazos River Authority to insure a reliable water supply for its customers whenever the Authority’s ‘run of the river’ water rights are not available due to extreme low flows in the lower Brazos River. Purchase of that additional stored water supply as insurance against low river flows has sustained the Authority’s ability to meet customer’s demands. In 2016, the Brazos River Authority revised and substantially reduced its calculation of available short-term stored water they would have available; thus putting more pressure on the Authority to look at other opportunities to insure against the next drought. The Authority was able to irrigate 15,626 acres of rice in 2016 instead of the 5,926 acres we were able to irrigate in 2015.

The drought ended with the rainfalls that began in late April, 2015. According to the National Center of Environmental Information (formerly the National Climate Data Center), the 2015 precipitation totals for the contiguous U.S. was the third wettest year on record, with only 1973 and 1983 recording more precipitation. State wide, Texas experienced its ninth the wettest April with nearly 180 percent of average rainfall. As of June 2016, less than 1.50% of the state of Texas remains in an Abnormally Dry condition. Nonetheless, the Authority must continue to seek additional firm water supplies to insure against the next drought.

## ***FINANCIAL INFORMATION***

Management of the Authority is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Authority 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 Authority continues to meet its responsibility for sound financial management. The Authority recommends that readers closely review each section of this report including the review provided by the MD&A in order to have a thorough understanding of the Authority, its activities, financial position, and results of operations.

## ***MAJOR INITIATIVES***

*For 2015-2016.* One of the major initiatives for the Authority was to work with the Texas Commission on Environmental Quality, Water Rights Division on their implementation of the Brazos River Watermaster Program. This initiative is important to GCWA being next to the “last straw” to divert water from the Brazos. The intent of the Watermaster Program is to insure Senior Water Rights are upheld and not diverted by unauthorized users upstream of GCWA’s take-points.

Major initiatives of the Industrial Division included upgrading the Industrial Pump Station Switchgear at a cost of \$283,000. Additionally, the Industrial Division continued the Valves, Piping and Cathodic Protection plan at a cost of \$532,500, with the primary component being the valve rehabilitation work at the DOW Chemical site of approximately \$178,300.

Major initiatives at the Water Treatment Plant included the replacement of the Powder Activated Carbon (PAC) system at a cost of \$700,300. Additional projects were Filter Pipe Gallery Modifications at a cost of \$114,800, Office Additions at a cost of \$104,600 and SCADA Improvements at a cost of \$237,600.

Major initiatives at the Canal Division included the completion of the construction of two (2) bridges: B. Frank Brothers Bridge at a cost of \$52,900 and Alexander Bridge at a cost of \$43,400. Additionally, the Canal Division saw the installation of SCADA equipment at a cost of \$69,000.

Major initiatives at the Chocolate Bayou Division included the construction of May Plant House at a cost of \$273,700. Additionally, the Chocolate Bayou Division completed a Siphon project underneath the railroad tracks at County Road 169 at a cost of \$343,000 and continued work on the Mustang Bayou Equalizer Pipe project at a cost of \$167,400.

A significant rolling stock purchase was addition of a new Caterpillar Long Boom Excavator to at a cost of \$247,700.

Annual reconditioning of pumps and motors across all of the Authority’s assets totaled over \$751,600. This included pumps/motors at the Industrial Pump Station, Water Treatment Plant, and Briscoe Pump Station on the Brazos.

*In the near term.* The Authority plans to replace the 1950's era Industrial Pump Station. This project is estimated at \$19 million. The Authority also plans to replace all of the inlet and outlet flow control structures on the 1948 Texas City Industrial Reservoir. This project is estimated at \$11.0 million and is on the same timeline as the Industrial Pump Station replacement. The Authority began the construction of the first of two Sediment Basins and a future Monofil at the Thomas Mackey Surface Water Treatment Plant. These on-site settling basins and landfill provide a long time solution to disposal of solids removed from raw water as part of the treatment process. This replaces an arcane and manpower intensive past practice of spreading sediment across many acres of land. This project is estimated to cost \$1.0 million for phase 1 and set to go into service by December 2016.

*Long-term projects:* The Authority remains focused on finding additional raw water supplies to supplement the Authority's Brazos River water rights and stored water from the Brazos River Authority. Successful efforts have been made in acquiring, abet short-term, from other BRA customers including the City of Rosenberg, and NRG. While the multi-year drought ended in May 2015, the Authority learned from that experience that alternative water supplies are needed to avoid future water shortages.

### **ACKNOWLEDGEMENTS**

*Independent Audit.* Section 49.191 of the Texas Water Code requires an annual audit of the Authority'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 Whitley Penn, LLP, was selected by the Board for the 2016 fiscal year. We appreciate their professionalism, timeliness, and assistance in completing this report.

*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 Authority for its Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended August 31, 2015. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

*Our Employees.* 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 Authority's service area. In addition, the preparation of this Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated staff of the Authority's Accounting Department.

Sincerely,



Ivan Langford  
General Manager



Bob Webb  
Business Manager



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Gulf Coast Water Authority  
Texas**

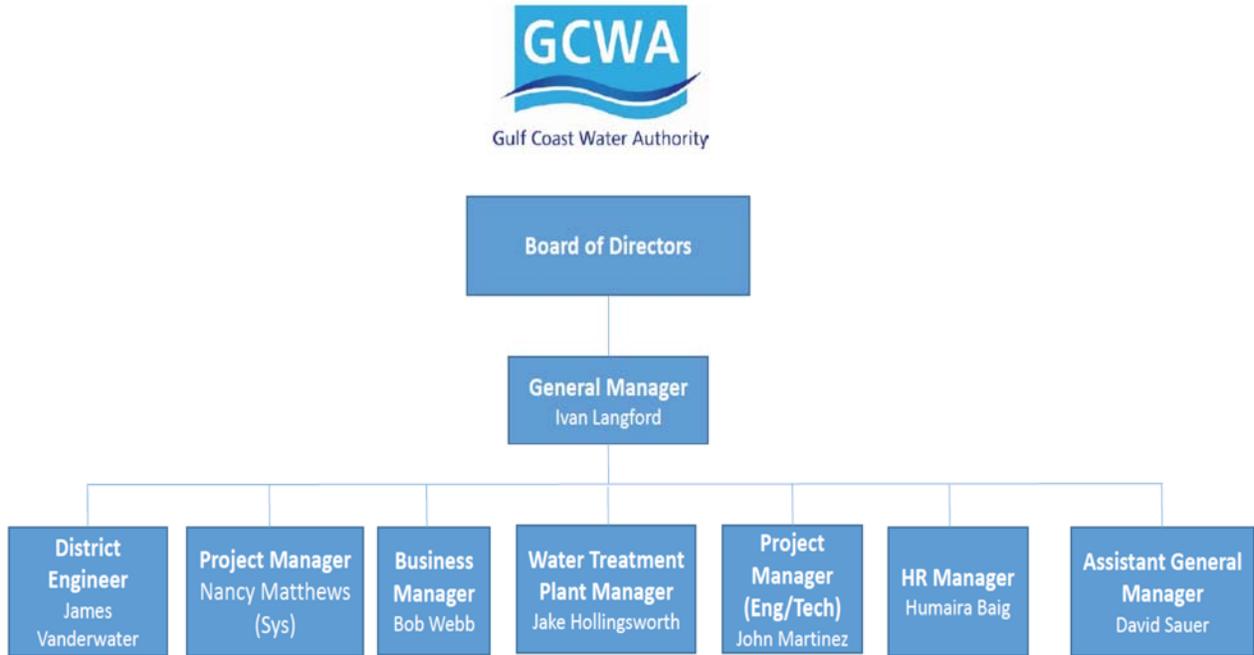
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**August 31, 2015**

Executive Director/CEO

# GULF COAST WATER AUTHORITY

## Organizational Chart



# GULF COAST WATER AUTHORITY

## Board of Directors

POSITION & NAME	TITLE	TERM
GALVESTON COUNTY MUNICIPAL POSITION NO. 1 Mr. James McWhorter jmcwhorter@gcwater.org	Director Capital Project Review Committee Personnel & Compensation Committee	2015-2017
GALVESTON COUNTY INDUSTRIAL POSITION NO.1 Mrs. Connie Bradley cbradley@gcwater.org	Director Finance and Insurance Committee Safety Committee *	2015-2017
GALVESTON COUNTY INDUSTRIAL POSITION NO. 2 Mr. C.B. "Bix" Rathburn, Ph.D. brathburn@gcwater.org	Vice President Finance and Insurance Committee Long Range Planning Committee	2016-2018
GALVESTON COUNTY AT LARGE POSITION NO. 1 Mr. Shane Hamilton shamilton@gcwater.org	Director Safety Committee Personnel & Compensation Committee *	2015-2017
GALVESTON COUNTY AT LARGE POSITION NO. 2 Mr. Brad Matlock, P.E. bmatlock@gcwater.org	Assistant Secretary Safety Committee Personnel & Compensation Committee	2016-2018
BRAZORIA COUNTY MUNICIPAL POSITION NO. 1 Mr. Eric Wilson ewilson@gcwater.org	Secretary Capital Project Review Committee * Personnel & Compensation Committee	2015-2017
BRAZORIA COUNTY INDUSTRIAL POSITION NO. 1 Mr. Bennie Jones Jr. bjonesjr@gcwater.org	Treasurer Finance and Insurance Committee * Long Range Planning Committee	2016-2018
BRAZORIA COUNTY AGRICULTURAL POSITION NO. 1 Mr. Cliff Mock cmock@gcwater.org	Director Safety Committee Long Range Planning Committee	2016-2018
FORT BEND COUNTY MUNICIPAL POSITION NO. 1 Mr. Russell C Jones rjones@gcwater.org	President Capital Project Review Committee Long Range Planning Committee *	2015-2017
FORT BEND COUNTY AT LARGE POSITION NO. 1 Mr. Mike O'Connell moconnell@gcwater.org	Director Capital Project Review Committee Finance and Insurance Committee	2016-2018

## **FINANCIAL SECTION**



Gulf Coast Water Authority

## **REPORT OF INDEPENDENT AUDITORS**

To the Audit Committee and Board of Directors  
Gulf Coast Water Authority  
Texas City, Texas

### **Report on the Financial Statements**

We have audited the accompanying statements of net position and the related statements of revenues, expenses and changes in net position and cash flows of the Gulf Coast Water Authority (the “Authority”) as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements.

### **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.

### **Auditor’s Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

To the Audit Committee and Board of Directors  
Gulf Coast Water Authority

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gulf Coast Water Authority, as of August 31, 2016, and the respective changes in financial position and the results of cash flows thereof for the year then 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 on pages 3 through 7 and required other pension system supplementary information on pages 32 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

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

The information in the other supplementary section is the responsibility of management and was derived from and relates 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 or to 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, the information in the other supplementary and Texas supplementary information sections 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.

*Whitley Penn LLP*

Houston, Texas  
April 28, 2017

**GULF COAST WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The management of Gulf Coast Water Authority (the "Authority") offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended August 31, 2016. 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 \$169,907,453 of this amount, \$114,423,314 represents capital assets, net of depreciation and \$15,026,000 represents cash and cash equivalents under both current and restricted assets. Investments held as of August 31, 2016 totaled \$15,953,524.
- Liabilities and deferred inflows of resources for the Authority totaled \$34,496,024 of which \$28,939,566 represents long-term debt obligations for revenue bonds payable.
- The Authority's total assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$135,411,429. This amount represents net position; of this amount, \$86,052,697 represents net investment in capital assets. An additional \$3,593,830 is restricted net position and the remaining \$45,764,902 represents unrestricted net position.
- Operating expenses for the Authority at year-end were \$38,848,301 and were less than operating revenues by \$5,006,895.
- Non-operating expenses exceeded non-operating revenues by \$2,326,430.
- Prior period adjustments totaling \$776,044 were necessary to record an unamortized gain on refunding bonds and to correct balances previously reported in accrued compensated absences.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Management Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements which consist of the following: 1) Statement of Net Position, 2) Statement of Revenues, Expenses, and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements. This report includes other supplementary information in addition to the basic financial statements.

The statement of net position presents as of a specific date information on the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference between the four reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, some revenues and expenses reported in this statement result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Since the Authority follows enterprise fund accounting and reporting requirements, there is a statement of cash flows included as part of the basic financial statements. The accompanying notes to the financial statements provide required disclosures and other information that is essential to a full understanding of data provided in the statements.

**GULF COAST WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a financial statement position. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$135,411,429 at the close of the most recent fiscal year.

	2016	2015	Increase / (Decrease)	
			\$	%
Current and other assets	\$ 53,119,321	\$ 47,959,329	\$ 5,159,992	10.8%
Capital assets	114,423,314	122,436,474	(8,013,160)	-6.5%
Total assets	167,542,635	170,395,803	(2,853,168)	-1.7%
Total deferred outflows of resources	2,364,818	844,484	1,520,334	180.0%
Current liabilities	9,290,066	8,276,383	1,013,683	12.2%
Noncurrent liabilities	24,821,192	29,456,896	(4,635,704)	-15.7%
Total liabilities	34,111,258	37,733,279	(3,622,021)	-9.6%
Total deferred inflows of resources	384,766	-	384,766	100.0%
Net Position:				
Net Investment in capital assets	86,052,697	89,164,201	(3,111,504)	-3.5%
Restricted				
Debt Service	3,593,830	3,660,154	(66,324)	-1.8%
Unrestricted	45,764,902	40,682,653	5,082,249	12.5%
Total Net Position	\$ 135,411,429	\$ 133,507,008	\$ 1,904,421	1.4%

- Capital assets decreased by approximately \$8.0 million, a 6.5% decrease from the prior year mainly due to a combination of increased depreciation and lower capital expenditures. Depreciable capital assets decreased by \$5.9 million, of which \$2.7 million came from construction in progress. The decrease in depreciable capital assets was related to depreciation associated with bond funded projects in 2016.
- Noncurrent liabilities decreased by approximately \$4.6 million, a 15.7% decrease from the prior year primarily due to payments of bond principal in the amount of \$4.6 million.

**GULF COAST WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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

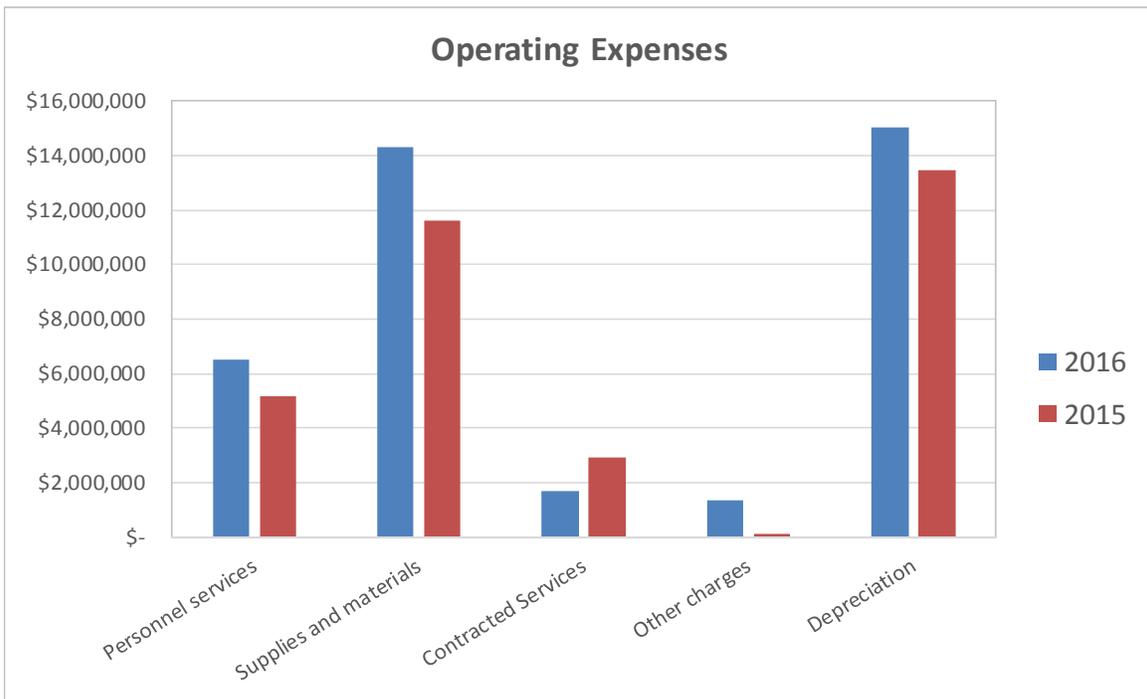
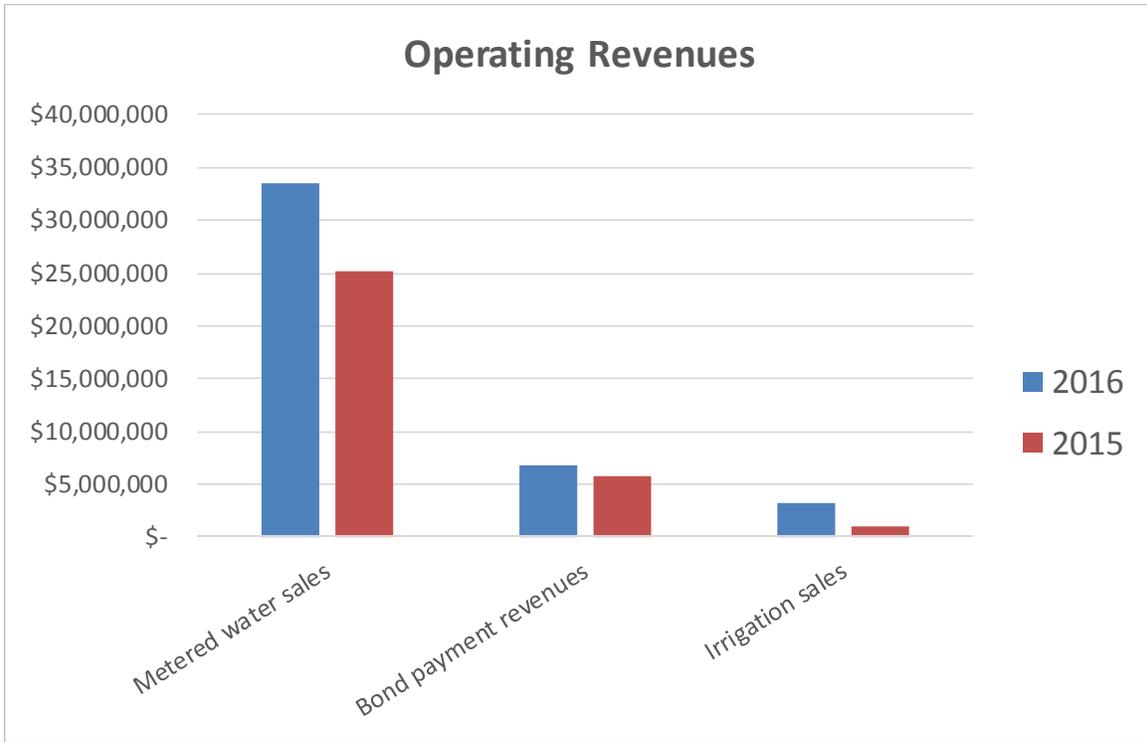
The Statement of Revenues, Expenses and Changes in Net Position measures how well annual costs are covered by fees and charges. The Authority does not seek to earn a profit in the long term. However, the Authority must cover its operations, maintenance and other costs, and provide sufficient reserves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

	2016	2015	Increase / (Decrease)	
			\$	%
Operating Revenues:				
Program revenues				
Metered water sales	\$ 33,425,561	\$ 25,230,737	\$ 8,194,824	32.5%
Bond payment revenue	6,725,417	5,788,454	936,963	16.2%
Irrigation sales	3,210,886	949,941	2,260,945	238.0%
Other	493,332	927,630	(434,298)	-46.8%
Total operating revenues	43,855,196	32,896,762	10,958,434	33.3%
Expenses:				
Personnel services	6,501,190	4,988,132	1,513,058	30.3%
Supplies and materials	14,283,436	12,071,554	2,211,882	18.3%
Contracted services	1,660,523	1,620,916	39,607	2.4%
Other charges	1,377,152	1,141,508	235,644	20.6%
Depreciation	15,026,000	13,446,858	1,579,142	11.7%
Total expenses	38,848,301	33,268,968	5,579,333	16.8%
Operating income (loss)	5,006,895	(372,206)	5,379,101	
Non-operating revenues (expenses)	(2,326,430)	(1,036,524)	(1,289,906)	124.4%
Change in Net Position	2,680,465	(1,408,730)	4,089,195	-290.3%
Net Position, beginning	133,507,008	134,915,738	(1,408,730)	-1.0%
Prior Period Adjustment	(776,044)			
Net Position, ending	\$ 135,411,429	\$ 133,507,008	\$ 2,680,465	2.0%

- Metered water sales increased by approximately \$8.2 million or 32.5%, due to the decrease of cash applied to offset expenses in the 2016 budget and an increase in the water cost for an additional 30,000 acre feet of water for the customers. This water was purchased to supplement the existing stored and interruptible water contracts for our customers.
- Irrigation sales increased by \$2.3 million, a 238.0% increase from the prior year due to additional acres watered.
- Supplies and materials increased by approximately \$2.2 million, a 18.3% increase from the prior year due to the cost of an additional 32,000 acre feet of water purchases charged to our customers in 2016 to supplement the existing stored and interruptible water contracts for our customers.
- Depreciation expense increased by approximately \$1.6 million, an increase of 11.7% from the prior fiscal year primarily due to an increase in depreciable capital assets in the prior year. The vast majority of the depreciation expense is associated with existing bond funded projects, which accounted for approximately \$9.1 million of the \$15.0 million expense in 2016.

**GULF COAST WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The following charts illustrate a two year comparison of the Authority's Operating Revenues and Operating Expenses, respectively.



**GULF COAST WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**CAPITAL ASSETS AND LONG-TERM DEBT**

**CAPITAL ASSETS**

The Authority's capital assets totaled \$114,423,314 as of August 31, 2016. These capital assets include land; construction in progress; office furniture, fixtures and equipment; other machinery and equipment; automobiles and trucks; buildings; and infrastructure. The total net decrease in the Authority's capital assets for the current fiscal year was 10.4%

	<u>2016</u>	<u>2015</u>	<u>Increase/(Decrease)</u>	
			<u>\$</u>	<u>%</u>
Land	\$ 1,959,588	\$ 1,959,588	\$ -	
Construction in progress	7,680,440	7,993,163	(312,723)	6.0%
Infrastructure	240,615,117	235,605,456	5,009,661	7.9%
Buildings	3,745,197	3,074,596	670,601	-15.2%
Plant and equipment	7,255,887	7,083,168	172,719	19.4%
Less accumulated depreciation	<u>(146,832,915)</u>	<u>(133,279,496)</u>	<u>(13,553,419)</u>	<u>19.4%</u>
Total	<u>\$ 114,423,314</u>	<u>\$ 122,436,475</u>	<u>\$ (8,013,161)</u>	<u>10.4%</u>

Additional information on the Authority's capital assets can be found in Note 3 to the financial statements.

**LONG-TERM DEBT**

At the end of the current fiscal year, the Authority had long-term debt outstanding of \$28.9 million. The debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

	<u>2016</u>	<u>2015</u>	<u>Increase/(Decrease)</u>	
			<u>\$</u>	<u>%</u>
Revenue bonds	\$ 27,710,000	\$32,300,000	\$ (4,590,000)	-14.2%
Bond premiums	<u>1,229,566</u>	<u>1,469,594</u>	<u>(240,028)</u>	<u>-16.3%</u>
Totals	<u>\$ 28,939,566</u>	<u>\$33,769,594</u>	<u>\$ (4,830,028)</u>	<u>-14.3%</u>

Additional information on the Authority's long-term debt can be found in Note 4 to the financial statements.

**REQUESTS 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 Business Administrator, 3630 FM 1765, Texas City, Texas 77591.



Gulf Coast Water Authority

## **BASIC FINANCIAL STATEMENTS**

# GULF COAST WATER AUTHORITY

## Statement of Net Position

August 31, 2016

### Assets

#### Current Assets:

Cash and cash equivalents	\$ 27,350,814
Investments	14,027,876
Accounts receivable	6,572,471
Interest receivable	51,624
Prepaid items	506,618
Restricted:	
Cash and cash equivalents	2,684,270
Investments	1,925,648

**Total current assets** 53,119,321

#### Noncurrent Assets:

Capital assets, not subject to depreciation	9,640,028
Capital assets net of accumulated depreciation	104,783,286
Total capital assets (net of accumulated depreciation)	114,423,314
<b>Total assets</b>	<u>167,542,635</u>

#### Deferred Outflows of Resources

Deferred outflows for pension	<u>2,364,818</u>
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### Liabilities

#### Current liabilities:

Accounts payable and accrued liabilities	3,132,831
Current portion of bonds payable	5,705,000
Accrued interest payable	49,970
Current portion of compensated absences	402,265

**Total current liabilities** 9,290,066

#### Noncurrent liabilities:

Revenue bonds payable (net of premiums and discounts)	23,234,566
Compensated absences (less current portion)	804,529
Net pension liability	782,097

**Total noncurrent liabilities** 24,821,192

**Total liabilities** 34,111,258

#### Deferred Inflows of Resources

Deferred charges on refunding	323,770
Deferred inflows for pension	60,996

**Total Deferred Inflows of Resources** 384,766

### Net Position

Net investment in capital assets	86,052,697
Restricted for:	
Debt service	3,593,830
Unrestricted	45,764,902

**Total Net Position** \$ 135,411,429

See notes to the financial statements

**GULF COAST WATER AUTHORITY**  
*Statement of Revenues, Expenses, and Changes in Net Position*  
*For the year ended August 31, 2016*

<b>Operating revenues</b>	
Charges for sales and services	
Metered Water Sales	\$ 33,425,561
Bond Payment Revenue	6,725,417
Irrigation	3,210,886
Other	493,332
<b>Total operating revenues</b>	<u>43,855,196</u>
<b>Operating expenses</b>	
Personnel services	6,501,190
Supplies and materials	14,283,436
Contractual services	1,660,523
Other charges	1,377,152
Depreciation	15,026,000
<b>Total operating expenses</b>	<u>38,848,301</u>
<b>Operating income (loss)</b>	<u>5,006,895</u>
<b>Non-operating revenues (expenses)</b>	
Investment income (loss)	132,478
Interest expense	(1,204,538)
Amortization of bond premium	253,019
Other expense	(1,507,389)
<b>Total non-operating revenues (expenses)</b>	<u>(2,326,430)</u>
<b>Changes in Net Position</b>	2,680,465
<b>Beginning Net Position</b>	133,507,008
<b>Prior Period Adjustment</b>	<u>(776,044)</u>
<b>Ending Net Position</b>	<u>\$ 135,411,429</u>

See notes to the financial statements

**GULF COAST WATER AUTHORITY**

Page 1 of 2

**Statement of Cash Flows**

For the year ended August 31, 2016

**Cash Flows from Operating Activities**

Receipts from customers	\$ 42,479,389
Payments to suppliers	(17,251,233)
Payments to employees	(6,417,538)
<b>Net cash provided by operating activities</b>	<u>18,810,618</u>

**Cash Flows from Noncapital****Financing Activities**

Refunds to customers	(1,507,389)
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(1,507,389)</u>

**Cash Flows from Capital and Related****Financing Activities**

Acquisition and construction of capital assets	(7,588,303)
Proceeds from sale of capital assets	(4,590,000)
Interest paid on capital related debt	(1,229,939)
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(13,408,242)</u>

**Cash Flows from Investing Activities**

Purchase of investments	(3,815,348)
Interest received	98,134
<b>Net cash used by investing activities</b>	<u>(3,717,214)</u>

**Net increase (decrease) in cash  
and cash equivalents**

	177,773
<b>Beginning cash and cash equivalents</b>	<u>29,857,311</u>
<b>Ending cash and cash equivalents</b>	<u>\$ 30,035,084</u>

**Ending cash and cash equivalents**

Unrestricted cash and cash equivalents	\$ 27,350,814
Restricted cash and cash equivalents	2,684,270
	<u>\$ 30,035,084</u>

See notes to the financial statements

**GULF COAST WATER AUTHORITY**

Page 2 of 2

*Statement of Cash Flows**For the year ended August 31, 2016***Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities**

Operating income (loss)	\$ 5,006,895
Adjustment to reconcile operating income to net cash provided by operating activities	
Depreciation	15,026,000
Changes in Operating Assets and Liabilities	
(Increase) decrease in assets:	
Receivables, net	(1,557,662)
Prepays	248,591
Deferred outflows for pensions	(1,520,334)
Increase (decrease) in liabilities:	
Accounts payable	(75,313)
Compensated absences payable	99,877
Deferred inflows for pensions	60,996
Net pension liability	1,521,568
<b>Net cash provided by operating activities</b>	<b>\$ 18,810,618</b>

**GULF COAST WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Summary of Significant Accounting Policies**

The accounting and reporting policies of the Gulf Coast Water 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 Gulf Coast Water Authority (the “Authority”) is a Conservation and Reclamation District and political subdivision of the State of Texas (the “State”), created and functioning under Article XVI, Section 59, of the Texas Constitution, pursuant to Chapter 712, Acts of the 59th Legislature, Regular Session, 1965, as amended (the “Act”). The Act created the Authority to conserve, store, transport, treat and purify, distribute, well and deliver water, both surface and underground, to persons, corporations, both public and private, political subdivisions of the State and others, and to purchase, construct or lease all property, works and facilities, both within and without the Authority, necessary or useful for such purposes. It is also authorized to acquire water supplies from sources within or without its boundaries and to sell, transport and deliver water to customers situated within or without its boundaries and to acquire all properties and facilities necessary or useful for such purposes. The Act conferred no water rights on the Authority and it is not authorized to make any regulation of the withdrawal of underground water. The Authority may make, construct, or otherwise acquire improvements either within or without its boundaries necessary to carry out its powers and authority and to exercise the power of eminent domain for such purposes, except the Authority does not have the power of eminent domain as to all or any part of the water supply, property, works or facilities of any private person or persons, or of any private or public corporation or association engaged in the business of supplying water in Galveston County, Texas, to any class of consumers for any use as of the effective date of enabling legislation. However, the Authority may acquire necessary crossing easements and rights of way. The powers, rights, privileges, and functions conferred upon the Authority are subject to the continuing rights of supervision by the State, which is exercised by the Texas Department of Water Resources including approval of its projects. The Act granted the Authority none of the powers conferred by General Law for the purposes of the collection, transportation, processing, disposal and control of domestic, industrial or communal wastes, and the gathering, conducting, directing and controlling of local storm waters, or other local harmful excesses of water. Furthermore, the Authority has no power to levy taxes but is authorized to issue revenue bonds to provide funds for any and all of the purpose set forth in the Act and to collect related rates and costs.

The Authority is comprised of all of the territory contained within Galveston County, Texas, and its boundaries are the same as and coextensive with the boundaries of Galveston County, Texas. However, its operations are not necessarily limited to the confines of these boundaries.

**GULF COAST WATER AUTHORITY**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 1 - Summary of Significant Accounting Policies (continued)**

The Authority is a separate self-supporting governmental unit and is administered by a board of ten directors. Five directors are appointed by the Commissioners Court of Galveston County, one of whom represents municipal interests, two of whom represent industrial interests, and two of whom represent the county at large. Two directors are appointed by the Fort Bend County Commissioners Court, one of whom represents municipal interests, and one of whom represents the county at large. Three directors are appointed by the Brazoria County Commissioners Court, one of whom represents agricultural interests, one of whom represents municipal interest, and one of whom represents industrial interests. A director appointed to represent municipal or industrial interests must be a customer of or represent an entity that is a customer of the district.

Appointees serve two year terms, staggered five (5) one year and five (5) the next. Term of office coincides with the Authority's fiscal year, beginning September 1st.

**B. Financial Statement Presentation, Measurement Focus and Basis of Accounting**

As a single purpose government engaging only in business type activities, the Authority follows enterprise fund accounting. 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 which is 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.

**C. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in checking, savings, money market accounts and certificates of deposits.

**D. Accounts Receivable**

Accounts receivable consist of balances due from customers of the various activities of the Authority. 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 collectability 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, 2016, no allowance for bad debts is recorded.

**GULF COAST WATER AUTHORITY**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 1 - Summary of Significant Accounting Policies (continued)**

**E. Capital Assets**

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 Authority's policy is to capitalize assets with an initial cost exceeding \$5,000 and useful life of three years or greater.

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

<u>Asset Class</u>	<u>Useful Life</u>
Office furniture, fixtures and equipment	5 years
Other machinery and equipment	5-10 years
Automobiles and trucks	4 years
Buildings	10 years

**F. Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has one item that qualifies for reporting in this category:

- Deferred outflows of resources for pension – One portion of this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability, and will be recognized as a reduction of the net pension liability in the next fiscal year. Another pension related deferred outflows result from of differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period. The last portion of the deferred outflow relating to pension is a combination of differences arising from changes in assumptions and differences between expected and actual actuarial experience. These amounts will be recognized over the average remaining service life for all active, inactive, and retired members, which is currently five years.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category:

- Deferred gain on refunding reported in the statement of net position – this deferred inflow results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred inflows of resources for pension – This deferred inflow results from the differences between expected and actual actuarial experiences and will be recognized over the average remaining service life for all active, inactive, and retired members, which is currently five years.

**GULF COAST WATER AUTHORITY**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 1 - Summary of Significant Accounting Policies (continued)**

**G. 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 Texas County and District Retirement System (“TCDRS”) and additions to/deductions from TCDRS’s Fiduciary Net Position have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**H. Unamortized Bond Discounts and Premiums**

Included within long-term debt are unamortized bond discounts and premiums. These discounts and premiums are being amortized over the life of the related obligation on the straight-line method.

**I. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

**J. Reclassifications**

Certain reclassifications to prior year balances have been made to conform to current year presentation. Such reclassifications have had no effect on the excess of revenues over expenses.

**K. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

**L. Date of Management’s Review**

Subsequent events have been evaluated through April 28, 2017, which is the date the financial statements were available to be issued.

**GULF COAST WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**M. Net Position**

Net position represents the difference between assets and liabilities. Net position net investment in capital assets consists 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 position is reported as restricted when there are limitations imposed on its 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.

A summary of net investment in capital assets by division as of August 31, 2016, follows:

	<b>Capital Assets Net of Depreciation</b>	<b>Capital Related Bonds Payable</b>	<b>Net Investment In Capital Assets</b>
Industrial Division	\$ 12,683,743	\$ -	\$ 12,683,743
League City SE Water Purification Plant (SEWPP)	18,637,230	(1,252,675)	17,384,555
Thomas Mackey Water Treatment Plant	7,429,002	-	7,429,002
Canal Division	8,150,437	-	8,150,437
1997 Galveston Projects	1,158,830	(835,413)	323,417
1998 A-B Series South Projects	13,636,812	(15,530,137)	(1,893,325)
1998 C Series Texas City Projects	6,926,847	(4,134,098)	2,792,749
1998 D Series La Marque Projects	1,377,588	(1,387,243)	(9,655)
2002 Series Galveston Projects	10,546,648	(4,186,051)	6,360,597
Juliff Chocolate Bayou Operations	8,531,313	(1,045,000)	7,486,313
Pearland SE Water Purification Plant (SEWPP)	24,895,486	-	24,895,486
Northline Group	99,946	-	99,946
Bayshore Group	11,856	-	11,856
Administrative Operations	337,576	-	337,576
	<u>\$ 114,423,314</u>	<u>\$ (28,370,617)</u>	<u>\$ 86,052,697</u>

A summary of net position restricted for debt service as of August 31, 2016 follows:

	<b>Restricted Cash and Investments for Debt Service</b>	<b>Liabilities Payable from Restricted Cash and Investments for Debt Service</b>	<b>Total</b>
League City SE Water Purification Plant (SEWPP)	\$ 252,001	\$ (1,799)	\$ 250,202
1998 A-B South Projects	2,161,762	(26,807)	2,134,955
1998 C Series Texas City Projects	492,811	(7,958)	484,853
2002 Galveston Projects	73,101	(4,497)	68,604
Juliff Chocolate Bayou Operations	225,446	(5,562)	219,884
1997 Galveston Projects	202,236	(828)	201,408
1998 D Series La Marque Projects	236,443	(2,519)	233,924
Total	<u>\$ 3,643,800</u>	<u>\$ (49,970)</u>	<u>\$ 3,593,830</u>

**GULF COAST WATER AUTHORITY**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 2 - Cash and Cash Equivalents and Investments**

The Authority's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the Authority's agent bank approved pledged securities in an amount sufficient to protect Authority funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The Public Funds Investment Act requires an annual audit of investment practices. Audit procedures in this area conducted as part of the general-purpose financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the Authority adhered to the requirements of the Act. Additionally, investment practices of the Authority were in accordance with bond provisions.

Certificates of deposit are reported at cost. Participating interest-earning investment contracts (repurchase agreements) that mature within one year of acquisition date are reported at fair value; those that mature within one year or less at date of acquisition are reported at amortized cost. Debt securities (U.S. Treasury securities, U.S. government agency securities) are reported at fair value, except those maturing in less than one year, which are recorded at amortized cost. Fair value is determined using quoted market prices. Unrealized gains and losses are included as a component of investment income.

**Deposits**

As authorized in bond provisions, deposits of the Authority are in short-term certificates of deposit, demand accounts and interest bearing money market accounts. All deposits are secured at the balance sheet date by FDIC coverage and by pledged U.S. Government securities held by an agent of the bank in the name of the depository bank.

As of August 31, 2016, all cash and cash equivalents were secured by FDIC coverage or pledged securities.

**Investments**

Statutes authorize the Authority to invest in obligations of the U.S. Treasury, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, and common trust funds.

**GULF COAST WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 2 - Cash and Cash Equivalents and Investments (continued)**

Investments that are not represented by specific identifiable investment securities such as mutual fund investment pools are not classified as to credit risk.

The Authority categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Authority's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*. The certificate of deposits the Authority holds are considered level 2 inputs. The Authority does not hold any level 1 or level 3 inputs.

At year-end, the Authority's investment balances were as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Percentage of Portfolio</b>	<b>Weighted Average Maturity (Days)</b>
Certificates of Deposit	\$ 29,147,473	100%	70
Total fair value	\$ 29,147,473	100%	

**Note 3 - Capital Assets**

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

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Reclassifications/ Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 1,959,588	\$ -	\$ -	\$ 1,959,588
Construction in progress	7,993,163	2,365,638	(2,678,361)	7,680,440
Total capital assets not being depreciated	9,952,751	2,365,638	(2,678,361)	9,640,028
Capital assets being depreciated:				
Office furniture, fixtures and equipment	500,501	46,347		546,848
Other machinery and equipment	5,451,138	337,502	(279,045)	5,509,595
Automobiles and trucks	1,131,529	199,261	(131,346)	1,199,444
Buildings	3,074,596	670,601		3,745,197
Infrastructure	235,605,456	6,154,988	(80,055)	241,680,389
Total capital assets being depreciated	245,763,220	7,408,699	(490,446)	252,681,473
Less accumulated depreciation for:				
Office furniture, fixtures and equipment	(349,688)	(53,170)		(402,858)
Other machinery and equipment	(3,488,390)	(475,470)	279,045	(3,684,815)
Automobiles and trucks	(754,694)	(180,305)	128,264	(806,735)
Buildings	(2,017,344)	(292,297)		(2,309,641)
Infrastructure	(126,669,380)	(14,024,758)		(140,694,138)
Total accumulated depreciation	(133,279,496)	(15,026,000)	407,309	(147,898,187)
Total capital assets being depreciated, net	112,483,724	(7,617,301)	(83,137)	104,783,286
<b>Total Capital Assets, net</b>	<b>\$ 122,436,475</b>	<b>\$ (5,251,663)</b>	<b>\$ (2,761,498)</b>	<b>\$ 114,423,314</b>

**GULF COAST WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 3 - Capital Assets (continued)**

**Construction in Progress:**

Construction in progress for the various projects and remaining commitments under these construction contracts as of August 31, 2016, is as follows:

<u>Project Description (continued)</u>	<u>Authorized Contract</u>	<u>Contract Expenditures</u>	<u>Remaining Commitment</u>
<b>Industrial Division - (Texas City):</b>			
Industrial Pump Station (IPS) Replacement - Design Phase - LAN	\$ 2,351,490	\$ 1,844,778	\$ 506,712
IPS Industrial Customer Metering Project	2,290,021	2,283,308	6,713
Reservoir Intake & Discharge Pipe & Gate	12,438,420	705,748	11,732,672
IPS Switchgear Upgrade	295,853	284,738	11,115
Bypass Canal - Rehabilitate Gates	62,112	41,894	20,218
Atwater Road Crossing	125,000	4,628	120,372
I-Canal Levee Improvements	122,305	22,305	100,000
Replacement of 18-in Line at Marathon-TRD	1,075,785	68,883	1,006,902
IPS VFD and Transformer	25,000	5,058	19,942
Emergency Pipe Repair-Marathon-TRD	305,490	68,529	236,961
<b>Totals</b>	<u>19,091,476</u>	<u>5,329,869</u>	<u>13,761,607</u>
<b>League City SE Water Purification Plant:</b>			
Security System Improvements (Pro-rata Share)	110,591	110,591	-
<b>Totals</b>	<u>110,591</u>	<u>110,591</u>	<u>-</u>
<b>Thomas S Mackey Water Treatment Plant Division:</b>			
Installation of Secondary Air Scour Blower & Motor Set	254,919	253,195	1,724
Filter Pipe Gallery modifications	8,412	8,412	-
Backwash Basin Improvements	30,000	13,214	16,786
Sludge Management	1,239,512	752,581	486,931
Chlorine Detection System	10,000	8,205	1,795
Replace Transformer T-3	150,000	12,505	137,495
Takepoint Improvements - Calder Meter Station	115,300	42,109	73,191
Replace Chlorine Meters	18,000	14,640	3,360
Rehabilitation of Reactor Clarifier 3 Launder (Weir)	186,702	46,000	140,702
Rebuild of P604 Pump Set	87,818	18,201	69,617
Rebuild Waste Pump P324 (RC 3)	12,177	4,882	7,295
Roof Replacement and Building Caulking	514,338	4,167	510,171
Filter Rerate Project	22,000	6,114	15,886
Calder Road Improvements	27,688	27,688	-
<b>Totals</b>	<u>2,676,866</u>	<u>1,211,913</u>	<u>1,464,953</u>

**GULF COAST WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 3 - Capital Assets (continued)**

<u>Project Description</u>	<u>Authorized Contract</u>	<u>Contract Expenditures</u>	<u>Remaining Commitment</u>
<b>Canal Division:</b>			
Installation of Remote Control Actuated Gate at Alvin Yard	\$ 14,658	\$ 14,658	\$ -
Replacement of ANE 011 TV Check Chk 21	30,000	15,550	14,450
Rebuild of P2 Pump Set - Briscoe System	248,691	248,691	-
Rebuild of P3 Pump Set - Briscoe System	225,000	192,243	32,757
Future P4 Pump Set - Briscoe System	8,635	8,635	-
Chk-2 & BR-6 Syphon Crossing - Friendswood/Algoa	420,000	19,039	400,961
Replacement Alternatives - G Canal	6,650	6,650	-
<b>Totals</b>	<u>953,634</u>	<u>505,466</u>	<u>448,168</u>
<b>1998-A-B Series South Division Projects:</b>			
Southline Hydraulic Model Project	57,000	27,180	29,820
Alta Loma Improvements	30,000	634	29,366
Rehabilitation of Highway 6 Line	20,000	367	19,633
Repairs to 39-in Well Connection Line	25,460	2,680	22,780
<b>Totals</b>	<u>132,460</u>	<u>30,861</u>	<u>101,599</u>
<b>Juliff Chocolate Bayou Division:</b>			
Salt Water Barrier Improvements - Engineering Study Klotz	251,342	219,990	31,352
Smith Chk-6 Downstream Erosion - Juliff Canal	28,952	13,419	15,533
JA Turner Rd Chk-6 - Juliff Canal	25,444	25,444	-
Rebuild P2 Pump & R.A.D. - Chocolate Bayou Pump Station	125,000	525	124,475
Rehabilitation of Chocolate Bayou Pumping Station Pilings	200,000	48,111	151,889
Replacement of Mustang Reservoir Equalizer Pipe	167,396	167,396	-
Juliff Canal Harper Chk-8	18,536	9,841	8,695
<b>Totals</b>	<u>816,670</u>	<u>484,726</u>	<u>331,944</u>
<b>Administrative Operations Division:</b>			
Security System Improvements	1,000	930	70
Admin Office Board Room Upgrades	15,000	6,084	8,916
<b>Totals</b>	<u>16,000</u>	<u>7,014</u>	<u>8,986</u>
<b>Grand CIP Totals</b>	<u>\$ 23,797,697</u>	<u>\$ 7,680,440</u>	<u>\$ 16,117,257</u>

**GULF COAST WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 4 - Long-Term Debt**

**Changes in Long Term Liabilities**

Total long-term liability activity for the year ended August 31, 2016, is as follows:

	<u>Beginning Balance as Restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due In More Than One Year</u>
Bonds Payable:						
Revenue bonds	\$ 32,300,000	\$ -	\$ 4,590,000	\$ 27,710,000	\$ 5,705,000	\$22,005,000
Bond premiums	1,469,594	-	240,028	1,229,566	-	1,229,566
Total bonds payable	33,769,594	-	4,830,028	28,939,566	5,705,000	23,234,566
Compensated absences	1,239,526	98,778	131,510	1,206,794	402,265	804,529
<b>Long term liabilities</b>	<b>\$ 35,009,120</b>	<b>\$ 98,778</b>	<b>\$ 4,961,538</b>	<b>\$ 30,146,360</b>	<b>\$ 6,107,265</b>	<b>\$24,039,095</b>

Revenue bond long-term activity for the year ended August 31, 2016, is as follows:

	<u>Balances at September 01, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances at August 31, 2016</u>	<u>Due Within One Year</u>
<b>League City Southeast Division</b>					
Contract Revenue Bonds:					
Series 2011 F	\$ 1,430,000	\$ -	\$ 220,000	\$ 1,210,000	\$ 225,000
<b>Total League City Southeast Division</b>	<b>1,430,000</b>	<b>-</b>	<b>220,000</b>	<b>1,210,000</b>	<b>225,000</b>
<b>1998-A South Projects</b>					
Contract Revenue Bonds:					
Series 2011 A	13,785,000	-	970,000	12,815,000	1,980,000
Series 2011 B	2,275,000	-	290,000	1,985,000	300,000
<b>Total 1998 A-B South Projects</b>	<b>16,060,000</b>	<b>-</b>	<b>1,260,000</b>	<b>14,800,000</b>	<b>2,280,000</b>
<b>1998 C Series Texas City Projects</b>					
Contract Revenue Bonds:					
Series 2011 C	4,230,000	-	410,000	3,820,000	430,000
<b>Total 1998 C Series Texas City Projects</b>	<b>4,230,000</b>	<b>-</b>	<b>410,000</b>	<b>3,820,000</b>	<b>430,000</b>
<b>2002 Galveston Projects</b>					
Contract Revenue Bonds:					
Series 2012	5,490,000	-	735,000	4,755,000	745,000
<b>Total Galveston Projects</b>	<b>5,490,000</b>	<b>-</b>	<b>735,000</b>	<b>4,755,000</b>	<b>745,000</b>
<b>Chocolate Bayou</b>					
Contract Revenue Bonds:					
Series 2006	2,075,000	-	1,030,000	1,045,000	1,045,000
<b>Total Chocolate Bayou</b>	<b>2,075,000</b>	<b>-</b>	<b>1,030,000</b>	<b>1,045,000</b>	<b>1,045,000</b>
<b>1997 Series Galveston Projects</b>					
Contract Revenue Bonds:					
Series 2011 E	1,550,000	-	755,000	795,000	795,000
<b>Total 1997 Series Galveston Projects</b>	<b>1,550,000</b>	<b>-</b>	<b>755,000</b>	<b>795,000</b>	<b>795,000</b>
<b>1998 D Series La Marque Projects</b>					
Contract Revenue Bonds:					
Series 2011 D	1,465,000	-	180,000	1,285,000	185,000
<b>Total 1998 D Series La Marque Projects</b>	<b>1,465,000</b>	<b>-</b>	<b>180,000</b>	<b>1,285,000</b>	<b>185,000</b>
<b>Total Bonds Payable</b>	<b>\$ 32,300,000</b>	<b>\$ -</b>	<b>\$ 4,590,000</b>	<b>\$ 27,710,000</b>	<b>\$ 5,705,000</b>

**GULF COAST WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 4 - Long-Term Debt (continued)**

Maturities of bonds payable follow:

<b>Years</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 5,705,000	\$ 1,081,501	\$ 6,786,501
2018	3,945,000	921,990	4,866,990
2019	4,085,000	774,773	4,859,773
2020	4,265,000	598,804	4,863,804
2021	4,855,000	430,569	5,285,569
2022	4,855,000	237,805	5,092,805
<b>Total</b>	<b>\$ 27,710,000</b>	<b>\$ 4,045,442</b>	<b>\$ 31,755,442</b>

**Note 5 - Compensated Absences**

All full-time employees begin accruing paid sick leave eight (8) hours per month from the date of employment. Employees cannot use sick leave until completing ninety (90) days of service. Full-time employees who have completed five (5) years of service and are separated for non-disciplinary reasons shall be paid for one half of their accrued sick leave up to a maximum of 360 hours. Employees who have completed ten (10) years of service and separate due to death or retirement shall be paid the balance of accumulated sick leave up to a maximum of nine hundred and sixty (960) hours.

Full-time employees will accrue vacation hours each pay period beginning on their hire date. Employees will be able to take vacation upon completion of ninety (90) days of service. The maximum accrued balance an employee may carry is two times their annual accrual limit. At August 31, 2016, accrued compensated absences are \$1,206,794.

**Note 6 - Defined Benefit Pension Plan**

**Plan Description**

The Authority provides retirement, disability and death benefits for all of its full-time employees through a non-traditional defined benefit plan in the state-wide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system, consisting of 677 nontraditional defined benefit pension plans. TCDRS issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available, upon written request, from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas, 78768-2034 or online at [www.tcdrs.org](http://www.tcdrs.org).

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS ("TCDRS Act"). Members can retire at age 60 and above with 5 or more years of service, with 30 years of service regardless of age or when the sum of their age and years of service equals 75 or more. Members are vested after 5 years of service but must leave their accumulated contributions to the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

**GULF COAST WATER AUTHORITY**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 6 - Defined Benefit Pension Plan (continued)**

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits, with interest. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitments to contribute. At retirement, disability or death, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates, as prescribed by the TCDRS Act.

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

**Funding Policy/Contributions**

The employer has chosen a variable rate plan under the provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer was 8.67% and the contribution rate for employees was 7%, as adopted by the governing body of the employer. The contribution rate of the employer is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act. However, the plan of benefits adopted by the employer at the time of plan inception or when benefit increases were adopted was limited by the TCDRS Act to what the actuary determined could be adequately financed by the commitment of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer with options available in the TCDRS ACT.

If a plan has had adverse experience, the TCDRS Act has provisions which allow the employer to contribute a fixed supplemental contribution rate determined by the system's actuary above the regular rate for 25 years or to reduce benefits earned in the future.

**Net Pension Liability (Asset)**

The Authority's Net Pension Liability (Asset) ("NPL" or "NPA") was measured as of December 31, 2015, and the Total Pension Liability ("TPL") used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

**Actuarial Assumptions**

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0%
Overall payroll growth	0.5%
Long-term investment return	8.0%

Salary increases were based on a service-related table. Mortality rates for active depositing members were based on the RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Mortality Table for females with a four-year setback, both with the projection scale AA. Mortality rates for service retirees, beneficiaries and non-depositing members were based on the RP-2000

**GULF COAST WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 6 - Defined Benefit Pension Plan (continued)**

Combined Mortality Table with the projection scale AA, with a one-year set-forward for males and no age adjustment for females. Mortality rates for disabled retirees were based on the RP-2000 Disabled Mortality Table for males with no age adjustment and RP-2000 Disable Mortality Table for females with a two-year set-forward, both with the projection scale AA.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TCDRS was for the period January 1, 2009 through December 31, 2012, except where required to be different by GASB 68. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (“EAN”) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 8.1%. The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Geometric Real Rate of Return (Expected Minus Inflation)</u>
US Equities	14.50%	5.45%
Private Equity	14.00%	8.45%
Global Equities	1.50%	5.75%
International Equities - Developed	10.00%	5.45%
International Equities - Emerging	8.00%	6.45%
Investment-Grade Bonds	3.00%	1.00%
High-Yield Bonds	3.00%	5.10%
Opportunistic Credit	2.00%	5.09%
Direct Lending	5.00%	6.40%
Distressed Debt	3.00%	8.10%
REIT Equities	3.00%	4.00%
Master Limited Partnerships	3.00%	6.80%
Private Real Estate Partnerships	5.00%	6.90%
Hedge Funds	25.00%	5.25%
Total Assets	<u>100.00%</u>	<u>5.95%</u>

**GULF COAST WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 6 - Defined Benefit Pension Plan (continued)**

**Discount Rate**

The discount rate used to measure the Total Pension Liability was 8.10%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension 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 long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	<b>Total Pension Liability (a)</b>	<b>Fiduciary Net Position (b)</b>	<b>Net Pension Liability/(Asset) (a) - (b)</b>
<b>Balances as of December 31, 2014</b>	\$ 19,828,664	\$ 20,724,996	\$ (896,332)
Changes for the Year			
Service cost	446,105	-	446,105
Interest on total pension liability	1,600,213	-	1,600,213
Effect of plan changes	(50,096)	-	(50,096)
Effect of economic/demographic gains or losses	(76,245)	-	(76,245)
Effect of assumptions changes or inputs	145,422	-	145,422
Refund of contributions	(52,491)	(52,491)	-
Benefit payments	(637,742)	(637,742)	-
Administrative expenses	-	(14,817)	14,817
Member contributions	-	268,141	(268,141)
Net investment income	-	(222,362)	222,362
Employer contributions	-	332,112	(332,112)
Other	-	23,896	(23,896)
<b>Balances as of December 31, 2015</b>	<b>\$ 21,203,830</b>	<b>\$ 20,421,733</b>	<b>\$ 782,097</b>

**Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate**

The following presents the net pension liability (asset) of the Authority, calculated using the discount rate of 8.10%, as well as what the Authority's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (7.10%) or 1-percentage-point higher (9.10%) than the current rate:

1% Decrease in Discount Rate 7.1%	Discount Rate 8.1%	1% Increase in Discount Rate 9.1%
\$ 23,792,213	\$ 21,203,830	\$ 19,018,425
20,421,733	20,421,733	20,421,733
<b>\$ 3,370,480</b>	<b>\$ 782,097</b>	<b>\$ (1,403,308)</b>

**GULF COAST WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 6 - Defined Benefit Pension Plan (continued)**

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended August 31, 2016, the Authority recognized pension expense of 219,087.

As of August 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ 305,374	\$ 60,996
Changes in assumptions	116,337	-
Net difference between projected and actual earnings	1,698,524	-
Contributions made subsequent to the measurement date	244,583	-
	<u>\$ 2,364,818</u>	<u>\$ 60,996</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions subsequent to the measurement date, will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>		
2016	\$	554,289
2017		554,289
2018		554,289
2019		396,372
	<u>\$</u>	<u>2,059,239</u>

**Note 7 - Contingent Liability**

In the ordinary course of conducting its operations, the Authority has been involved in various legal matters. At this time, the Authority has no contingent liabilities.

**Note 8 - Long-Term Contracts**

**Customer Contracts**

The Gulf Coast Water Authority (“GCWA”) has contracted with its customers to sell and deliver water on demand, and the customers have agreed to buy from the GCWA or to pay for whether taken or not, minimum quantities of water as set forth in the contracts.

**Long-Term Contract for Cost Sharing Water Project with City of Houston**

The Gulf Coast Water Authority entered into a long-term cost sharing water project contract with the City of Houston, Texas to jointly finance and operate the Southeast Water Purification Plant (SEWPP) to supply existing and future treated water needs of the City of League City and the City of Pearland, Texas. Terms of the contract provide that the GCWA shall directly reimburse the City of Houston on a periodic basis for the expenses incurred in producing and pumping the water actually delivered to GCWA.

**GULF COAST WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 9 - Employee 401(K) Plan Trust**

The Authority adopted the Gulf Coast Water Authority Employee 401(K) Plan (the "Plan") for the benefit of its employees. The Plan is exempt from tax under section 501(a) of the Internal Revenue Code of 1986, by reason of qualifying under section 401 (a) of the Code. The Plan is self-directed, as each participant directs the Trustees as to the investment of the assets for each participant's account. Employer contributions are 4% of gross income for employees hired prior to January 1, 1999, the effective date of the Plan. For employees employed after the effective date of the Supplemental Plan, the Authority will match on a dollar-for-dollar basis up to a maximum of 4% of employee's gross income from the Authority to the Supplemental Plan; any employee would be vested in 100% of the Authority's contributions to the Supplemental Plan who has been employed with the Authority for three (3) years of continuous service, including service prior to the effective date of the Supplemental Plan. Employees may contribute to the plan up to the maximum amount permitted under the Internal Revenue Code. Total employer contributions for the year ended August 31, 2016, were \$149,447.

**Note 10 - Insurance**

The Authority participates in the Texas Municipal League Intergovernmental Risk Pool, which was formed in 1974 for the purpose of offering a workers' compensation plan for unincorporated associations of political subdivisions of Texas. Pooling proved to be so beneficial to Texas local governments that, also at the Members' request, the Joint Self- Insurance Fund for Liability and property was created in 1982 under the authority of the Interlocal Cooperation Act, Article 4413 (32a). This Fund provides protection for Texas cities and other qualifying local governments for General Liability, Automobile Liability, Public Officials Errors and Omissions Liability, Law Enforcement Liability, Aviation Liability and damage to or destruction of Real and Personal Property. Currently the pool has over 1,670 members who purchase worker's compensation and business risk insurance.

Risk of loss retained by the Authority is the annual premium plus the related deductibles. No uninsured losses for the year exceeded these amounts.

The pool purchases reinsurance from commercial insurance carriers for claims in excess of \$1,000,000. The Authority pays an annual premium to the plan for the administration of claims, purchase of insurance and loss control services. The Authority retains no risk of loss for each claim other than the annual premium and deductibles.

**Note 11 - Subsequent Events**

In December 2016, the Authority issued Contract Revenue Bonds, Series 2016A in the amount of \$5,185,000 and Series 2016B in the amount of \$6,370,000 for the Texas City Reservoir and Raw Water Conveyance System Project.

On April 20, 2017 the Board of Directors authorized the issuance of Gulf Coast Water Authority Contract Revenue Bonds (Industrial Pump Station and Raw Water Transmission System Project) Series 2017 in the amount of \$14.1 million at an interest rate of 3.79% with a final maturity date of August 15, 2031.

**GULF COAST WATER AUTHORITY**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 12 - Restatement of Net Position**

Beginning net position was restated as follows:

Beginning Net Position	\$ 133,507,008
Correction to contract water costs related to reversal of a prior year transaction	507,301
Addition of unamortized deferred gain on refunding	(370,027)
Correction to compensated absences	<u>(913,318)</u>
Total restatement	<u>(776,044)</u>
Net Position as Restated	<u>\$ 132,730,964</u>

**REQUIRED SUPPLEMENTAL INFORMATION**

**GULF COAST WATER AUTHORITY**  
**TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITIES AND RELATED RATIOS**  
**For the Last Two Measurement Years**  
**(UNAUDITED)**

	2015	2014
<b>Total Pension Liability</b>		
Service cost	\$ 446,105	\$ 424,294
Interest on total pension liability	1,600,213	1,451,551
Effect of plan changes	(50,096)	
Effect of economic/demographic gains or losses	(76,245)	
Effect of assumptions changes or inputs	145,422	
Difference between expected and actual performance		508,957
Refund of contributions	(52,491)	
Benefit payments/refunds of contributions	<u>(637,742)</u>	<u>(526,744)</u>
Net change in total pension liability	1,375,166	1,858,058
Total pension liability, beginning	<u>19,828,664</u>	<u>17,970,608</u>
Total pension liability, ending (a)	<u>\$ 21,203,830</u>	<u>\$ 19,828,666</u>
<b>Fiduciary Net Position</b>		
Employer contributions	\$ 332,112	\$ 550,788
Member contributions	268,141	242,851
Investment income net of investment expenses	(222,362)	1,283,889
Benefit payments	(637,742)	(526,744)
Refunds of contributions	(52,491)	
Administrative expenses	(14,817)	(15,246)
Other	<u>23,896</u>	<u>365,134</u>
Net change in fiduciary net position	(303,263)	1,900,672
Fiduciary net position, beginning	<u>20,724,996</u>	<u>18,824,325</u>
Fiduciary net position, ending (b)	<u>\$ 20,421,733</u>	<u>\$ 20,724,997</u>
Net pension liability / (asset), ending = (a) - (b)	\$ 782,097	\$ (896,331)
Fiduciary net position as a % of total pension liability	96.31%	104.52%
Pensionable covered payroll	3,830,584	3,469,295
Net pension liability as a % of covered payroll	20.42%	-25.84%

Note: GASB 68 requires ten years of data to be provided in this schedule, however, because this standard was implemented in 2014, only two years are currently available.

**GULF COAST WATER AUTHORITY**  
**TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
*Last Two Fiscal Years*  
**(UNAUDITED)**

<b>Year Ending August 31,</b>	<b>Actuarially Determined Contribution</b>	<b>Actual Employer Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Pensionable Covered Payroll</b>	<b>Actual Contribution as a % of Covered Payroll</b>
2015	283,441	332,112	(48,671)	3,469,295	9.6%
2016	290,520	363,871	(73,351)	4,198,263	8.7%

Generally accepted accounting principles call for ten years of data to be shown. Information prior to fiscal year 2015 is not readily available.



Gulf Coast Water Authority

**OTHER SUPPLEMENTAL INFORMATION**



Gulf Coast Water Authority

**GULF COAST WATER AUTHORITY**  
**SCHEDULE OF REVENUES AND EXPENSES-**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
*For the year ended August 31, 2016*

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance from Final</b>
	<b>Original</b>	<b>Final</b>		
<b>Operating Revenues:</b>				
Metered water sales	\$ 47,323,165	\$ 46,840,391	\$ 46,134,283	\$ (706,108)
Bond payment revenue	8,993,933	8,993,933	6,725,417	(2,268,516)
Irrigation sales	335,211	335,211	3,210,886	2,875,675
<b>Total Operating Revenues</b>	<b>\$ 56,652,309</b>	<b>\$ 56,169,535</b>	<b>\$ 56,070,586</b>	<b>\$ (98,949)</b>
<b>Operating Expenses:</b>				
Personnel services	6,602,994	6,602,994	6,501,190	(101,804)
Supplies and materials	27,589,603	27,150,223	26,992,158	(158,065)
Contract services	2,173,085	2,180,085	1,660,523	(519,562)
Other charges	1,208,847	1,208,847	1,377,152	168,305
Capital	25,267,500	25,267,500	7,095,976	(18,171,524)
<b>Total Operating Expenses</b>	<b>62,842,029</b>	<b>62,409,649</b>	<b>43,626,999</b>	<b>(18,782,650)</b>
<b>Nonoperating Revenues (Expenses)</b>				
Investment earnings	82,332	82,332	132,478	50,146
Other revenues and (expenses)	43,000	43,000	(1,014,057)	(1,057,057)
Interest expense	(1,230,178)	(1,230,178)	(1,204,538)	25,640
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(1,104,846)</b>	<b>(1,104,846)</b>	<b>(2,086,117)</b>	<b>(981,271)</b>
<b>Change in Net Position</b>	<b>(7,294,566)</b>	<b>(7,344,960)</b>	<b>10,357,470</b>	<b>17,702,430</b>
<b>Net Position at Beginning of Year</b>	<b>133,507,008</b>	<b>133,507,008</b>	<b>133,507,008</b>	<b>-</b>
Prior Period Adjustment	-	-	(776,044)	(776,044)
<b>Net Position at End of Year</b>	<b>\$ 126,212,442</b>	<b>\$ 126,162,048</b>	<b>\$ 143,088,434</b>	<b>\$ 16,926,386</b>
Reconciliation to GAAP based Financial Statements				
Net Position budgetary basis			\$ 143,088,434	
Add: Capital outlay			7,095,976	
Amortization of bond premiums			253,019	
Less: Depreciation			(15,026,000)	
Net Position GAAP Basis			<b>\$ 135,411,429</b>	

**GULF COAST WATER AUTHORITY**  
**COMBINING INFORMATION BY DIVISION - NET POSITION**  
August 31, 2016

	<b>Industrial Division</b>	<b>League City SE Water Purification Plant</b>	<b>Thomas S. Mackey Water Treatment Plant</b>	<b>Canal Division</b>
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 8,574,171	\$ 353,960	\$ 5,534,163	\$ 6,931,842
Investments	5,839,885	-	1,890,000	4,100,000
Accounts receivable	763,611	351,979	1,203,319	1,188,961
Interest receivable	16,530	543	5,828	11,041
Due from other divisions	8,218	965	27,258	29,886
Prepaid items	5,141	-	5,141	453,205
Restricted:				
Cash and cash equivalents	-	138,338	-	-
Investments	-	113,667	-	-
<b>Total current assets</b>	<b>15,207,556</b>	<b>959,452</b>	<b>8,665,709</b>	<b>12,714,935</b>
<b>Capital Assets</b>				
Capital assets, non depreciable	6,173,634	110,591	1,859,673	952,556
Capital assets, net of accumulated depreciation	6,510,109	18,526,639	5,569,329	7,197,881
<b>Total capital assets</b>	<b>12,683,743</b>	<b>18,637,230</b>	<b>7,429,002</b>	<b>8,150,437</b>
<b>Total assets</b>	<b>27,891,299</b>	<b>19,596,682</b>	<b>16,094,711</b>	<b>20,865,372</b>
<b>Deferred Outflows of Resources</b>				
Deferred outflows for pension	141,900	-	875,000	898,718
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued liabilities	652,836	328,095	1,243,652	383,265
Current portion of bonds payable	-	225,000	-	-
Accrued interest payable	-	1,799	-	-
Due to other divisions	-	-	-	-
Current portion of compensated absences	22,459	849	112,737	178,749
<b>Total current liabilities</b>	<b>675,295</b>	<b>555,743</b>	<b>1,356,389</b>	<b>562,014</b>
<b>Noncurrent liabilities:</b>				
Accrued compensated absences	-	-	-	-
Revenue bonds payable (net of premiums and discounts)	-	1,027,675	-	-
Compensated absences (less current portion)	44,917	1,698	225,475	357,497
Net pension liability	46,900	-	289,400	297,197
<b>Total noncurrent liabilities</b>	<b>91,817</b>	<b>1,029,373</b>	<b>514,875</b>	<b>654,694</b>
<b>Total liabilities</b>	<b>767,112</b>	<b>1,585,116</b>	<b>1,871,264</b>	<b>1,216,708</b>
<b>Deferred Inflows of Resources</b>				
Deferred inflows for gain on refunding	-	-	-	-
Deferred inflows for pension	3,700	-	22,600	23,096
<b>Total deferred outflows of resources</b>	<b>3,700</b>	<b>-</b>	<b>22,600</b>	<b>23,096</b>
<b>Net Position</b>				
Net investment in capital assets	12,683,743	17,384,555	7,429,002	8,150,437
Restricted for:				
Debt service	-	250,202	-	-
Unrestricted	14,578,644	376,809	7,646,845	12,373,849
<b>Total Net Position</b>	<b>\$ 27,262,387</b>	<b>\$ 18,011,566</b>	<b>\$ 15,075,847</b>	<b>\$ 20,524,286</b>

<b>Galveston County WCID #12</b>	<b>1997 Galveston Projects</b>	<b>1998 A-B Series South Projects</b>	<b>1998 C Series Texas City Projects</b>	<b>1998 D La Marque Projects</b>
\$ 22,917	\$ 479,402	\$ 37,670	\$ -	\$ -
-	80,000	-	-	-
2,083	93,666	185,733	51,804	20,617
-	2,806	5,057	876	510
-	915	-	-	-
-	-	-	-	-
-	73,626	1,240,802	348,194	128,713
-	128,612	1,063,359	288,371	107,730
<u>25,000</u>	<u>859,027</u>	<u>2,532,621</u>	<u>689,245</u>	<u>257,570</u>
-	-	30,861	-	-
-	1,158,830	13,605,951	6,926,847	1,377,588
-	1,158,830	13,636,812	6,926,847	1,377,588
<u>25,000</u>	<u>2,017,857</u>	<u>16,169,433</u>	<u>7,616,092</u>	<u>1,635,158</u>
-	23,600	-	-	-
-	6,002	15,157	750	-
-	795,000	2,280,000	430,000	185,000
-	828	26,807	7,958	2,519
-	-	-	-	-
-	1,804	-	-	-
-	803,634	2,321,964	438,708	187,519
-	-	-	-	-
-	40,413	13,250,137	3,704,098	1,202,243
-	3,608	-	-	-
-	7,800	-	-	-
-	51,821	13,250,137	3,704,098	1,202,243
-	855,455	15,572,101	4,142,806	1,389,762
-	-	323,770	-	-
-	600	-	-	-
-	600	323,770	-	-
-	323,417	(1,893,325)	2,792,749	(9,655)
-	201,408	2,134,955	484,853	233,924
25,000	660,577	31,932	195,684	21,127
<u>\$ 25,000</u>	<u>\$ 1,185,402</u>	<u>\$ 273,562</u>	<u>\$ 3,473,286</u>	<u>\$ 245,396</u>

**GULF COAST WATER AUTHORITY**  
**COMBINING INFORMATION BY DIVISION - NET POSITION**  
**August 31, 2016**

	<b>2002 Galveston Projects</b>	<b>Thomas Mackey Water Treatment Plant Expansion</b>	<b>Juliff-Chocolate Bayou Operations</b>	<b>Pearland Southeast Water Purification Plant</b>
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ -	\$ 167,364	\$ 4,064,362	\$ 43,177
Investments	-	10,000	1,461,091	-
Accounts receivable	71,791	-	2,480,364	143,542
Interest receivable	224	13	5,862	-
Due from other divisions	-	-	15,330	607
Prepaid items	-	-	43,131	-
Restricted:				
Cash and cash equivalents	568,949	-	185,648	-
Investments	-	-	223,909	-
<b>Total current assets</b>	<b>640,964</b>	<b>177,377</b>	<b>8,479,697</b>	<b>187,326</b>
<b>Capital Assets</b>				
Capital assets, non depreciable	-	-	505,702	-
Capital assets, net of accumulated depreciation	10,546,648	-	8,025,611	24,895,486
<b>Total capital assets</b>	<b>10,546,648</b>	<b>-</b>	<b>8,531,313</b>	<b>24,895,486</b>
<b>Total assets</b>	<b>11,187,612</b>	<b>177,377</b>	<b>17,011,010</b>	<b>25,082,812</b>
<b>Deferred Outflows of Resources</b>				
Deferred outflows for pension	-	-	425,600	-
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued liabilities	-	-	267,888	119,654
Current portion of bonds payable	745,000	-	1,045,000	-
Accrued interest payable	4,497	-	5,562	-
Due to other divisions	-	-	-	-
Current portion of compensated absences	-	-	85,133	534
<b>Total current liabilities</b>	<b>749,497</b>	<b>-</b>	<b>1,403,583</b>	<b>120,188</b>
<b>Noncurrent liabilities:</b>				
Accrued compensated absences	-	-	-	-
Revenue bonds payable (net of premiums and discounts)	4,010,000	-	-	-
Compensated absences (less current portion)	-	-	170,266	1,068
Net pension liability	-	-	140,800	-
<b>Total noncurrent liabilities</b>	<b>4,010,000</b>	<b>-</b>	<b>311,066</b>	<b>1,068</b>
<b>Total liabilities</b>	<b>4,759,497</b>	<b>-</b>	<b>1,714,649</b>	<b>121,256</b>
<b>Deferred Inflows of Resources</b>				
Deferred inflows for gain on refunding	-	-	-	-
Deferred inflows for pension	-	-	11,000	-
<b>Total deferred outflows of resources</b>	<b>-</b>	<b>-</b>	<b>11,000</b>	<b>-</b>
<b>Net Position</b>				
Net investment in capital assets	6,360,597	-	7,486,313	24,895,486
Restricted for:				
Debt service	68,604	-	219,884	-
Unrestricted	(1,086)	177,377	8,004,764	66,070
<b>Total Net Position</b>	<b>\$ 6,428,115</b>	<b>\$ 177,377</b>	<b>\$ 15,710,961</b>	<b>\$ 24,961,556</b>

<u>Northline Group</u>	<u>Bayshore Group</u>	<u>Administrative Operations</u>	<u>Eliminations</u>	<u>Total</u>
\$ 40,680	\$ 24,507	\$ 1,076,599	\$ -	\$ 27,350,814
-	-	646,900	-	14,027,876
11,667	3,334	-	-	6,572,471
-	-	2,334	-	51,624
-	-	-	(83,179)	-
-	-	-	-	506,618
-	-	-	-	2,684,270
-	-	-	-	1,925,648
<u>52,347</u>	<u>27,841</u>	<u>1,725,833</u>	<u>(83,179)</u>	<u>53,119,321</u>
-	-	7,011	-	9,640,028
<u>99,946</u>	<u>11,856</u>	<u>330,565</u>	<u>-</u>	<u>104,783,286</u>
<u>99,946</u>	<u>11,856</u>	<u>337,576</u>	<u>-</u>	<u>114,423,314</u>
<u>152,293</u>	<u>39,697</u>	<u>2,063,409</u>	<u>(83,179)</u>	<u>167,542,635</u>
-	-	-	-	2,364,818
13,112	-	102,420	-	3,132,831
-	-	-	-	5,705,000
-	-	-	-	49,970
-	-	83,179	(83,179)	-
-	-	-	-	402,265
<u>13,112</u>	<u>-</u>	<u>185,599</u>	<u>(83,179)</u>	<u>9,290,066</u>
-	-	-	-	-
-	-	-	-	23,234,566
-	-	-	-	804,529
-	-	-	-	782,097
-	-	-	-	24,821,192
<u>13,112</u>	<u>-</u>	<u>185,599</u>	<u>(83,179)</u>	<u>34,111,258</u>
-	-	-	-	323,770
-	-	-	-	60,996
-	-	-	-	384,766
99,946	11,856	337,576	-	86,052,697
-	-	-	-	3,593,830
<u>39,235</u>	<u>27,841</u>	<u>1,540,234</u>	<u>-</u>	<u>45,764,902</u>
<u>\$ 139,181</u>	<u>\$ 39,697</u>	<u>\$ 1,877,810</u>	<u>\$ -</u>	<u>\$ 135,411,429</u>

**GULF COAST WATER AUTHORITY**  
**COMBINING INFORMATION BY DIVISION - CHANGES IN NET POSITION**  
*Year ended August 31, 2016*

	<b>Industrial Division</b>	<b>League City SE Water Purification Plant</b>	<b>Thomas S. Mackey Water Treatment Plant</b>	<b>Canal Division</b>
<b>Operating revenues</b>				
Charges for sales and services				
Metered water sales	\$ 12,671,002	\$ 2,517,161	\$ 13,862,596	\$ 12,385,805
Bond payment revenue	362,717	268,748	574,596	-
Irrigation sales	-	-	-	826,599
Other income	6,597	119,128	-	188,926
<b>Total operating revenues</b>	<b>13,040,316</b>	<b>2,905,037</b>	<b>14,437,192</b>	<b>13,401,330</b>
<b>Operating expenses</b>				
Personnel services	410,991	16,461	2,326,431	2,517,680
Materials	8,628,777	2,531,710	7,404,494	5,603,805
Contractual Services	473,888	20,205	228,785	652,665
Other charges	103,272	4,713	408,564	548,190
Depreciation	803,308	1,195,964	1,571,486	1,491,670
<b>Total operating expenses</b>	<b>10,420,236</b>	<b>3,769,053</b>	<b>11,939,760</b>	<b>10,814,010</b>
<b>Operating income (loss)</b>	<b>2,620,080</b>	<b>(864,016)</b>	<b>2,497,432</b>	<b>2,587,320</b>
<b>Nonoperating revenues (expenses)</b>				
Investment income (loss)	41,980	1,304	22,841	24,293
Interest expense	-	(49,513)	-	-
Amortization of deferred charges and premium:	-	(4,330)	-	-
Other expense	-	-	(1,507,389)	-
<b>Total nonoperating revenues (expenses)</b>	<b>41,980</b>	<b>(52,539)</b>	<b>(1,484,548)</b>	<b>24,293</b>
Changes in Net Position	2,662,060	(916,555)	1,012,884	2,611,613
<b>Beginning Net Position</b>	<b>24,670,820</b>	<b>18,581,200</b>	<b>14,353,556</b>	<b>18,269,300</b>
Prior period adjustment	(70,493)	346,921	(290,593)	(356,627)
<b>Ending Net Position</b>	<b>\$ 27,262,387</b>	<b>\$ 18,011,566</b>	<b>\$ 15,075,847</b>	<b>\$ 20,524,286</b>

<b>Galveston County WCID #12</b>	<b>1997 Galveston Projects</b>	<b>1998 A-B Series South Projects</b>	<b>1998 C Series Texas City Projects</b>	<b>1998 D La Marque Projects</b>
\$ 25,000	\$ 312,166	\$ 320,364	\$ -	\$ -
-	811,825	1,929,486	621,650	247,403
-	-	-	-	-
-	-	-	-	-
<u>25,000</u>	<u>1,123,991</u>	<u>2,249,850</u>	<u>621,650</u>	<u>247,403</u>
-	42,076	-	-	-
-	458	-	-	-
-	2,813	-	-	-
-	4,475	-	-	-
-	959,723	1,843,102	854,903	185,704
-	1,009,545	1,843,102	854,903	185,704
<u>25,000</u>	<u>114,446</u>	<u>406,748</u>	<u>(233,253)</u>	<u>61,699</u>
-	3,928	10,011	1,953	1,311
-	(56,052)	(679,601)	(206,715)	(63,900)
-	37,333	162,866	47,270	12,710
-	-	-	-	-
-	(14,791)	(506,724)	(157,492)	(49,879)
25,000	99,655	(99,976)	(390,745)	11,820
-	1,092,396	743,565	3,864,031	233,576
-	(6,649)	(370,027)	-	-
<u>\$ 25,000</u>	<u>\$ 1,185,402</u>	<u>\$ 273,562</u>	<u>\$ 3,473,286</u>	<u>\$ 245,396</u>

**GULF COAST WATER AUTHORITY**  
**COMBINING INFORMATION BY DIVISION - CHANGES IN NET POSITION**  
*Year ended August 31, 2016*

	<b>2002 Galveston Projects</b>	<b>Thomas Mackey Water Treatment Plant Expansion</b>	<b>Juliff-Chocolate Bayou Operations</b>	<b>Pearland Southeast Water Purification Plant</b>
<b>Operating revenues</b>				
Charges for sales and services				
Metered water sales	\$ -	\$ -	\$ 2,902,206	\$ 957,983
Bond payment revenue	861,488	-	1,047,504	-
Irrigation sales	-	-	2,384,287	-
Other income	-	-	131,204	-
<b>Total operating revenues</b>	<b>861,488</b>	<b>-</b>	<b>6,465,201</b>	<b>957,983</b>
<b>Operating expenses</b>				
Personnel services	-	-	1,182,443	5,109
Materials	-	575,457	1,282,113	965,344
Contractual Services	-	-	267,551	14,616
Other charges	-	-	304,982	2,956
Depreciation	1,009,574	-	4,378,333	637,999
<b>Total operating expenses</b>	<b>1,009,574</b>	<b>575,457</b>	<b>7,415,422</b>	<b>1,626,024</b>
<b>Operating income (loss)</b>	<b>(148,086)</b>	<b>(575,457)</b>	<b>(950,221)</b>	<b>(668,041)</b>
<b>Nonoperating revenues (expenses)</b>				
Investment income (loss)	2,331	182	17,504	-
Interest expense	(123,927)	-	(24,830)	-
Amortization of deferred charges and premium	(2,830)	-	-	-
Other expense	-	-	-	-
<b>Total nonoperating revenues (expenses)</b>	<b>(124,426)</b>	<b>182</b>	<b>(7,326)</b>	<b>-</b>
Changes in Net Position	(272,512)	(575,275)	(957,547)	(668,041)
<b>Beginning Net Position</b>	<b>6,700,627</b>	<b>752,652</b>	<b>16,852,144</b>	<b>25,474,537</b>
<b>Prior period adjustment</b>			(183,636)	155,060
<b>Ending Net Position</b>	<b>\$ 6,428,115</b>	<b>\$ 177,377</b>	<b>\$ 15,710,961</b>	<b>\$ 24,961,556</b>

<u>Northline Group</u>	<u>Bayshore Group</u>	<u>Administrative Operations</u>	<u>Eliminations</u>	<u>Total</u>
\$ 140,000	\$ 40,000	\$ -	\$ (12,708,722)	\$ 33,425,561
-	-	-	-	6,725,417
-	-	-	-	3,210,886
-	-	47,477	-	493,332
<u>140,000</u>	<u>40,000</u>	<u>47,477</u>	<u>(12,708,722)</u>	<u>43,855,196</u>
-	-	(1)	-	6,501,190
-	-	-	(12,708,722)	14,283,436
-	-	-	-	1,660,523
-	-	-	-	1,377,152
<u>819</u>	<u>303</u>	<u>93,112</u>	<u>-</u>	<u>15,026,000</u>
<u>819</u>	<u>303</u>	<u>93,111</u>	<u>(12,708,722)</u>	<u>38,848,301</u>
<u>139,181</u>	<u>39,697</u>	<u>(45,634)</u>	<u>-</u>	<u>5,006,895</u>
-	-	4,840	-	132,478
-	-	-	-	(1,204,538)
-	-	-	-	253,019
-	-	-	-	(1,507,389)
<u>-</u>	<u>-</u>	<u>4,840</u>	<u>-</u>	<u>(2,326,430)</u>
139,181	39,697	(40,794)	-	2,680,465
-	-	1,918,604	-	133,507,008
-	-	-	-	(776,044)
<u>\$ 139,181</u>	<u>\$ 39,697</u>	<u>\$ 1,877,810</u>	<u>\$ -</u>	<u>\$ 135,411,429</u>

**GULF COAST WATER AUTHORITY**  
**COMBINING INFORMATION BY DIVISION - CASH FLOWS**  
Year ended August 31, 2016

	<b>Industrial Division</b>	<b>League City SE Water Purification Plant</b>	<b>Thomas S. Mackey Water Treatment Plant</b>	<b>Canal Division</b>
<b>Cash Flows from Operating Activities</b>				
Receipts from customers and users	\$ 12,898,026	\$ 2,902,474	\$ 14,505,324	\$ 12,844,204
Payments to suppliers	(9,203,136)	(2,516,796)	(7,828,621)	(6,864,571)
Payments to employees	(398,881)	(16,052)	(2,354,660)	(2,288,339)
<b>Net cash provided (used) by operating activities</b>	<b>3,296,009</b>	<b>369,626</b>	<b>4,322,043</b>	<b>3,691,294</b>
<b>Cash Flows from Noncapital Financing Activities</b>				
Refunds to customers	-	-	(1,507,389)	-
<b>Net cash provided (used) by noncapital financing activities</b>	<b>-</b>	<b>-</b>	<b>(1,507,389)</b>	<b>-</b>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Acquisition and construction of capital assets	(1,611,420)	(110,591)	(3,360,163)	(992,593)
Principal paid on bonds	-	(220,000)	-	-
Interest paid on capital related debt	-	(54,118)	-	-
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(1,611,420)</b>	<b>(384,709)</b>	<b>(3,360,163)</b>	<b>(992,593)</b>
<b>Cash Flows from Investing Activities</b>				
Maturity (purchase) of investments	(1,869,885)	(4,701)	480,000	(2,100,000)
Interest received	30,115	1,774	20,314	16,838
<b>Net cash provided by investing activities</b>	<b>(1,839,770)</b>	<b>(2,927)</b>	<b>500,314</b>	<b>(2,083,162)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(155,181)</b>	<b>(18,010)</b>	<b>(45,195)</b>	<b>615,539</b>
<b>Beginning cash and cash equivalents</b>	<b>8,729,352</b>	<b>510,308</b>	<b>5,579,358</b>	<b>6,316,303</b>
<b>Ending cash and cash equivalents</b>	<b>\$ 8,574,171</b>	<b>\$ 492,298</b>	<b>\$ 5,534,163</b>	<b>\$ 6,931,842</b>
<b>Ending cash and cash equivalents</b>				
Unrestricted cash and cash equivalents	\$ 8,574,171	\$ 353,960	\$ 5,534,163	\$ 6,931,842
Restricted cash and cash equivalents	-	138,338	-	-
	<b>\$ 8,574,171</b>	<b>\$ 492,298</b>	<b>\$ 5,534,163</b>	<b>\$ 6,931,842</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>				
Operating income (loss)	\$ 2,620,080	\$ (864,016)	\$ 2,497,432	\$ 2,587,320
Adjustment to reconcile operating income to net cash provided (used) by operating activities				
Depreciation	803,308	1,195,964	1,571,486	1,491,670
Changes in Operating Assets and Liabilities:				
(Increase) decrease in assets				
Accounts receivable	(142,290)	(2,563)	68,132	(557,126)
Prepays	-	-	-	272,590
Deferred outflows for pensions	(74,341)	1,689	(574,363)	(579,504)
Due from other divisions	(8,218)	(965)	(27,258)	(29,886)
Increase (decrease) in liabilities:				
Accounts payable	2,801	39,832	213,222	(332,501)
Compensated absences payable	(27,637)	(2,107)	(57,702)	179,625
Due to other divisions	-	-	-	-
Deferred inflows for pension	3,700	-	22,600	23,096
Net pension liability	118,606	1,792	608,494	636,010
<b>Net cash provided (used) by operating activities</b>	<b>\$ 3,296,009</b>	<b>\$ 369,626</b>	<b>\$ 4,322,043</b>	<b>\$ 3,691,294</b>

<b>Galveston County WCID #12</b>	<b>1997 Galveston Projects</b>	<b>1998 A-B Series South Projects</b>	<b>1998 C Series Texas City Projects</b>	<b>1998 D La Marque Projects</b>
\$ 22,917	\$ 1,174,586	\$ 2,366,645	\$ 621,867	\$ 247,514
-	(7,746)	-	-	(750)
-	(44,872)	-	-	-
<u>22,917</u>	<u>1,121,968</u>	<u>2,366,645</u>	<u>621,867</u>	<u>246,764</u>
-	-	-	-	-
-	-	-	-	-
-	(42,371)	(269,327)	-	-
-	(755,000)	(1,260,000)	(410,000)	(180,000)
-	(60,705)	(678,226)	(212,481)	(68,380)
-	(858,076)	(2,207,553)	(622,481)	(248,380)
-	7,388	(532,229)	(372)	(731)
-	2,807	940	3,921	1,579
-	10,195	(531,289)	3,549	848
22,917	274,087	(372,197)	2,935	(768)
-	278,941	1,650,669	345,259	129,481
<u>\$ 22,917</u>	<u>\$ 553,028</u>	<u>\$ 1,278,472</u>	<u>\$ 348,194</u>	<u>\$ 128,713</u>
\$ 22,917	\$ 479,402	\$ 37,670	\$ -	\$ -
-	73,626	1,240,802	348,194	128,713
<u>\$ 22,917</u>	<u>\$ 553,028</u>	<u>\$ 1,278,472</u>	<u>\$ 348,194</u>	<u>\$ 128,713</u>
\$ 25,000	\$ 114,446	\$ 406,748	\$ (233,253)	\$ 61,699
-	959,723	1,843,102	854,903	185,704
(2,083)	50,595	101,638	217	111
-	-	-	-	-
-	(17,689)	-	-	-
-	(915)	-	-	-
-	4,725	15,157	-	(750)
-	(3,591)	-	-	-
-	-	-	-	-
-	600	-	-	-
-	14,074	-	-	-
<u>\$ 22,917</u>	<u>\$ 1,121,968</u>	<u>\$ 2,366,645</u>	<u>\$ 621,867</u>	<u>\$ 246,764</u>

**GULF COAST WATER AUTHORITY**  
**COMBINING INFORMATION BY DIVISION - CASH FLOWS**  
Year ended August 31, 2016

	<b>2002 Galveston Projects</b>	<b>Thomas Mackey Water Treatment Plant Expansion</b>	<b>Juliff-Chocolate Bayou Operations</b>	<b>Pearland Southeast Water Purification Plant</b>
<b>Cash Flows from Operating Activities</b>				
Receipts from customers and users	\$ 932,579	\$ 575,457	\$ 4,759,719	\$ 957,625
Payments to suppliers	(799)	(575,457)	(1,968,304)	(993,775)
Payments to employees	-	-	(1,314,101)	(633)
<b>Net cash provided (used) by operating activities</b>	<u>931,780</u>	<u>-</u>	<u>1,477,314</u>	<u>(36,783)</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Refunds to customers	-	-	-	-
<b>Net cash provided (used) by noncapital financing activities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Acquisition and construction of capital assets	-	-	(1,040,423)	-
Principal paid on bonds	(735,000)	-	(1,030,000)	-
Interest paid on capital related debt	(127,454)	-	(28,575)	-
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(862,454)</u>	<u>-</u>	<u>(2,098,998)</u>	<u>-</u>
<b>Cash Flows from Investing Activities</b>				
Maturity (purchase) of investments	-	(10,000)	477,482	-
Interest received	2,303	205	14,492	-
<b>Net cash provided by investing activities</b>	<u>2,303</u>	<u>(9,795)</u>	<u>491,974</u>	<u>-</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	71,629	(9,795)	(129,710)	(36,783)
Beginning cash and cash equivalents	497,320	177,159	4,379,720	79,960
<b>Ending cash and cash equivalents</b>	<u>\$ 568,949</u>	<u>\$ 167,364</u>	<u>\$ 4,250,010</u>	<u>\$ 43,177</u>
<b>Ending cash and cash equivalents</b>				
Unrestricted cash and cash equivalents	\$ -	\$ 167,364	\$ 4,064,362	\$ 43,177
Restricted cash and cash equivalents	568,949	-	185,648	-
	<u>\$ 568,949</u>	<u>\$ 167,364</u>	<u>\$ 4,250,010</u>	<u>\$ 43,177</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>				
Operating income (loss)	\$ (148,086)	\$ (575,457)	\$ (950,221)	\$ (668,041)
Adjustment to reconcile operating income to net cash provided (used) by operating activities				
Depreciation	1,009,574	-	4,378,333	637,999
Changes in Operating Assets and Liabilities:				
(Increase) decrease in assets				
Accounts receivable	71,091	575,457	(1,705,482)	(358)
Prepays	-	-	(23,999)	-
Deferred outflows for pensions	-	-	(277,815)	1,689
Due from other divisions	-	-	(15,330)	(607)
Increase (Decrease) in Liabilities:				
Accounts payable	(799)	-	(89,659)	(10,859)
Compensated absences payable	-	-	9,687	1,602
Due to other divisions	-	-	-	-
Deferred inflows for pension	-	-	11,000	-
Net pension liability	-	-	140,800	1,792
<b>Net cash provided by operating activities</b>	<u>\$ 931,780</u>	<u>\$ -</u>	<u>\$ 1,477,314</u>	<u>\$ (36,783)</u>

<u>Northline Group</u>	<u>Bayshore Group</u>	<u>Administrative Operations</u>	<u>Eliminations</u>	<u>Total</u>
\$ 141,445	\$ 36,666	\$ 201,063	\$ (12,708,722)	\$ 42,479,389
-	-	-	12,708,722	(17,251,233)
<u>141,445</u>	<u>36,666</u>	<u>201,063</u>	<u>-</u>	<u>(6,417,538)</u>
-	-	-	-	<u>18,810,618</u>
-	-	-	-	(1,507,389)
-	-	-	-	(1,507,389)
(100,765)	(12,159)	(48,491)	-	(7,588,303)
-	-	-	-	(4,590,000)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,229,939)</u>
<u>(100,765)</u>	<u>(12,159)</u>	<u>(48,491)</u>	<u>-</u>	<u>(13,408,242)</u>
-	-	(262,300)	-	(3,815,348)
-	-	2,846	-	98,134
<u>-</u>	<u>-</u>	<u>(259,454)</u>	<u>-</u>	<u>(3,717,214)</u>
40,680	24,507	(106,882)	-	177,773
-	-	1,183,481	-	29,857,311
<u>\$ 40,680</u>	<u>\$ 24,507</u>	<u>\$ 1,076,599</u>	<u>\$ -</u>	<u>\$ 30,035,084</u>
\$ 40,680	\$ 24,507	\$ 1,076,599	\$ -	\$ 27,350,814
-	-	-	-	2,684,270
<u>\$ 40,680</u>	<u>\$ 24,507</u>	<u>\$ 1,076,599</u>	<u>\$ -</u>	<u>\$ 30,035,084</u>
\$ 139,181	\$ 39,697	\$ (45,634)	\$ -	\$ 5,006,895
819	303	93,112	-	15,026,000
(11,667)	(3,334)	-	-	(1,557,662)
-	-	-	-	248,591
-	-	-	-	(1,520,334)
-	-	-	83,179	-
13,112	-	70,406	-	(75,313)
-	-	-	-	99,877
-	-	83,179	(83,179)	-
-	-	-	-	60,996
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,521,568</u>
<u>\$ 141,445</u>	<u>\$ 36,666</u>	<u>\$ 201,063</u>	<u>\$ -</u>	<u>\$ 18,810,618</u>



Dra Gulf Coast Water Authority

**UNAUDITED STATISTICAL SECTION**  
(Unaudited)

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

<u><b>Contents</b></u>	<u><b>Pages</b></u>
<b>Financial Trends</b>	52
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>	56
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>	60
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>	62
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>	64
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.

**GULF COAST WATER AUTHORITY**  
*Net Position By Component*  
*Last Ten Years*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Business-type activities				
Net investment in capital assets	\$ 3,264,993	\$ 48,028,442	\$ 61,739,333	\$ 62,285,473
Restricted	15,767,256	12,211,372	9,248,402	8,991,124
Unrestricted	<u>31,800,733</u>	<u>37,571,068</u>	<u>43,108,938</u>	<u>48,711,327</u>
Total business-type activities net position	<u>\$ 50,832,982</u>	<u>\$ 97,810,882</u>	<u>\$ 114,096,673</u>	<u>\$ 119,987,924</u>

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

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 68,818,981	\$ 71,596,314	\$ 82,210,275	\$ 89,968,160	\$ 89,164,201	\$ 86,052,697
7,410,661	5,661,833	4,613,439	4,402,858	3,660,154	3,593,830
46,555,388	44,998,487	45,079,354	39,492,731	40,682,653	45,764,902
<u>\$ 122,785,030</u>	<u>\$ 122,256,634</u>	<u>\$ 131,903,068</u>	<u>\$ 133,863,749</u>	<u>\$ 133,507,008</u>	<u>\$ 135,411,429</u>

**GULF COAST WATER AUTHORITY**  
**CHANGE IN NET POSITION**  
*Last Ten Years*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Operating Revenues</b>				
Metered water sales	\$ 16,441,603	\$ 17,624,153	\$ 18,104,978	\$ 18,438,418
Bond payment revenue	6,577,745	5,935,102	16,747,932	7,675,036
Irrigation sales and other	922,002	1,521,572	2,683,969	1,777,600
<b>Total operating revenues</b>	<u>23,941,350</u>	<u>25,080,827</u>	<u>37,536,879</u>	<u>27,891,054</u>
<b>Operating Expenses:</b>				
Personnel services	3,135,519	3,332,108	3,455,994	3,660,715
Supplies and materials	6,658,671	8,968,443	10,104,430	8,272,368
Contracted services	1,296,432	1,633,723	1,886,120	2,071,717
Other charges	21,048	40,269	58,919	45,734
Depreciation	5,993,175	6,090,142	4,860,043	5,710,496
<b>Total operating expenses</b>	<u>17,104,845</u>	<u>20,064,685</u>	<u>20,365,506</u>	<u>19,761,030</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment earnings	-	-	-	-
Investment earnings and other revenue	2,038,693	1,893,176	1,783,685	379,543
Other revenues and (expenses)	-	-	-	-
Bond issuance costs	-	-	-	-
Interest expense	(3,249,526)	(3,145,816)	(2,501,973)	(2,451,023)
Intergovernmental transfers	(208,532)	(200,402)	(167,294)	(167,293)
<b>Total nonoperating revenues (expenses)</b>	<u>(1,419,365)</u>	<u>(1,453,042)</u>	<u>(885,582)</u>	<u>(2,238,773)</u>
<b>Change in Net Position before Special items</b>	5,417,140	3,563,100	16,285,791	5,891,251
<b>Special Items:</b>				
Sales of additional water capacity	-	43,414,800 **		
Change in Net Position	5,417,140	46,977,900	16,285,791	5,891,251
<b>Net Position at beginning of year</b>		50,832,982	97,810,882	114,096,673
<b>Prior period adjustment</b>				
<b>Net Position at end of year</b>	<u>\$ 5,417,140</u>	<u>\$ 97,810,882</u>	<u>\$ 114,096,673</u>	<u>\$ 119,987,924</u>

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 21,032,627	\$ 19,378,636	\$ 24,612,505	\$ 25,858,256	\$ 25,230,737	\$ 33,425,561
7,901,210	6,679,086	6,901,675	5,498,227	5,788,454	6,725,417
4,305,418	3,298,860	2,855,535	520,201	949,941	3,704,218
<u>33,239,255</u>	<u>29,356,582</u>	<u>34,369,715</u>	<u>31,876,684</u>	<u>31,969,132</u>	<u>43,855,196</u>
4,012,351	4,386,157	4,900,543	5,272,420	4,988,132	6,501,190
14,066,690	11,814,066	11,595,411	13,133,355	12,071,554	14,283,436
2,563,779	2,700,910	3,382,054	1,916,074	1,620,916	1,660,523
45,035	99,300	114,604	879,053	1,141,508	1,377,152
6,681,940	8,128,117	9,506,366	11,521,295	13,446,858	15,026,000
<u>27,369,795</u>	<u>27,128,550</u>	<u>29,498,978</u>	<u>32,722,197</u>	<u>33,268,968</u>	<u>38,848,301</u>
-	125,975	132,077	88,724	68,494	132,478
(684,067)	-	-	-	-	-
-	485,166	7,139,601	3,805,305	927,631	(1,507,389)
-	(1,150,528) *	-	-	-	-
(2,220,993)	(1,518,535)	(1,443,992)	(1,087,835)	(1,105,019)	(951,519)
(167,294)	(698,506)	-	-	-	-
<u>(3,072,354)</u>	<u>(2,756,428)</u>	<u>5,827,686</u>	<u>2,806,194</u>	<u>(108,894)</u>	<u>(2,326,430)</u>
2,797,106	(528,396)	10,698,423	1,960,681	(1,408,730)	2,680,465
2,797,106	(528,396)	10,698,423	1,960,681	(1,408,730)	2,680,465
119,987,924	122,785,030	122,256,634	132,955,057	134,915,738	133,507,008
					(776,044)
<u>\$ 122,785,030</u>	<u>\$ 122,256,634</u>	<u>\$ 132,955,057</u>	<u>\$ 134,915,738</u>	<u>\$ 133,507,008</u>	<u>\$ 135,411,429</u>

**GULF COAST WATER AUTHORITY**  
**WATER SALES**  
*Last Ten Fiscal Years*  
*(Unaudited)*

<u>Fiscal Year</u>	<u>Water Fees</u>	<u>Raw Water</u>		<u>Treated Water</u>		<u>Irrigation &amp; Other</u>
		<u>Rates (1) (2)</u>	<u>Rates (1) (2)</u>	<u>Rates (1) (2)</u>	<u>Rates (1) (2)</u>	
		<u>Per Kgal</u>				
<b>2007</b>	\$ 16,441,603	\$ 0.10	\$ 0.20	\$ 0.48	\$ 0.80	\$ 922,002
<b>2008</b>	17,624,153	0.10	0.25	0.50	0.79	1,521,572
<b>2009</b>	18,104,978	0.10	0.21	0.55	0.93	2,863,969
<b>2010</b>	18,438,418	0.04	0.20	0.54	0.94	1,777,600
<b>2011</b>	21,032,627	0.04	0.18	0.53	0.91	4,305,418
<b>2012</b>	19,378,636	0.04	0.21	0.53	0.92	3,298,860
<b>2013</b>	24,612,505	0.10	0.35	0.61	0.12	2,855,535
<b>2014</b>	25,858,256	0.12	0.38	0.66	1.15	520,201
<b>2015</b>	25,230,737	0.14	0.35	0.69	1.53	949,941
<b>2016</b>	33,425,561	0.19	0.37	1.05	2.22	3,704,218

(1) - Rates based on per thousand gallons. Based on various operation funds.

(2) - Price varies by customer.

Note - This schedule does not include interruptible water.

**GULF COAST WATER AUTHORITY**  
**PRINCIPAL WATER FEE PAYERS**  
*Current Year and Six Years Ago*  
*(Unaudited)*

<u>Customer</u>	<u>2016</u>			<u>2010</u>		
	<u>Revenue Base</u> <u>Attributable</u>	<u>Rank</u>	<u>% Base of</u> <u>The total</u> <u>Revenue</u> <u>Base</u>	<u>Revenue</u> <u>Base</u> <u>Attributable</u>	<u>Rank</u>	<u>% Base of</u> <u>The total</u> <u>Revenue</u> <u>Base</u>
City of Galveston	\$ 6,770,364	1	15%	\$ 3,651,676	1	15%
Blanchard/Marathon GBR	4,428,384	2	10%	2,090,394	2	9%
City of League City - SEWPP	3,347,484	3	8%	1,939,924	3	8%
City of Texas City	2,990,176	4	7%	1,640,205	4	7%
INEOS	2,852,831	5	7%	1,252,278	5	5%
Union Carbide Corp./DOW	1,683,427	6	4%	887,738	6	4%
Ascend	1,255,109	7	3%			0%
City of Pearland	1,098,471	8	3%			0%
Galveston County WCID #1	1,094,422	9	2%	757,160	7	3%
Eastman Chemical	1,064,147	10	2%	501,554	10	2%
City of Missouri City				633,567	8	3%
City of La Marque				525,671	9	2%

The requirement for statistical data is ten years, however, only the current year and six years prior are currently available.



Gulf Coast Water Authority

**GULF COAST WATER AUTHORITY**  
**LIST OF PRINCIPAL CUSTOMERS**  
**August 31, 2016**  
**(Unaudited)**

**Industrial Customers**

Blanchard/Marathon GBR  
Ashland Performance Chemicals  
Marathon TBR  
Eastman Chemical  
Valero Refining  
Union Carbide Corp./DOW  
City of Texas City  
GCWA WTP  
City of Texas City Golf Course

**Municipal Customers**

City of League City  
Bacliff MUD  
Bayview MUD  
Galveston WCID #1  
City of Lamarque  
City of Texas City  
San Leon MUD  
Galveston County WCID #12  
City of Hitchcock  
Galveston County WCID #8  
Galveston County FWD #6  
Galveston County MUD #12  
City of Galveston

**Canal Division**

City of Missouri City  
City of Sugar Land  
Riverbend Country Club  
Ascend Performance Material  
GCWA Industrial Division  
First Colony Commons Shopping Center  
Fort Bend MUD #2  
City of Pearland  
Mainland Concrete  
Diamond K  
First Colony Community Association  
Pecan Grove MUD  
Southwyck  
Sugar Creek Country Club  
Magnolia Creek Country Club

**Chocolate Bayou**

INEOS

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

**GULF COAST WATER AUTHORITY**  
**RATIO OF OUTSTANDING DEBT BY TYPE**  
*Last Ten Fiscal Years*  
*(Unaudited)*

<u>Fiscal Year</u>	<u>Water Revenue Bonds</u>	<u>Percentage of Revenue (1)</u>
2007	\$ 88,475,000	369.55%
2008	84,270,000	335.99%
2009	70,025,000	186.55%
2010	64,970,000	233.16%
2011	56,825,000	171.14%
2012	51,160,000	174.27%
2013	41,080,000	119.52%
2014	36,750,000	120.65%
2015	33,769,593	105.63%
2016	34,644,566	79.00%

(1) Based on operating revenues.

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 the Authority's debt to personal income or population is not applicable.

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

**GULF COAST WATER AUTHORITY**  
**PLEDGE - REVENUE COVERAGE BY FUND**  
*Fiscal Year Ending August 31, 2016*  
*(Unaudited)*

<u>Division</u>	<u>Revenue</u>	<u>Water Revenue Bonds</u>		<u>Debt Service</u>		<u>Cover Ratio</u>
		<u>Less Operating Expenses*</u>	<u>Net Available for Debt Service</u>	<u>Principal</u>	<u>Interest</u>	
League City SE Water Purification Plant (SEWPP)	\$ 2,785,909	\$ 2,574,669	\$ 211,240	\$ 220,000	\$ 49,513	0.78
1997 Galveston Projects	1,123,991	54,872	1,069,119	755,000	56,052	1.32
1998 A-B South Projects	2,249,850	-	2,249,850	1,260,000	679,601	1.16
1998 C Series Texas City Projects	621,650	-	621,650	410,000	206,715	1.01
1998 D Series La Marque Projects	247,403	-	247,403	180,000	63,900	1.01
2002 Galveston Projects	861,488	-	861,488	735,000	123,927	1.00
Chocolate Bayou Division	6,333,997	3,193,951	3,140,046	1,030,000	24,830	2.98
Other Divisions	<u>29,137,576</u>	<u>18,290,542</u>	<u>10,642,034</u>			
	<u>\$43,361,864</u>	<u>\$ 24,114,034</u>	<u>\$ 19,042,830</u>	<u>\$4,590,000</u>	<u>\$ 1,204,538</u>	

\* Operating expenses do not include depreciation.

N/A - Not applicable

Source - Financial information presented above was obtained from current and prior year audited financial statements.

**GULF COAST WATER AUTHORITY**  
**DISTRICT DEMOGRAPHICS**  
*(Unaudited)*

The GCWA's boundaries stretch across three counties including Fort Bend, Brazoria and Galveston. GCWA provides water for industry, agriculture, municipalities and irrigation. The GCWA's services include water sales, distribution, water treatment and irrigation for farmers and recreation.

The tables below and on the following page portray the population and economic base within GCWA's boundaries.

<u>County/City</u>	<u>Population</u>	<u>2016 Estimate</u>
Fort Bend County	585,375	716,087
Brazoria County	313,166	346,312
Galveston County	291,309	322,225
City of Pearland	91,252	108,821
City of League City	83,560	98,312
City of Sugar Land	78,817	88,156
City of Missouri City	67,358	74,139
City of Galveston	47,743	50,180
City of Texas City	45,099	47,618
City of Dickinson	18,680	19,895

*Source US Census Bureau, Census 2010 & Kemah website.*

**Educational Attainment**

<u>County/City</u>	<u>High School</u>	<u>College</u>
City of League City	95%	41%
City of Sugar Land	93%	54%
City of Santa Fe	93%	13%
City of Pearland	92%	46%
City of Missouri City	92%	43%
Fort Bend County	89%	42%
Galveston County	87%	28%
Brazoria County	86%	28%
City of La Marque	85%	15%
City of Texas City	82%	13%

*Source US Census Bureau, Quick Facts*

*High school graduate or higher, percent of persons age25+, 2010-2014*

*Bachelor's degree or higher, percent of persons age25+, 2010-2014*

NA - Information not available as of the report date.

<b><u>County/City</u></b>	<b><u>Median Age</u></b>	<b><u>Largest Employers</u></b>
Galveston County	37	UTMB
Fort Bend County	35	Fort Bend ISD
Brazoria County	35	Dow Chemical Co
City of League City	34	Clear Creek ISD
City of La Marque	38	Wal-Mart
City of Texas City	35	Marathon-Galveston Bay Refinery
City of Hitchcock	35	NA
City of Galveston	38	UTMB
City of Missouri City	38	Fort Bend ISD
City of Sugar Land	41	Fort Bend ISD

Source <http://suburbanstats.org/population/texas/>

Source *Comprehensive Annual Financial Report for each entity*

<b><u>County/City</u></b>	<b><u>Median Household Income (\$)</u></b>
City of Sugar Land	105,400
City of Pearland	94,653
City of League City	90,972
Fort Bend County	86,407
City of Missouri City	84,662
Brazoria County	69,092
City of Dickinson	67,083
Galveston County	61,744
City of Santa Fe	61,552
City of Kemah	59,406

Source *US Census Bureau, Quick Facts & Kemah website*

<b><u>County/City</u></b>	<b><u>Unemployment Rate</u></b>
City of Pearland	3.3%
City of Sugar Land	4.6%
City of League City	3.6%
Fort Bend County	4.4%
City of Missouri City	4.4%
Brazoria County	5.4%
Galveston County	4.9%
City of Galveston	6.3%
City of Texas City	6.1%
City of La Marque	5.1%

Source <http://data.bls.gov/map/MapToolServlet>

Source <http://beta.bls.gov/dataQuery> @ August 2015

**GULF COAST WATER AUTHORITY**  
**NUMBER OF EMPLOYEES BY DIVISION**  
*Last Ten Fiscal Years*  
*(Unaudited)*

<u>Division</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Administrative	7	7	8	8
Industrial	2	2	2	2
Water treatment plant	16	15	14	15
Canal	14	16	18	16
Chocolate Bayou	4	3	4	4
Total	43	43	46	45

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 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.

Source - From W-2 reports. Part time and full time position replacements are not included in count.

**Number of Positions  
Full-Time Equivalent**

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<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
8	9	9	10	11	10
2	2	2	2	2	2
13	13	14	12	17	19
19	19	20	22	22	26
4	4	4	5	5	4
46	47	49	51	57	61

**GULF COAST WATER AUTHORITY**  
**OPERATING STATISTICS**  
*Last Ten Fiscal Years*  
*(Unaudited)*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b><u>Annual Acre Feet</u></b>				
Industrial	61,601	97,030	82,406	62,320
Irrigation	59,558	103,872	122,979	99,295
Municipal	102,587	95,754	96,226	83,556
Total Pumpage	<u>223,746</u>	<u>296,656</u>	<u>301,611</u>	<u>245,171</u>

Source: Annual Report to Texas Commission on Environmental Quality.

**Brazos River Water Rights held by GCWA**

<b><u>Authorized Diversion Points</u></b>	<b><u>TCEQ Water Rights Certificate of Adjudication</u></b>	<b><u>Diversion Amount Acre Feet per Year</u></b>	<b><u>Senior Right Priority Date</u></b>
Shannon & Briscoe Pump Stations (A & B Canals)	CA 12-5168	99,932	1/15/1926
Texas City Industrial Storage Reservoir	CA 12-5168	7,800	3/17/1947
Shannon & Briscoe Pump Stations (A & B Canals)	CA 12-5171	75,000	2/1/1939
Shannon & Briscoe Pump Stations (A & B Canals)	CA 12-5171	50,000	12/12/1950
Jones & Oyster Creeks Storage	CA 11-5169	12,000	5/14/1948
May Pump Station (Juliff Canal)	CA 12-5322	40,000	2/8/1929
May Pump Station (Juliff Canal)	CA 12-5322	40,000	3/14/1955
May Pump Station (Juliff Canal)	CA 12-5322	75,000	7/25/1983
Chocolate Bayou, Halls Bayou, & Mustang Bayou	CA 11-5357	57,500	8/3/1937

\* 2016 amounts represent estimated pumpage through May 31, 2016.

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016*</u>
89,713	65,347	61,266	116,816	77,032	29,221
119,065	99,019	50,929	23,864	21,091	20,344
73,714	75,787	47,574	29,795	54,648	26,710
<u>282,492</u>	<u>240,153</u>	<u>159,769</u>	<u>170,475</u>	<u>152,771</u>	<u>76,275</u>

**GULF COAST WATER AUTHORITY**  
**SCHEDULE OF CAPITAL ASSET ADDITIONS**  
*Last Ten Fiscal Years*  
*(Unaudited)*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Industrial Division</b>				
Office furniture, fixtures and equipment	\$	\$	\$	\$
Other machinery and equipment			721	
Automobiles and trucks				
Buildings				10,619
Infrastructure	42,235	11,667	177,695	109,373
<b>League City Southeast Division</b>				
Office furniture, fixtures and equipment			16	
Other machinery and equipment				
Automobiles and trucks				
Buildings				
Infrastructure		16,605,800		
<b>Water Treatment Plant</b>				
Land				
Office furniture, fixtures and equipment	27,284		2,964	
Other machinery and equipment		14,460	61,936	
Automobiles and trucks		25,262		
Buildings	3,028	6,024	8,198	120,633
Infrastructure	447,647	461,387	994,592	532,987
<b>Canal Division</b>				
Land				
Office furniture, fixtures and equipment			2,426	
Other machinery and equipment	473,782		380,385	13,829
Automobiles and trucks			31,207	35,618
Buildings				
Infrastructure	40,091	59,330	109,976	193,152
<b>1998 A-B South Projects</b>				
Office furniture, fixtures and equipment				
Other machinery and equipment				
Automobiles and trucks				
Buildings				
Infrastructure	84			
<b>1998 C Series Texas City Projects</b>				
Office furniture, fixtures and equipment				
Other machinery and equipment				
Automobiles and trucks				
Buildings				
Infrastructure	2,132,359	644,434	488,882	1,252

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$	\$	\$	\$	\$	\$
15,644	1,036	10,152	6,159	5,758	61,713
21,418		3,128	3,921		
18,359	43,157	22,636			
261,585	737,943	132,908	4,278,111	4,059,378	1,624,938
	46	416	302		
		128			
		140	192		
		1,066	980		
	236	16,900	2,672,018	76,941	110,591
36,202	4,040	19,999	121,377		38,607
34,132	107,436	70,529	67,924	15,205	5,159
38,265		6,723	33,445	32,885	33,095
379,374	250,527	365,709	168,524	65,404	200,519
714,445	684,908	1,767,842	2,663,309	1,714,354	3,082,780
3,500	37,182				
	2,802	21,759	23,021		
1,084,011	47,628	576,821	766,934	57,250	332,343
126,061		167,857	82,211	209,334	102,464
	38,281	141,007	286,642	79,435	112,303
881,794	2,979,058	2,345,951	1,425,510	762,469	453,388
					269,326
358,485					

**GULF COAST WATER AUTHORITY**  
**SCHEDULE OF CAPITAL ASSET ADDITIONS (continued)**  
*Last Ten Fiscal Years*  
*(Unaudited)*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>2002 Galveston Projects</b>				
Office furniture, fixtures and equipment				
Other machinery and equipment				
Automobiles and trucks				
Buildings				
Infrastructure	396,272	555,917	653,352	491,884
<b>Chocolate Bayou</b>				
Land				
Office furniture, fixtures and equipment			979	
Other machinery and equipment				
Automobiles and trucks				20,010
Buildings				
Infrastructure	23,242,525	868,289	1,352,768	95,670
<b>Pearland Southeast Plant</b>				
Office furniture, fixtures and equipment				
Other machinery and equipment				
Automobiles and trucks				
Buildings				
Infrastructure		26,809,000		
<b>1997 Galveston Projects</b>				
Office furniture, fixtures and equipment			41	
Other machinery and equipment				
Automobiles and trucks				
Buildings				
Infrastructure	173,851			18,277
<b>1998D Series La Marque Projects</b>				
Office furniture, fixtures and equipment				
Other machinery and equipment				
Automobiles and trucks				
Buildings				
Infrastructure				
<b>Water Treatment Plant Expansion 2011</b>				
Office furniture, fixtures and equipment				
Other machinery and equipment				
Automobiles and trucks				
Buildings				
Infrastructure	301,853	150,633	17,335	

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
683,873	505,472	1,216,421	274,779		
	20,975				
	1,337	10,425	6,832		
18,134	14,058	3,212	167,071		
63,770		50,000	28,486		32,248
		26,741	35,772	30,774	273,689
135,286	837,833	892,215	1,555,893	740,258	734,486
	46	416	302		
		128			
		140	192		
		1,066	980		
	236				
	73	1,786	418		
		550			
		600	266		
		4,582	1,357		
31,189	82,739	37,212	39,483		42,371

***Last Ten Fiscal Years***  
***(Unaudited)***

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Northline Group</b>				
Office furniture, fixtures and equipment				
Other machinery and equipment				
Automobiles and trucks				
Buildings				
Infrastructure				
<b>Bayshore Group</b>				
Office furniture, fixtures and equipment				
Other machinery and equipment				
Automobiles and trucks				
Buildings				
Infrastructure				
<b>Administrative</b>				
Office furniture, fixtures and equipment				
Other machinery and equipment				
Automobiles and trucks				
Buildings				
Infrastructure				
<b>Total Capital Assets</b>	<u>\$ 27,281,011</u>	<u>\$ 46,212,203</u>	<u>\$ 4,283,473</u>	<u>\$ 1,643,304</u>

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
					100,765
					12,159
				22,598	7,739
				28,825	31,453
					9,299
				19,160	
<u>\$ 4,905,527</u>	<u>\$ 6,397,049</u>	<u>\$ 10,950,834</u>	<u>\$ 14,712,411</u>	<u>\$ 7,920,028</u>	<u>\$ 7,671,435</u>