

COASTAL WATER AUTHORITY

Management's Discussion and Analysis,
Independent Auditors' Report,
Financial Statements and Supplemental Schedules

December 31, 2014

COASTAL WATER AUTHORITY

DECEMBER 31, 2014

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Coastal Water Authority

We have audited the accompanying basic financial statements of the Coastal Water Authority ("CWA"), as of and for the year ended December 31, 2014, as listed in the table of contents, and the related notes to the 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.

Auditors' 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatements of the financial statement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to CWA'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 CWA'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CWA, as of December 31, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information included in Supplemental Schedules I, II and III, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The information in Supplemental Schedules I and II is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information in Supplemental Schedules I and II has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in Supplemental Schedules I and II is fairly stated in all material respects in relation to the financial statements as a whole. The information included in Supplemental Schedule III has 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 it.

Houston, Texas

April 3, 2015

COASTAL WATER AUTHORITY

Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2014

As management of the Coastal Water Authority ("CWA"), we offer readers of CWA's financial statements this narrative overview and analysis of the financial activities of CWA for the year ended December 31, 2014. Please read this discussion and analysis in conjunction with CWA's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During 2008 CWA negotiated a contract with the City of Houston to authorize CWA to proceed with the Luce Bayou Interbasin Transfer Project (the "Project"). The contract authorizes CWA to take the necessary actions to complete the permitting and final design of the Project along with the land acquisition to secure the route of this new conveyance system. The Project Contract was approved on January 28, 2009.
- As stipulated in the 2009 Luce Bayou Project contract, the Land and Mitigation Fund was established to finance the costs related to the acquisition of land and costs associated with environmental mitigation necessary for the Project. In 2012, CWA received an additional \$5 million to supplement the Fund that will finalize the acquisition of all land required for the Project. This land acquisition was completed in 2014. CWA is currently negotiating with the U.S. Department of Fish & Wildlife to exchange certain property for the required environmental mitigation credits for the Project.
- In conjunction with the Luce Bayou Interbasin Transfer Project, CWA applied for a \$28 million loan from the State's Texas Water Development Board's Water Infrastructure Fund. The loan was closed in February 2009. The loan is being utilized for the preliminary engineering, permitting requirements and design of the Project.
- In support of the on-going Luce Bayou Interbasin Transfer Project, CWA applied for a second loan in the amount of \$5.1 million from the Texas Water Development Board's Water Infrastructure Fund. This second loan was closed in July 2010. This loan supplements the funding for the permitting and design of the Project.
- The preliminary engineering phase of the Project is designed to determine the route and timing of transferring surface water from the Trinity River to Lake Houston for the projected needs of the Houston region. The preliminary engineering report was completed in 2010.
- CWA submitted an application for a loan from the Texas Water Development Board's State Participation Plan. The loan in the amount of \$28,754,000 closed on March 1, 2013. This loan will assist CWA to fund design costs and the preliminary construction needs of the Luce Bayou Interbasin Project.
- CWA entered into a contract on June 27, 2012 with the City of Houston to acquire an interest in a City of Houston owned property (the "Gillette Street Project") and to mitigate certain environmental matters with the intent to market the property upon completion of the mitigation project. The Gillette Street Project is anticipated to be concluded in 2015.
- A long term contract with NRG Energy Services, LLC was in effect for electricity reliability at CWA's two primary pumping stations. This contract will provide for back-up electrical power in the event of a power failure serving those two facilities.
- A water main replacement project was completed in 2012 in the Bayport Water System. This project was part of CWA's ongoing efforts to upgrade and replace critical infrastructure in the Bayport System that serves industrial customers. A second water main project was under design in 2013 and 2014 with the beginning of construction scheduled for 2015.

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Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2014

- CWA achieved debt service savings with a current refunding of the 2004 CWA Contract Revenue Bond with the competitive pricing with the issuance of \$38,415,000 in 2014 Contract Revenue Refunding Bonds that closed in December 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of two parts: Management's Discussion and Analysis and the basic financial statements.

The financial statements provide both long-term and short-term information about CWA's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CWA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred.

The Statement of Net Position includes all assets and liabilities associated with the operations of CWA. The Statement of Revenues, Expenses, and Changes in Net Position (Equity) reports CWA's net position and how it has changed. Net position is the difference between the sum of CWA's assets and any deferred outflows of resources and the sum of liabilities and any deferred inflows of resources.

FINANCIAL ANALYSIS OF CWA

TABLE A-1

Coastal Water Authority's Summarized Financial Information

	<u>2014</u>	<u>2013</u>
Current Assets	\$ 78,489,305	\$ 80,374,263
Capital Assets, net	265,638,375	266,733,743
Other Noncurrent Assets	<u>32,325,464</u>	<u>28,585,551</u>
Total Assets	<u>376,453,144</u>	<u>375,693,557</u>
Current Liabilities	14,348,357	12,489,962
Long-Term Liabilities	<u>144,963,291</u>	<u>142,960,985</u>
Total Liabilities	<u>159,311,648</u>	<u>155,450,947</u>
Net Position:		
Net investment in capital assets	123,945,535	127,117,445
Restricted	47,386,235	51,914,421
Unrestricted	<u>45,809,726</u>	<u>41,210,744</u>
Total Net Position	<u>\$ 217,141,496</u>	<u>\$ 220,242,610</u>

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Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2014

During 2014, the decrease in current assets is primarily due to increasing expenditure related to the ongoing Luce Bayou Project. The increase in other noncurrent assets is due to CWA's investment in Gillette Street Project, and increase in long-term loan receivable from the City of Houston for the Luce Bayou Interbasin Transfer Project. The increase in current liabilities is primarily due to an increase in activities related to the Luce Bayou Project and an increase in current bonds payable in 2015.

Net position may, over time, serve as a useful indicator of a government's financial position. In the case of CWA, assets plus any deferred outflows of resources exceeded the liabilities and any deferred inflows of resources by \$217.1 million at the close of 2014. By far the largest portion of CWA's net position (61%) reflects its investment in capital assets (e.g., land, water systems, vehicles, equipment, and construction in progress). CWA utilizes these assets to deliver surface water (river water) to its end users, the City of Houston (the "City") and its contracted water customers.

The ratio of current assets to cover current liabilities is a strong indicator of an ability to manage day-to-day expenses. As of December 31, 2014, that ratio was approximately 5.5:1. The ratio of total assets to total liabilities, in the absence of any deferred outflows and deferred inflows of resources, was approximately 2.4:1. These strong ratios reflect CWA's stable financial condition both in the short-term as well as in the long-term outlook.

TABLE A-2

Changes in Coastal Water Authority's Net Position

	2014	2013
Operating Revenues	\$ 26,583,591	\$ 27,045,759
Non - Operating Revenues	1,546,126	1,393,792
Total Revenues	28,129,717	27,321,650
Operating Expenses - Field and Administration	(25,582,243)	(25,939,867)
Operating Expenses - Depreciation	(7,196,921)	(7,348,561)
Total Operating Expenses	(32,779,164)	(33,288,428)
Non - Operating Expenses	(3,785,274)	(3,782,946)
Total Expenses	(36,564,438)	(37,071,374)
Loss	(8,434,721)	(8,631,823)
Capital Contributions	5,333,608	7,277,607
Change in Net Position	(3,101,113)	(1,354,216)
Net Position - Beginning of Year	220,242,610	221,596,826
Net Position - End of Year	\$ 217,141,497	\$ 220,242,610

During 2014, the decrease in operating revenues was primarily due to reduced water demand from the Red Bluff Water Treatment Plant Project. The increase in non-operating revenues is due to an increase in

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Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2014

pipeline crossing fees received in 2014. The decrease in capital contribution was primarily due to a reduction in land acquisition activities for the Luce Bayou Project and its reimbursement from the City of Houston.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - CWA's net capital assets as of December 31, 2014, amounted to \$265.6 million, (net of accumulated depreciation). This investment in capital assets included land, water systems, vehicles, equipment, and construction in progress. Major capital asset events during the year included the following:

- Incremental construction in progress activities, including engineering, permitting and land purchases, for the Luce Bayou Interbasin Transfer Project.
- Replacement of several vehicles and pieces of equipment for field operations.

Long-Term Debt: At the end of 2014, CWA had total long-term debt outstanding of \$ 139.3 million. The majority (\$77.4 million) of this amount is backed by the Projects Contract with the City. The bonds are secured by a first lien on, and a pledge of gross revenues of, the City's water and wastewater systems. The remaining \$ 61.9 million is backed by the Luce Bayou Projects Contract with the City. These bonds are secured by a pledge on the City's Combined Utility System General Purpose Fund.

Basic Financial Statements

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Statement of Net Position

December 31, 2014

ASSETS

Current Assets – Unrestricted:

Cash	\$ 3,599,522
Investments	24,487,536
Receivables:	
Accounts receivable from City of Houston	4,686,864
Accounts receivable from other customers	409,032
Compensable absences – current portion	87,709
Other	5,075
Total receivables	<u>5,188,679</u>
Total current assets – unrestricted	<u>33,275,738</u>

Current Assets – Restricted:

Cash – restricted for capital projects	102,726
Investments – restricted for contingencies	4,994,965
Investments – restricted for capital projects	40,115,876
Total current assets – restricted	<u>45,213,567</u>

Capital Assets, Net

265,638,375

Other Assets:

Interest receivable from City of Houston	282,150
Long-term investments	14,402,571
Compensable absences receivable – non-current portion	2,422,157
Long-term loan receivable from City of Houston	15,218,586
Total other assets	<u>32,325,464</u>
Total assets	<u>\$ 376,453,145</u>

Continued

The accompanying notes are an integral part of the financial statements.

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Statement of Net Position (Continued)

December 31, 2014

LIABILITIES

Current Liabilities - Unrestricted:

Accounts payable	\$ 1,503,508
Operating reserve payable	5,887,682
Compensable absences payable – current portion	87,709
Unearned revenue	1,334,163
	<hr/>
Total current liabilities – unrestricted	8,813,062
	<hr/>

Current Liabilities - Restricted:

Accounts payable	1,115,560
Bonds payable – current portion	2,260,000
Bond interest payable	159,735
Contingent reserve payable	2,000,000
	<hr/>
Total current liabilities – restricted	5,535,295
	<hr/>

Long-Term Liabilities:

Bonds payable – non-current portion	110,519,106
Long-term debt	28,754,000
Compensable absences payable – non-current portion	2,422,157
Other postemployment benefits payable	3,268,028
	<hr/>
Total long-term liabilities	144,963,291
	<hr/>

Total liabilities	159,311,648
	<hr/>

NET POSITION

Net investment in capital assets	123,945,535
Restricted for:	
Capital projects, net of restricted liabilities	44,386,235
Contingencies, net of restricted liabilities	3,000,000
Unrestricted	45,809,727
	<hr/>
Total net position	\$ 217,141,497
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The accompanying notes are an integral part of the financial statements.

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Statement of Revenues, Expenses, and Changes in Fund Net Position

Year Ended December 31, 2014

Operating Revenues:

Funds provided by City of Houston	\$ 22,187,916
Funds provided by San Jacinto River Authority	104,438
Service revenues	4,291,237
	<hr/>
Total operating revenues	26,583,591
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Operating Expenses:

Utilities	8,364,135
Field salaries	4,973,473
Administrative	2,387,320
General operating	2,647,446
Materials and supplies	2,625,310
Engineering, legal, and other professional	832,018
Contract labor and equipment	3,752,541
Depreciation	7,196,921
	<hr/>
Total operating expenses	32,779,164
	<hr/>

Operating loss (6,195,573)

Non-Operating Revenues/(Expenses):

Investment income	50,755
Interest income	988,628
Bond interest expense	(3,727,629)
Loan interest expense	(57,645)
Other income	506,743
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Net non-operating revenues/(expenses) (2,239,148)

Loss before contributions (8,434,721)

Contributions Provided by City of Houston

5,333,608

Change in net position (3,101,113)

Net Position - beginning of year 220,242,610

Net Position - end of year \$ 217,141,497

The accompanying notes are an integral part of the financial statements.

COASTAL WATER AUTHORITY

Statement of Cash Flows

Year Ended December 31, 2014

Cash Flows from Operating Activities:

Cash received from municipalities for services rendered	\$ 19,984,991
Cash received from non-governmental customers	4,407,983
Cash payments to employees and suppliers for goods and services	<u>(24,665,130)</u>
Net cash used in operating activities	<u>(272,156)</u>

Cash Flows from Capital and Related Financing Activities:

Purchases of capital assets	(5,196,052)
Proceeds from sale of capital assets	55,535
Cash restricted for capital projects and contingencies	(197,471)
Principal payments on bonds payable	(1,645,000)
Payments of interest on bonds payable	(2,654,640)
Interest on an inter-fund loan	342,122
Capital contributions payments received in cost reimbursements	<u>4,485,212</u>
Net cash used in capital and related financing activities	<u>(4,810,294)</u>

Cash Flows from Investing Activities:

Purchases of investments	(190,097,640)
Proceeds from maturities or sales of investments	196,117,519
Payments received on note receivable	(399,767)
Investment income received	553,288
Other income received	<u>458,994</u>
Net cash provided by investing activities	<u>6,632,394</u>

Net increase in cash	<u>1,549,943</u>
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Cash, beginning of year	<u>2,049,578</u>
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Cash, end of year	<u><u>\$ 3,599,522</u></u>
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Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	<u>\$ (6,195,573)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	7,196,921
Changes in assets and liabilities:	
Due from the City of Houston	(2,190,619)
Accounts payable	593,231
Other postemployment benefits payable	<u>323,884</u>
Net cash used in operating activities	<u><u>\$ (272,156)</u></u>

The accompanying notes are an integral part of the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

In 1967, an act of the State of Texas Legislature (the “Act”) created Coastal Water Authority (“CWA”) as a conservation and reclamation district and political subdivision of the State of Texas covering a part of southwest Liberty County, southwest Chambers County, and most of Harris County. Under the Act, the primary purpose of creating CWA is to provide an agency to finance and construct a water conveyance and distribution system to transport surface water from Lake Livingston and the Trinity River into the above mentioned counties. CWA is also charged with conveying water to a point where it will be available for Galveston County. CWA is authorized to issue revenue bonds, improvement bonds, and special project bonds for the purpose of constructing or acquiring additional facilities that would enable CWA to distribute water to other customers.

In 2005, the Act was amended. Under the amended legislation, CWA may become involved in desalinization and reclamation projects, create a nonprofit corporation to aid and act on behalf of CWA in implementing a CWA project, and develop and generate electric energy with wind turbines or hydroelectric facilities to be used by CWA or the City of Houston, Texas. CWA may also incur indebtedness, such as bond anticipation notes, or other bonds, for the purpose of improving rivers, creeks, and streams to aid in and prevent overflows.

In 2011 the Act was further amended, clarifying CWA’s authority to participate in wetland mitigation under Chapter 221, Natural Resources Code.

Related Organizations

The City of Houston, Texas (the “City”) is incorporated under the laws of the State of Texas and provides governmental services as authorized or required by its charter. The City appoints a voting majority of CWA's board members, but is not financially accountable for the actions of CWA. As a result, the City does not have a financial benefit in CWA and a burden relationship does not exist. All transactions with the City are evidenced by operating and construction project contracts for which the City compensates CWA for their services received pursuant to the contracts.

Basis of Accounting

The financial statements of CWA have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted primary standards-setting body for establishing accounting and financial reporting principles for state and local governments.

Under GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, CWA qualifies as a special-purpose government engaged only in business-type activities, and accordingly, only the financial statements required for an enterprise fund are presented as basic financial statements.

CWA uses the accrual method of accounting whereby expenses are recognized when the liability is incurred, and revenues are recognized when earned under the flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

operation are included on the statement of net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates included in the financial statements are depreciation expense which is based on the estimated useful lives of the underlying depreciable assets, annual Other Post Employment Benefits (OPEB) costs and related net OPEB obligations, and the assets and liabilities for compensable absences.

Cash and Cash Equivalents

For purposes of the statement of cash flows, CWA considers all highly liquid investments with a maturity when purchased of three months or less to be cash equivalents. Cash restricted by purpose is excluded from cash and cash equivalents.

Accounts Receivable

Accounts receivable at December 31, 2014 consisted of billings to customers for user charges and reimbursable expenses from the City. No allowance for doubtful accounts has been recorded because management deemed all receivables to be collectible.

Capital Assets

Capital expenditures for the acquisition, construction, or improvement of capital assets are recorded at cost. Management estimates water systems to have a 30% salvage value. Depreciation is provided on a straight-line basis over the estimated useful lives. The estimated useful lives of CWA's capital assets are as follows:

<u>Description</u>	<u>Useful Lives</u>
Water systems	15-50 years
Trucks, equipment, and other	5-10 years

The cost of normal maintenance and repairs that do not add value to the asset or materially extend its life are not capitalized. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations for the period. CWA continuously reviews the carrying value of its property and equipment for possible impairment. When applicable, the book amounts are reduced to fair values.

The balance of construction in progress represents costs incurred on the construction of assets which have not been completed or placed in service as of the end of the year (see Note 7.)

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Unamortized Bond Premium

Bond premium represents interest paid in advance to the issuer by the bondholders who receive a return of the premium in the form of larger periodic interest payments. The bond premium is amortized over the life of the bond with amortized amount decreasing interest expense over each period. In 2010, CWA issued the \$38,900,000 Coastal Water Authority Contract Revenue Refunding Bond Series 2010. The issuance resulted in bond premium in the amount of \$3,921,765. Similarly, in 2014, CWA issued the \$38,415,000 Coastal Water Authority Contract Revenue Refunding Bond Series 2014, resulting in bond premium amounting to \$3,454,550. The bond premiums arising from these transactions have been capitalized and amortized on a straight-line basis over the life of the bonds in accordance GAAP requirements. Balance outstanding as of December 31, 2014 on the premiums in the amount of \$6,319,106 have been recorded in the accompanying financial statements as an addition to the face value of the bonds to arrive at its carrying value.

Investments

CWA is authorized to invest in direct obligations of, or obligations guaranteed by, the United States of America, obligations of certain Federal agencies, states, counties, cities, and other investment instruments as authorized by CWA's investment policy, certain obligations of public housing authorities and related institutions, fully collateralized repurchase agreements, and interest bearing time deposits. Any cash balances and time deposits are required to be collateralized and secured by pledges of direct obligations of, or obligations guaranteed by, the United States of America, obligations of such Federal agencies, and certain obligations of public housing authorities and related institutions. Repurchase agreements are required to be fully collateralized by such securities held in a safekeeping account subject to the control and custody of CWA. Investments are valued at amortized cost, which approximates fair value, typically mature in one year or less, and are held to maturity. CWA's Board of Directors reviewed and confirmed the investment policy on December 10, 2014.

Compensable Absences

During fiscal year 2012, CWA amended its vacation policy and created two vacation leave plans ("A" and "B"). Under vacation leave plan A, applicable to employees hired on or before September 1, 2012, employees receive 10 days of vacation and 15 days of sick leave each year. After five years of service, employees receive one additional vacation day for each additional year of service up to a maximum of fifteen additional days. Employees may accumulate vacation leave from year to year and upon termination or resignation receive a lump sum vacation accrual payment up to a maximum of 720 hours. Upon termination or resignation, employees with two or more years of service may receive a lump-sum sick leave payment up to a maximum of 700 hours. Paid absences for employee vacation and sick leave are recorded as expenses when used. CWA's obligation for unused employee vacation and sick leave is reported as a long-term liability, net of current portion, and the sick leave is calculated using the vesting method which is 2 years for any new employees. Since these expenses are billable to customers when payable to the employees, CWA records an equal amount of receivable for these compensable absences.

Under vacation leave plan B, applicable to employees hired after September 1, 2012, employees receive 10 working days of vacation and 8 days of sick leave each year. Employees who have completed five years of continuous employment receive additional day of vacation for each additional year of service subject to a maximum of fifteen additional days. Employees are required to utilize

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

their vacation time during the benefit year. Any accrued vacation days not utilized within the benefit year will not be allowed to be carried over to the next benefit year. However, employees may carry over to the next year accrued, unused sick leave hours. Upon termination of employment, employees under this plan will not be paid for any accrued, unused vacation or sick leave.

Revenues and Expenses

Operating revenues are those revenues generated from the primary operations of CWA. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of CWA. All other expenses are reported as non-operating expenses. The principal operating revenues of CWA are revenues generated from transportation of surface water to its customers.

Contributions, which finance either capital or current operations, are reported based on GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In applying GASB Statement No. 33 to contributions, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources that qualify to be recorded by CWA as receivables and revenues, which are transmitted by the provider before the eligibility requirements are met, are reported as deferred revenue. At December 31, 2014, CWA had deferred revenues of \$1,334,163.

Restricted Assets

Proceeds of CWA's contract revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited per applicable bond covenants. The investments held for the construction account is used to report those proceeds of revenue bond issuances that are restricted for use in construction projects.

Funds received for CWA's operation and maintenance is set aside to create a reserve for major maintenance, repairs, replacement, and obligatory replacement fund per the Trinity River Water Conveyance System contract and the Lake Houston Pump Station contract between CWA and the City of Houston. These funds are shown as restricted investments in the financial statements.

Income Taxes

CWA is an organization described in Internal Revenue Code Section 115. Generally, no tax provision is necessary in regard to its excess revenue. Accordingly, none has been recorded in the accompanying financial statements.

Unearned Revenues

Contributions received and related to periods after December 31, 2014, have been deferred to the subsequent fiscal year.

Recent Accounting Pronouncements

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement no. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. This Statement is effective for fiscal years beginning after June 15, 2014 with earlier application encouraged. Management of CWA has determined that the provisions of this Statement do not have significant impact on its pension plan financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operation*. This Statement establishes accounting and financial reporting standards to government combinations and disposals of government operations. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should applied on a prospective basis with early application encouraged. Management of CWA has determined that the provisions of this Statement do not have any impact on its financial statements.

In April 2013, GASB issued Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not to that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated outflows can be established, the amount of liability to be recognized should be discounted present value of the minimum amount within the range. The provisions of this Statement are effective for reporting period beginning after June 15, 2013 with early application encouraged. Management of CWA has determined that the provisions of this Statement do not have any significant impact on its financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding the application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. Management of CWA has determined that the provisions of this Statement do not have any

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significant impact on its pension plan financial statements.

NOTE 2 – TRINITY RIVER WATER CONVEYANCE SYSTEM CONTRACTS

City of Houston

CWA entered into a contract (the “Initial Contract”) with the City in May 1968. The contract expires on the earlier date of June 15, 2035 or the date on which the debt service requirements have been paid in full. In consideration of CWA's agreement to construct the main water conveyance and distribution systems, the City agreed to pay, solely out of revenues received from the operation of the City's water and wastewater systems, all maintenance and operating costs and all debt service requirements for the Trinity River Water Conveyance System. Upon termination of the contract and upon payment of all bonds and other obligations issued by CWA for the Trinity River Water Conveyance System, CWA must assign and convey to the City, upon request, all of its rights, titles, and interest in the Trinity River Water Conveyance System.

In June 1995, CWA entered into an operating contract (the “Operating Contract”) and a project financing and construction contract (the “Projects Contract”) with the City. The Operating Contract expires on the earlier occurrence of the year 2035 or when both the Initial Contract and the Projects Contract terminate. The Projects Contract expires on the earlier occurrence of the year 2035 or when all bonds and other obligations issued by CWA pursuant to the Projects Contract to finance the cost of projects or refinance the cost of such projects are paid.

The Operating Contract amends, restates, and supersedes the Initial Contract relating to CWA's operation for the Trinity River Water Conveyance System. In the Operating Contract, CWA is required to operate and maintain the Trinity River Water Conveyance System and the facilities constructed and/or acquired (“Trinity River facilities”) pursuant to the Projects Contract and acquire and/or construct improvements to such facilities or other City facilities. In return, the City pays CWA for maintenance, operation, construction, improvement, and repair of the City projects, including reasonable overhead and administrative costs, as set forth in the annual operating budget. The City is entitled to credits against its obligations under the Operating Contract to the extent that excess revenues, including proceeds from third-party insurers and grants from any Federal or state agency, received by CWA from the operation of the Trinity River facilities are available and are used to pay maintenance, operation, construction, improvement, and repair expenses of the facilities pursuant to the terms of the Operating Contract.

Under the Projects Contract, CWA is required to construct and/or acquire, improve, and repair certain water conveyance and distribution facilities. In return, the City pays, solely from the gross revenues received from the operation of the City's water and wastewater systems, all amounts necessary to pay debt service requirements and reserve fund requirements for such facilities. Upon termination of the Projects Contract and upon payment of all bonds and other obligations issued by CWA, CWA must assign and convey to the City, upon request, all of its rights, titles, and interest in and to such facilities.

In 2009, CWA entered into another project financing and construction contract with the City to plan, design, acquire property, construct and finance a project known as the Luce Bayou Interbasin Transfer Project (the “Luce Bayou Project”), which includes infrastructure sized to transfer approximately 450,000 acre feet per year of the City's permitted surface water from the Trinity River

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to Lake Houston. The Preliminary Project Costs of the Luce Bayou Project was financed and paid through the issuance of CWA contract revenue bonds which were purchased by the Texas Water Development Board (the "TWDB") through its Water Infrastructure Fund ("WIF") loan program, under which the TWDB loaned funds (the "WIF Bonds") to CWA. The WIF Bonds are secured by the City's pledge under the Projects Contract to pay Debt Service on the WIF Bonds from the City's Net Revenues held in the General Purpose Fund.

Under the Luce Bayou Project, CWA is required to advance funds, in the amount of \$9,705,000, to pay for the City's share of Land and Mitigation Costs. The funds would be obtained from CWA's revenues derived from the sale of certain Certificates of Participation, Series 1993A-J with respect to the City of Houston Water Conveyance System Contract. The City shall repay the advance to CWA along with interest, at a rate equal to the prime rate published by the Wall Street Journal on the respective January 1st or July 1st for the period June 15, 2009 through December 15, 2016 and the 10 year Bond Buyer Revenue Bond Index from December 15, 2016 for the period December 15, 2016 through December 15, 2038. The City's payment schedule will start on June 15, 2019 and its repayment term is 20 years with one principal payment and two interest payments each year.

On February 3, 1999, CWA accomplished an escrow restructuring of certain securities in connection with the \$270,960,000 City of Houston Water Conveyance System Contract Certificate of Participation, Series 1993 A-J Bonds, which were legally defeased and removed from the general long-term debt account group in 1993. CWA sold existing securities held in escrow accounts for the subject certificates in the amount of \$252,460,758 and purchased \$242,768,280 of U.S. Treasury Securities - State and Local Securities, which were deposited to replace the existing securities in the Escrow Fund held by the Escrow Agent. This restructuring activity resulted in approximately \$9,695,000 (proceeds plus cash balance) of cash proceeds to CWA. Transaction costs amounted to \$437,000, netting approximately \$9,258,000 in cash to CWA.

In 1995, CWA issued \$45,000,000 Coastal Water Authority Contract Revenue Bonds, Series 1995 ("Series 1995") to construct a 96-inch water line from near the San Jacinto Monument to the City's Southeast Water Purification Plant and reimburse CWA for certain costs incurred to repair flood damage to a pipeline under the Houston Ship Channel near the Lynchburg Pump Station.

On February 15, 1999, CWA issued \$48,240,000 Coastal Water Authority Contract Revenue Refunding Bonds, Series 1999 to refund the Series 1995 bonds and to pay related costs of issuance. Of the proceeds, \$47,216,086 was deposited in an escrow fund established pursuant to an escrow agreement; \$299,228 was deposited in the Trinity River Bond Fund to be applied to accrued interest; and \$225,740 was deposited into the Trinity River Construction Multiple Series Fund to pay issuance costs (see Note 8). Debt service of the bonds is payable by CWA from revenues received from the City pursuant to the Projects Contract. On December 15, 2010, proceeds from the issue of \$38,900,000 Contract Revenue Refunding Bonds, Series 2010 were used to refund a portion of the Series 1999 bonds. During 2011, the outstanding principal in the amount of \$1,255,000 was paid. No Series 1999 bonds remain outstanding.

On October 20, 2004, CWA issued \$40,385,000 Coastal Water Authority Contract Revenue Bonds, Series 2004 at a discount of \$140,993 to fund the design, construction management, and construction costs of the expansion of the Trinity River Pump Station and Lynchburg Pump Station. Of the proceeds, \$255,254 was paid for insurance and \$39,988,753 was deposited in the Trinity River Construction Fund, Series 2004 to pay for the construction costs (see Note 8). Additional closing

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costs of \$265,360 were paid from the Trinity River Construction Fund; Series 2004 subsequent to collection of bond proceeds, resulting in total closing costs of \$520,614 (see Note 8 Unamortized bond issue costs). Debt service of the bonds is payable by CWA from revenues received from the City pursuant to the Projects Contract. On December 15, 2014, proceeds from the issue of \$38,415,000 Contract Revenue Bonds, Series 2014 were used to refund a portion of the Series 2004 bonds, and no Series 2004 bonds remain outstanding after December 15, 2014.

On February 26, 2009 CWA issued \$28,000,000 Coastal Water Authority Contract Revenue Bonds, Series 2009 Bonds to finance the cost of conveyance system and treatment facilities of the Luce Bayou Project. Of the proceeds, \$300,000 was paid for issuance costs and \$15,391,019 was deposited in the Luce Bayou Project Fund, Series 2009 to pay for the construction costs (see Note 8). Additionally, \$12,308,981 was deposited in Project Escrow Account for the final design phase. Debt service of the bonds is payable by CWA from revenues received from the City pursuant to the Projects Contract.

In accordance with the terms of the various bond resolutions and City contracts, CWA is required to maintain, in the Trinity River Water Conveyance System operations account, an amount equal to three months' average operating costs, as applicable to the City, estimated from its annual operating budget. At the beginning of each year, CWA makes an adjustment to the operating reserves to meet the requirements. This adjustment is either paid by or credited to the City. This amount is being shown in the statement of net assets as part of line item 'operating reserves payable' (see Note 8).

On July 12, 2010 CWA issued \$5,115,000 Coastal Water Authority Contract Revenue Bonds Series 2010 (Luce Bayou Project) to finance the implementation of a water supply project identified in the 2007 State Water Plan and regional water plan. Of the proceeds, \$123,000 was paid as issuance costs, \$1,792,000 was deposited in an Escrow Fund and the balance of \$3,200,000 was deposited in the Construction Fund.

On December 15, 2010, CWA issued \$38,900,000 Coastal Water Authority Contract Revenue Refunding Bonds, Series 2010 (City of Houston Projects). The proceeds of the Bonds were used to refund a portion of the Series 1999 Bonds, fund a portion of the Bond Reserve Fund requirement and pay the costs of issuing the Bonds and refunding the Series 1999 Bonds. The Bonds were issued at a premium. Balance on the premium at December 31, 2014 in the amount of \$2,864,556 has been recorded in the accompanying financial statements as an addition to the face (par) value of the bonds to arrive at its carrying value.

On December 15, 2014, CWA issued \$38,415,000 Coastal Water Authority Contract Revenue Refunding Bonds, Series 2014 (City of Houston Projects). The proceeds of the Bonds were used to refund a portion of the Series 2004 Bonds, fund a portion of the Bond Reserve Fund requirement and pay the costs of issuing the Bonds. The Bonds were issued at a premium. Balance on the premium at December 31, 2014 in the amount of \$3,454,550 has been recorded in the accompanying financial statements as an addition to the face (par) value of the bonds to arrive at its carrying value.

On March 13, 2012, CWA Board authorized an additional sum amounting to \$5 million to be used for acquisition of right-of-way for the Luce Bayou thereby increasing the total estimated costs of the Land and Mitigation project to \$20 million. In accordance with the provisions of the contract agreement, CWA received \$1,765,000 from the City and CWA transferred the amount of \$3,235,000 from its Special Project Equity Fund (SEALS) to cover the City's portion of the acquisition costs.

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Accordingly this amount has been recorded as a receivable from the City in the financial statements.

Pursuant to a Master Agreement (the "Agreement") dated February 21, 2013, between CWA and TWDB, TWDB, during the year, made available to CWA funding in the amount \$28,754,000. The funding is to enable TWDB to purchase an initial 35% undivided interest in the Luce Bayou Project. In accordance with the provisions of the agreement, TWDB may purchase up to 80% of an undivided interest in the Luce Bayou Project. The proceeds of the fund are held in a construction fund created for such purpose and held by CWA. Funds in the construction fund including interest and investment earnings are to be used only for the Luce Bayou Project costs or for CWA's purchase of TWDB's interest in the Project. In conjunction with the Agreement, CWA and the City entered into a first supplement to the Luce Bayou project contract to incorporate the City's pledge for payment of debt service of the loan.

San Jacinto River Authority

Effective February 10, 1998, CWA entered into a water conveyance contract with San Jacinto River Authority ("SJRA") whereas SJRA reserved 50 million gallons per day (MGD) of capacity in the CWA main canal system. In 1998, SJRA paid CWA a capital recovery fee of \$3,663,860 for this capacity reservation. SJRA paid \$796,087 for the costs of engineering, design, and construction of a diversion point to accommodate this conveyance of water from CWA's main canal to SJRA's canal. Upon completion of the construction project in February 2000, CWA began operating and maintaining this diversion point structure. In return, SJRA began paying a monthly operating charge to CWA for the conveyance of this water. Termination of the contract will occur on the earlier date of January 1, 2035 or the date the City acquires the CWA main canal system.

In accordance with the terms of the contract with SJRA, CWA is required to maintain, in the Trinity River Water Conveyance System operations account, an amount equal to three months' average operating costs, as applicable to SJRA, estimated from its annual operating budget. At the beginning of each year, CWA makes an adjustment to the operating reserves to meet the requirements. This adjustment is either paid by or credited to SJRA. This amount is being shown in the statement of net position as part of the line item 'operating reserve payable' (see Note 8).

NOTE 3 – LAKE HOUSTON FACILITIES

Effective January 1, 1996, CWA entered into an operating contract with the City to assume the responsibility of operating, maintaining, and keeping the Lake Houston Pump Station, West Canal, and related facilities (the "Facilities") in good repair and to assume the responsibility of transporting water through the Facilities. The City pays, solely out of revenues received from the operation of the City's water and wastewater system, all maintenance and operating costs of the Facilities. The City is entitled to credits against obligations for interest received on Lake Houston Facilities fund investments. The contract has been renewed until 2015.

In accordance with the terms of this contract, CWA is required to maintain, in the Lake Houston operations account, an amount equal to three months' average operating costs as estimated from its annual operating budget. At the beginning of each year, CWA makes an adjustment to the operating reserves to meet the requirements. This adjustment is either paid by or credited to the City. This amount is being shown in the statement of net position as part of the line item 'operating reserve payable' (see Note 8).

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Effective January 1, 2004, the Operating Contract with the City was amended to extend responsibility for operating, maintaining, performing inspections, and implementing security of Lake Houston and the Lake Houston Dam to CWA. Further, the work under the Operating Contract may be paid by the City either as a capital project or from revenues received from the operation of the City's water and wastewater systems.

NOTE 4 – BAYPORT WATER SYSTEM

In 1979, CWA issued \$10,000,000 of special project bonds to acquire an existing water distribution system, the Bayport Water System, from the Friendswood Development Company and to extend the system to service additional customers. The Bayport Water System is attached to CWA's distribution system and its customers consist primarily of large national company chemical plants.

In 1985, CWA issued \$1,700,000 of Special Project First Mortgage Revenue Bonds to improve the Bayport Water System by construction of crossover connections to interconnect the three CWA systems and bypass the Bayport reservoir and pump station. This change resulted in a more efficient and reliable system. In 2000, CWA redeemed all outstanding debt service requirements. The Bayport Water System has been debt free since this redemption date.

A Capital Improvement Fund was established by CWA in the Bayport Water System to provide funds for future renovations, improvements, and repairs to the system. Maintenance and operating costs are paid from revenues received from the operations of the Bayport Water System.

NOTE 5 – WATER TREATMENT PLANT

In 1979, CWA acquired an existing water treatment plant from Crown Central Petroleum Company. Maintenance and operating costs of the plant and all debt service requirements are paid by CWA from revenues received from the operation of the plant. Currently, there is no outstanding debt related to this plant.

In November 2002, Air Products and Chemicals, Inc., (“Air Products”) entered into an agreement with CWA to receive and treat untreated surface water. In return, Air Products will take delivery of the treated surface water and make monthly payments to CWA for water treatment services. To compensate for Air Products' water requirements, the Water Treatment Plant had to be expanded. Total costs for the expansion were \$598,968. Air Products is reimbursing these costs in monthly installments of \$6,650, including interest at 6%, and maturing in July 2013. During the year the remaining balance was fully paid.

In accordance with the Air Products contract, CWA will establish and maintain in the Water Treatment Plant operations account an amount equal to two months' average operating costs, as applicable to Air Products, estimated from its annual operating budget. At the beginning of each year, CWA will make an adjustment to the operating reserves to meet the requirements. This adjustment will either be paid by or credited to Air Products (see Note 8).

In January 2005, Pasadena Refining Systems, Inc. (“PRSI”) entered into an agreement with CWA to receive and treat 1.15 to 6.0 million gallons of untreated surface water per day for PRSI's production requirements. In return, PRSI will take delivery of the treated surface water and make monthly payments to CWA for water treatment services. The termination date for the agreement is December

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2017. The agreement may be renewed for two additional five-year periods.

In accordance with the PRSI contract, CWA will establish and maintain in the Water Treatment Plant operations account an amount equal to two months' average operating costs, as applicable to PRSI, estimated from its annual operating budget. At the beginning of each year, CWA will make an adjustment to the operating reserves to meet the requirements. This adjustment will either be paid by or credited to PRSI (see Note 8).

In 2010, a supplemental internal loan of \$524,135 was added to the original \$2.3 million loan approved in 2009 to finance the design and construction of a major repair to the Water Treatment Plant facility. The primary objective of the construction project is to replace the filtering equipment and install improved control mechanisms in the plant. Construction work on the project was completed and accepted by CWA's Board in March 2013.

NOTE 6 – DEPOSITS AND INVESTMENTS

As of December 31, 2014, CWA had the following deposits and investments:

Deposits	Fair Value	Average Maturity in Days
Cash and cash equivalent	\$ 3,599,522	-
Cash restricted	102,726	-
Total Value	<u>\$ 3,702,248</u>	

Investment Type	Fair Value	Average Maturity in Days
U.S. government and agency securities	\$ 69,598,377	73
Commercial papers issued by municipality	-	-
Investment pool		-
Long-term Investment	14,402,571	-
Total Value	<u>\$ 84,000,948</u>	

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, CWA's deposits may not be returned to it. As of December 31, 2014 CWA's bank balances were fully collateralized in accordance with CWA's investment policy.

Interest Rate Risk: CWA's formal investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Financial assets are invested only in authorized investments whose maturities do not exceed one year at the time of purchase.

Texas Short Term Asset Reserve Program Cash Reserve Fund ("TexStar") is a local government

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investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code (“Code”), and the Public Funds Investment Act (PFIA), Chapter 2256 of the Code. TexStar was created in April 2002 through a contract among its participating governmental units, and is governed by a board of directors (“board”), to provide for the joint investment of participant’s public funds and funds under their control. It is the policy of TexStar to invest pooled assets in a manner that will provide for preservation and safety of principal and competitive investment returns while meeting the daily liquidity needs of its participants. Portfolio of TexStar is a government-repo fund, utilizing primarily U.S. treasury securities, U.S. agency securities both fixed and floating, and repurchase agreements collateralized by such obligations. In order to meet the liquidity needs of the pool’s shareholder base and limit its exposure to significant market price fluctuations occurring during the periods of volatile interest rate movement, the weighted average maturity of the pool’s assets is limited to 60 days or less. TexStar is rated AAAM by Standard and Poor’s. J.P. Morgan Fleming Asset Management and First Southwest Asset Management serve as co-administrators for TexStar under an agreement with the TexStar board.

TexStar is not registered with the SEC as an investment company but has a conservative investment policy which is consistent with the SEC’s Rule 2a7 of the Investment Company Act 1940. GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net assets to compute share price.

Long-term investments represent CWA’s interest in property (the “Gillette Street Project”). In 2012, CWA entered into a contract agreement with the City for the purchase of 11/16th of the City’s interest in the Gillette Street Project. The City holds the balance of interest on the property. CWA paid the sum of \$11,000,000 (the “CWA Cash Contribution”) to acquire an interest in the project. Total purchase price of the property is expected not to exceed \$16,000,000. In accordance with the contract agreement CWA is expected to incur additional costs not to exceed \$5,000,000 (the “CWA In-Kind Contribution”) for remediation and mitigation of certain environmental matters on the property. Total contribution of CWA (“CWA Contribution”) towards the property is the amount equal to the CWA Cash Contribution and CWA In-Kind Contribution. The City is expected to pay to CWA an amount equal to interest accrued on the CWA Contribution from the closing date and payable on each semi-annual payment date until (i) CWA’s ownership share is sold to the City or a third party in accordance with the provisions of the contract agreement. The interest rate shall be a variable rate to be reset on each semi-annual payment date based on the six-month London Interbank Offered Rate (Libor) as published by a commercially available source providing Libor as selected by CWA from time-to-time. Interest on the CWA Contribution shall be calculated on the basis of the actual number of days elapsed. The closing on the sale of the property is expected to occur in the second quarter of fiscal year 2015.

NOTE 7 – CAPITAL ASSETS

Capital assets consisted of the following at December 31, 2014:

	Balance December 31, 2013	Additions	Retirements	Balance December 31, 2014
Cost				
Land	\$ 16,702,042	\$ -	\$ -	\$ 16,702,042
Water systems	381,212,077	-	-	381,212,077

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Trucks, equipment, and other	8,999,491	409,047	(411,515)	8,997,023
Construction in progress	40,131,166	5,722,317	-	45,853,483
	<u>447,044,776</u>	<u>6,131,364</u>	<u>(411,515)</u>	<u>452,764,625</u>
Accumulated depreciation:				
Water systems	(173,265,881)	(6,505,133)	-	(179,771,014)
Trucks, equipment, and other	(7,045,152)	(691,789)	381,705	(7,355,236)
	<u>(180,311,033)</u>	<u>(7,196,922)</u>	<u>381,705</u>	<u>(187,126,250)</u>
Total capital assets, net	<u>\$ 266,733,743</u>	<u>\$ (1,065,558)</u>	<u>\$ (29,810)</u>	<u>\$ 265,638,375</u>

Depreciation expense for the year ended December 31, 2014 was \$7,196,921.

NOTE 8 – LONG-TERM LIABILITIES

The following is a summary of long-term liabilities for the year ended December 31, 2014:

	Balance as of December 31, 2013	Additions	Reductions	Balance as of December 31, 2014	Due within One Year
Bonds:					
Series 2004 Contract Revenue Bonds	\$ 38,280,000	\$ -	\$ (38,280,000)	\$ -	\$ -
Series 2009 Contract Revenue Bonds	28,000,000	-	-	28,000,000	-
Series 2010 Contract Revenue Bonds	5,115,000	-	-	5,115,000	-
Series 2010 Contract Revenue Refunding Bonds	36,275,000	-	(1,345,000)	34,930,000	1,405,000
Series 2014 Contract Revenue Refunding Bonds	-	38,415,000	-	38,415,000	855,000
Texas Water Development Board Long-Term Loan	28,754,000	-	-	28,754,000	-
Sub-total	<u>136,424,000</u>	<u>38,415,000</u>	<u>(39,625,000)</u>	<u>135,214,000</u>	<u>2,260,000</u>
Less: Unamortized discount	(97,989)	-	97,989		-
Add: Unamortized premium	3,125,816	3,454,550	(261,260)	6,319,106	-
	<u>139,451,827</u>	<u>41,869,550</u>	<u>(39,788,271)</u>	<u>141,533,106</u>	<u>2,260,000</u>
Other liabilities:					
Compensated absences	2,356,500	153,366		2,509,866	87,709
Other postemployment benefits payable	2,944,144	323,884	-	3,268,028	-
Total long-term liabilities	<u>\$ 144,752,471</u>	<u>\$ 42,346,800</u>	<u>\$ (39,788,271)</u>	<u>\$ 147,311,000</u>	<u>\$ 2,347,709</u>

The annual debt service requirements for bonds payable as of December 31, 2014 are as follows:

Year Ending December 31,	Principal	Interest
2015	\$ 2,260,000	\$ 3,486,131
2016	3,330,000	3,404,281

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2017	3,455,000	3,413,357
2018	3,590,000	3,408,633
2019-2023	35,460,000	20,611,058
2024-2028	39,210,000	18,389,653
2029-2033	18,650,000	12,252,890
2034-2038	11,535,000	5,454,508
2039-2043	10,305,000	3,234,224
2044-2048	7,419,000	706,644
Total	<u>\$ 135,214,000</u>	<u>\$ 74,361,380</u>

The Series 2004 bonds carry a fixed interest rate of 2% - 5%, Series 2009 bonds carry a fixed interest rate of 2%-3%, Series 2010 Contract Revenue Bonds carry a fixed interest rate of 1.64%-2.82%, Series 2010 Contract Revenue Refunding Bonds carry a fixed interest rate of 2%-5% , Series 2014 Contract Revenue Refunding Bonds carry fixed rates of interest of from 3% to 5% and are payable on June 15 and December 15 of each year. Bond issuance costs on Series 2004, 2009, 2010 and 2014 were incurred and consisted of underwriters' discount, insurance premiums legal fees and cost of issuance.

Optional Redemption:

CWA reserves the option to redeem the Series 2009 Bonds (Luce Bayou Project) maturing on and after December 15, 2019, in whole or in part in inverse order of maturity, before their respective scheduled maturity dates on June 15, 2019 or on any date thereafter, such redemption date or dates to be fixed by CWA, at a price equal to the principal amount of the Bonds so called for redemption plus accrued interest to the date fixed for redemption.

The Series 2010 Bonds (Luce Bayou Project) maturing on June 15, 2020 and thereafter shall be subject to redemption in whole or in part at the option of CWA in inverse order of maturity, before their respective scheduled maturity dates, on December 15, 2019, or on any date thereafter, such redemption date or dates to be fixed by CWA, at a price equal to the principal amount of the Bonds so called for redemption plus accrued interest to the date fixed for redemption.

The Series 2010 Refunding Bonds (City of Houston Projects) maturing on or after December 15, 2021 are subject to redemption at the option of CWA prior to maturity, in whole or in part, on any date on or after December 15, 2020 at a price of par, plus accrued interest to the date of the redemption.

The Series 2014 Refunding Bonds (City of Houston Projects) maturing on or after December 15, 2025 are subject to redemption at the option of CWA prior to maturity, in whole or in part, on any date on or after December 15, 2024 at a price of par, plus accrued interest to the date of the redemption.

Mandatory Redemption

The Series 2009, 2010, 2010 Refunding Bonds, and 2014 Refunding Bonds (the "Bonds") are special limited obligations of CWA which are payable as to principal and interest solely from certain

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payments to be made by the City of Houston (the “City”) to CWA under certain project contracts.

Bond Reserve Fund Surety Policy

The Bond Reserve Fund Requirement immediately prior to the issuance of the 2014 Refunding Bonds was \$7,178,470, and immediately after such issuance was adjusted to \$7,767,600. Upon the issuance of the Bonds, the Bond Reserve Fund Requirement was established at \$7,178,470. CWA did apply bond proceeds to fund the Bond Reserve Fund Requirement. In the Fourth Supplemental Bond Resolution adopted on October 13, 2010, CWA reserves the right to review and recalculate the Bond Reserve Fund Requirement at a later date in a manner consistent with the definition of Bond Reserve Fund Requirement.

Under the terms of the various bond resolutions, contracts, and board designations, CWA is required to maintain the following reserves:

<u>System</u>	<u>Required Reserve</u>
Trinity River Water Conveyance System	
Operating Reserve (\$5,287,391 at December 31, 2014)	25% of the annual budgeted operating expenses applicable to each municipality (the City and SJRA).
Repair, Replacement, and Renewal Reserve (\$3,000,000 at December 31, 2014)	A minimum of \$3,000,000.
Lake Houston Facilities	
Operating Reserve (\$600,291 at December 31, 2014)	25% of the annual budgeted operating expenses.
Repair, Replacement, and Renewal Reserve (\$2,000,000 at December 31, 2014)	A minimum of \$2,000,000.

During 2014, CWA complied with the aforementioned required reserves of the Trinity River Water Conveyance System and Lake Houston Facilities. These required reserves were reclassified as Operating reserve payable during the year and as of December 31, 2014.

The Bond Indentures contain certain covenants requiring CWA to maintain: (1) separate funds as specified in bond documents, and (2) the Project Contract in effect and use reasonable diligence to ensure duties and obligations imposed upon the City by the Project Contract are performed and discharged, and timely payments from the City are obtained.

Prior Defeasance of Debt

CWA has at various times entered into transactions to refund certain issues of its bonded debt. Generally, these transactions involve putting funds in trust to be used to purchase securities to meet all the debt service requirements of the refunded debt, until that debt either matures or is redeemed. The liability for such refunded bonds and the related securities and escrow accounts were not included in the accompanying financial statements, as CWA defeased its obligations for payment of

COASTAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

the refunded debt upon completion of the refunding transactions.

At December 31, 2014, refunded bond issues and the related principal payable from escrow accounts were as follows:

		Principal Balance Outstanding
Series 1986	\$	730,000
Series 1991	\$	10,410,000

NOTE 9 – EMPLOYEE BENEFIT PLANS

CWA has a single-employer defined contribution plan (the “Plan”) under which all full-time employees are eligible to participate upon completion of 90 days of service. All employees are required to contribute 4% of their annual compensation and may make additional voluntary contributions up to a maximum of 10% of that compensation received during all years of plan participation when added to their prior employee contributions.

CWA contributes 11.8% of each employee's gross compensation, which is 18% less a fixed rate of 6.2%, until eligible compensation is no longer subject to the Federal Insurance Contribution Act (FICA). When CWA is not required to contribute to FICA, with respect to each employee, CWA contributes the additional 6.2% to the employee's account. Maximum annual employee contributions are limited to 100% of the employee's compensation. Participants are 100% vested in their contributions and earnings thereon. For the employer contributions, participants are vested at the rate of 20% per year, beginning subsequent to the completion of one year of service, allowing 100% vesting after five years. Participants also become 100% vested upon death, disability, or reaching 65 years of age. In the event of termination of the plan, the vested interest of each participant shall be 100% and no part of the plan's assets will revert to CWA.

Total payroll expense for the year ended December 31, 2014 (100% covered by the plan) was \$5,869,691. Accordingly, the 2014 required contributions for employees were \$234,821 and CWA's requirement, net of forfeitures, was \$692,723. Actual contributions from employees and CWA during 2014 were \$357,575 and \$718,922, respectively. Below is the Statement of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits derived from the Plan's financial statements for the year ended September 30, 2014.

Statement of Net Assets Available for Benefits

		Year Ended September 30, 2014
Assets		
Investments, at fair value	\$	11,015,108
Employer's contribution receivable		15,540
Net Assets Available for Benefits	\$	11,030,648

COASTAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

Statement of Changes in Net Assets Available for Benefits

	Year Ended September 30, 2014
Additions to Net Assets	
Investment Income	
Net Appreciation in fair value of investments	\$ 114,013
Contributions	
Employer	\$ 708,128
Participants	354,627
Total Contributions	1,062,755
Total additions to net assets	1,176,768
Deductions from Net Assets	
Benefits paid	(156,491)
Total deductions from net assets	(156,491)
Change in net assets	1,020,277
Net Assets Available for Benefits	
Beginning of year	10,010,371
End of year	\$ 11,030,648

Plan's investments at September 30, 2014 were as follows:

September 30, 2014	Face Value	Fair Value	Amortized Cost
Federal Home Loan Banks dated 4/16/2014 0.090% due 1/16/2015*	\$ 1,000,000	\$ 999,870	\$ 1,000,328
Federal Home Loan Banks dated 1/17/2014 0.120% due 10/17/2014*	1,250,000	1,250,000	1,250,317
Federal Home Loan Mortgage Corp dated 3/26/2013 1.00% due 3/26/2018 Callable on 3/26/2014 @ 100*	1,500,000	1,477,365	1,500,267
Federal Home Loan Mortgage Corp dated 6/20/2012 1.00% due 6/26/2017 Callable Quarterly Starting 6/20/2014 @ 100*	3,000,000	2,994,390	3,008,428
Federal National Mortgage Assoc dated 5/30/2013 1.125% due 5/25/2018 Callable	1,500,000	1,474,620	1,505,964

COASTAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Quarterly Starting 11/25/2013 @ 100*			
Federal National Mortgage Assoc dated 11/14/2012 0.90% due 11/14/2017 Callable Quarterly Starting 5/14/2013 @100*	1,000,000	987,390	1,003,406
Federal National Mortgage Assoc dated 4/14/2014 0.100% due 04/09/2015*	1,501,000	1,500,685	1,500,208
Cash Equivalents; SEI Daily Income TR Treasury II*	330,788	330,788	330,788
	<u>\$ 11,081,788</u>	<u>\$ 11,015,108</u>	<u>\$ 11,099,706</u>

Employees of CWA may also participate in a deferred compensation plan, created in accordance with Internal Revenue Code Section 457, which permits the deferral of a portion of their salaries until future years. The deferred compensation is not available to employees until retirement, termination, death, or an unforeseeable emergency. All assets and income of the plan shall be held for the exclusive benefit of the plan's participants and their beneficiaries. The plan is administered by an independent contractor using the investment programs selected by the participants.

NOTE 10 – POSTEMPLOYMENT BENEFITS

Plan Description: CWA administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The Retiree Health Plan provides healthcare insurance for eligible retirees and their spouses through CWA’s group health insurance plan, which covers both active and retired members. Substantially all of CWA’s employees become eligible for these benefits if they reach normal retirement age while working for CWA. CWA issues a publicly available financial report that includes financial statements and required supplementary information for the Retiree Health Plan. The report may be obtained by writing to CWA, 1801 Main Street, Suite 800, Houston, Texas 77002.

Funding Policy: The contribution requirements of plan members are established and may be amended by the CWA’s Board of Directors. These costs are funded on a pay-as-you-go basis. Contributions are recognized in the year paid. The cost of retiree health care premiums incurred by CWA amounted to \$86,465 for the year ended December 31, 2014.

Annual OPEB Cost and Net OPEB Obligation: CWA's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer. CWA has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. CWA had its OPEB actuarial valuation performed as of December 31, 2013 as required by GASB Statement No. 45. CWA’s annual cost for the current year is as follows:

Annual required contribution	\$ 546,882
Interest on OPEB obligation	73,604
Adjustment to ARC	(130,330)
Annual OPEB cost (expense)	<u>490,155</u>

COASTAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Age Adjusted Contributions Made	<u>(166,272)</u>
Increase in net OPEB obligation	323,883
Net OPEB obligation – beginning of year	<u>2,944,144</u>
Net OPEB obligation – end of year	<u>\$ 3,268,028</u>

CWA’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2013 and the preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 575,470	20%	\$ 2,437,867
2013	\$ 615,186	18%	\$ 2,944,144
2014	\$ 490,155	34%	\$ 3,268,028

Funded Status and Funding Progress: As of December 31, 2014, the actuarial accrued liability for benefits was \$5,388,236, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$5,869,691, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 91.80 percent.

Methods and Assumptions: The entry age actuarial cost method is used to calculate the ARC for the CWA's retiree health care plan. Under this method, the actuary calculates the present value of expected benefits for each employee. These calculations include estimated future salary increases and estimated future service. The total cost arrived at is amortized over the employee’s anticipated career using the “level percentage of payroll” method. If experience is in accordance with the assumptions used, the cost will be paid as a constant percentage of payroll over the employee’s whole career, and ARC as a percentage of payroll will remain basically level on a year to year basis.

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

Actuarial Methods and Assumptions:

Average retirement age for active employees	65 years
Marital assumption	Marital status of members at the calculation date was assumed to continue throughout retirement.
Investment rate of return	2.5%
Salary increases	2%
Mortality	RP 2000 Mortality Table for Males and Females projected 10 years
Healthcare cost trend rate	5%

COASTAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Health insurance premiums	2014 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.
Inflation rate	3%
Turnover	Non-group-specific age-based turnover data from GASB Statement No. 45 was used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Amortization period	30 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of CWA's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Lease Commitments

CWA leases its office space and equipment under non-cancelable operating leases. On June 15, 2011 CWA signed a new ten (10) year office space lease agreement commencing March 1, 2012 and ending June 30, 2022. The future minimum lease rental payments under non-cancelable operating leases are as follows:

For the Year Ending December 31,	Amount
2015	\$ 207,420
2016	207,420
2017	211,496
2018	215,572
2019	215,572
2020 and thereafter	559,310
Total	\$ 1,616,790

Total lease expense for the year ended December 31, 2014, including any related taxes and other fees, and was approximately \$182,254.

NOTE 12 – CONCENTRATIONS

The Trinity River Water Conveyance System and Lake Houston Facilities have one major customer, the City of Houston (the "City"). Revenues from the City represent approximately 100% of total

COASTAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

revenues in the Trinity River Water Conveyance System and Lake Houston Facilities combined. The Water Treatment Plant currently has only two customers. In addition, the Bayport Water System has two major customers. Revenues from these customers represent approximately 78% of total revenues in the Bayport Water System. CWA believes that the possibility of losing any one of these customers is remote.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 3, 2015; the date financial statements were available to be issued. No changes were made, or are necessary to be made, to the financial statements, as a result of this evaluation.

Supplemental Schedules

SCHEDULE I

COASTAL WATER AUTHORITY
 Schedule of Net Position by System
 December 31, 2014

	Luce Bayou Interbasin Transfer Project	Trinity River Water Conveyance System Project	Lake Houston Facilities Project	Bayport Water System Project	Red Bluff Water Treatment Plant Project	Totals
ASSETS						
Current Assets – Unrestricted						
Cash	\$ -	\$ 1,468,135	\$ 302,357	\$ 1,216,791	\$ 612,239	\$ 3,599,522
Investments	-	20,775,237		3,522,368	189,931	24,487,536
Receivables:						
Accounts receivable from City of Houston	-	4,348,830	338,034	-	-	4,686,864
Accounts receivable from other customers	-	-	-	256,477	152,555	409,032
Compensable absence –current portion	-	65,782	12,279	7,016	2,632	87,709
Other	2,969	1,867	29	186	24	5,075
Total Current Assets – Unrestricted:	2,969	26,659,851	652,699	5,002,838	957,381	33,275,738
Current Assets – Restricted						
Cash – restricted for capital projects	18,972	78,719	5,035	-	-	102,726
Investments – restricted for contingencies	-	3,000,000	1,994,965	-	-	4,994,965
Investments – restricted for capital projects	40,115,876	-	-	-	-	40,115,876
Total Current Assets – Restricted	40,134,848	3,078,719	2,000,000	-	-	45,213,567
Capital Assets, Net	42,788,866	206,720,428	1,574,749	10,574,218	3,980,114	265,638,375
Other Assets:						
Interest receivable from City of Houston	-	282,150	-	-	-	282,150
Long-term investments	-	14,402,571	-	-	-	14,402,571
Obligation for comp. absences	-	1,804,369	321,824	147,408	148,556	2,422,157
Long-term loan receivable from City of Houston	-	15,218,586	-	-	-	15,218,586
Total Other Assets	-	31,707,676	321,824	147,408	148,556	32,325,464
Total Assets	\$ 82,926,683	\$ 268,166,674	\$ 4,549,272	\$ 15,724,464	\$ 5,086,051	\$ 376,453,144

Continued

SCHEDULE I (continued)

COASTAL WATER AUTHORITY
 Schedule of Net Position by System
 December 31, 2014

LIABILITIES:	Luce Bayou Interbasin Transfer Project	Trinity River Water Conveyance System Project	Lake Houston Facilities Project	Bayport Water System Project	Red Bluff Water Treatment Plant Project	Totals
Current Liabilities - Unrestricted:						
Accounts payable	\$	\$ (1,380,960)	\$ (50,744)	\$ (33,779)	\$ (38,025)	\$ (1,503,508)
Operating reserve payable	-	(5,287,391)	(600,291)	-	-	(5,887,682)
Compensable absence – current portion	-	(65,782)	(12,279)	(7,016)	(2,632)	(87,709)
Deferred revenue	(1,334,163)	-	-	-	-	(1,334,163)
Total Current Liabilities - Unrestricted	(1,334,163)	(6,734,133)	(663,314)	(40,795)	(40,657)	(8,813,062)
Current Liabilities - Restricted:						
Accounts payable	(1,115,560)	-	-	-	-	(1,115,560)
Current portion of bonds payable	-	(2,260,000)	-	-	-	(2,260,000)
Bond interest payable	(12,467)	(147,268)	-	-	-	(159,735)
Contingent reserve payable	-	-	(2,000,000)	-	-	(2,000,000)
Total Current Liabilities – Restricted	(1,128,027)	(2,407,268)	(2,000,000)	-	-	(5,535,295)
Long-Term Liabilities:						
Bonds payable	(33,115,000)	(71,085,000)	-	-	-	(104,200,000)
Long-term loan	(28,754,000)	-	-	-	-	(28,754,000)
Unamortized bond premium	-	(6,319,106)	-	-	-	(6,319,106)
Comp. absences payable	-	(1,804,369)	(321,824)	(147,408)	(148,556)	(2,422,157)
Other postemployment benefits	-	(1,993,496)	(424,844)	(424,844)	(424,844)	(3,268,028)
Total Long-Term Liabilities	(61,869,000)	(81,201,971)	(746,668)	(572,252)	(573,400)	(144,963,291)
Total Liabilities	(64,331,190)	(90,343,372)	(3,409,982)	(613,047)	(614,057)	(159,311,648)
Net Position	\$ 18,595,493	\$ 177,823,318	\$ 1,139,290	\$ 15,111,418	\$ 4,471,985	\$ 217,141,496

SCHEDULE II

COASTAL WATER AUTHORITY

Schedule of Revenues, Expenses, and Changes in Net Position by System
For the Year Ended December 31, 2014

	Luce Bayou Interbasin Transfer Project	Trinity River Water Conveyance System Project	Lake Houston Facilities Project	Bayport Water System Project	Red Bluff Water Treatment Plant Project	Totals
Operating Revenues:						
Funds provided by City	\$ -	\$ 19,994,010	\$ 2,193,906	\$ -	\$ -	\$ 22,187,916
Funds by San Jacinto	-	104,438	-	-	-	104,438
Service revenues	-	-	-	2,276,089	2,015,148	4,291,237
Total Operating Revenues	-	20,098,448	2,193,906	2,276,089	2,015,148	26,583,591
Operating Expenses:						
Utilities	-	7,946,817	143,175	79,930	194,213	8,364,135
Field salaries	-	3,209,803	835,483	442,059	478,613	4,965,958
Administrative	-	1,401,361	368,950	330,045	286,964	2,387,320
General operating	-	1,769,690	315,237	302,456	260,063	2,647,446
Material and supplies	-	1,913,829	223,418	167,219	320,844	2,625,310
Engineering, legal, and Professional.	-	662,254	58,669	77,203	33,892	832,018
Contract labor and equipment	7,084	3,215,280	301,451	196,804	31,922	3,752,541
SJRA Expenditures	-	7,515	-	-	-	7,515
Depreciation	-	6,593,859	89,527	384,131	129,404	7,196,921
Total Operating Expenses	7,084	26,720,408	2,335,910	1,979,847	1,735,915	32,779,164
Operating (loss) Income	(7,084)	(6,621,960)	(142,004)	296,242	279,233	(6,195,573)
Non-Operating Revenues (Expenses):						
Investment income	28,738	17,450	1,652	2,525	390	50,755
Interest income	-	988,628	-	-	-	988,628
Bond interest expense, net of amortization of bond issue costs	(12,467)	(3,715,162)	-	-	-	(3,727,629)
Gain on sale of capital assets	-	37,168	1,065	13,105	1,882	53,220
Loan interest expense	-	-	-	-	(57,645)	(57,645)
Other income	236	418,418	-	34,869	-	453,523
Total Non-Operating Revenues (expenses)	16,507	(2,253,498)	2,717	50,499	(55,373)	(2,239,148)
(Loss) income Before Contributions:	9,423	(8,875,458)	(139,287)	346,741	223,860	(8,434,721)
Contributions	191,043	5,142,565	-	-	-	5,333,608
Changes in Net Position	\$ 200,466	\$ (3,732,893)	\$ (139,287)	\$ 346,741	\$ 223,850	\$ (3,101,113)

COASTAL WATER AUTHORITY
Schedule of Revenues, Expenses,
And Changes in Net Position –
Budgetary and Actual (Cash Basis) – All Systems (Unaudited)
For the Year Ended December 31, 2014

Trinity River Water Conveyance System Project			
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Funds provided by City of Houston	\$ 28,000,663	\$ 22,839,197	\$ (5,161,466)
Funds provided by San Jacinto River Authority	100,000	104,438	4,438
Interest on investments	1,000	5,556	4,556
Service revenues	-	-	-
Other	50,000	418,418	368,418
	28,151,663	23,367,609	(4,784,054)
Operating Expenses:			
Utilities	7,958,558	7,462,373	496,185
Field salaries	3,125,170	3,192,803	(67,633)
Administrative	1,502,503	1,396,361	106,142
General operating	1,724,746	1,572,121	152,625
Materials and supplies	2,118,956	1,864,654	254,302
Engineering, legal, and professional	476,470	628,552	(152,082)
Contract labor and equipment	4,135,810	3,470,548	665,262
	21,042,213	19,587,412	1,454,801
Non-Operating Revenues / (Expenses):			
SJRA expenditures	-	(7,516)	(7,516)
Bond interest expense	(3,497,565)	(3,497,565)	-
Bond principal retirement	(1,645,000)	(1,645,000)	-
Paying agent fees	-	(3,580)	(3,580)
Construction program	(2,364,525)	(857,416)	1,507,109
	(7,507,090)	(6,011,077)	1,496,013
Change in Net Position	\$ (397,640)	\$ (2,230,880)	\$ (1,833,240)

SCHEDULE III (Continued)

COASTAL WATER AUTHORITY
 Schedule of Revenues, Expenses,
 And Changes in Net Position –
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited)
 For the Year Ended December 31, 2014

	Lake Houston Facilities Project		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Funds provided by City of Houston	\$ 2,374,575	\$ 2,183,920	\$ (190,655)
Interest on investments	1,135	3,046	1,911
Other	-	-	-
	2,375,710	2,186,966	(188,744)
Operating Expenses:			
Utilities	106,062	142,976	(36,914)
Field salaries	899,295	831,483	67,812
Administrative	362,502	367,950	(5,448)
General operating	270,133	273,132	(2,999)
Materials and supplies	182,700	220,854	(38,154)
Engineering, legal, and professional	86,780	58,669	28,111
Contract labor and equipment	493,693	301,889	191,804
	2,401,165	2,196,953	204,212
Non-Operating Revenues / (Expenses):	-	-	-
Change in Net Position	\$ (25,455)	\$ (9,987)	\$ 15,468

SCHEDULE III (Continued)

COASTAL WATER AUTHORITY
 Schedule of Revenues, Expenses,
 And Changes in Net Position –
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited)
 For the Year Ended December 31, 2014

	Bayport Water System Project		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Service revenues	\$ 2,040,828	\$ 2,268,738	\$ 227,910
Interest on investments	750	3,185	2,435
Other	-	34,869	34,869
	2,041,578	2,306,792	265,214
Operating Expenses:			
Utilities	88,559	79,400	9,159
Field salaries	831,363	443,059	388,304
Administrative	349,289	331,045	18,244
General operating	283,980	260,351	23,629
Materials and supplies	125,075	165,362	(40,287)
Engineering, legal, and professional	91,580	772,021	(680,441)
Contract labor and equipment	171,595	346,538	(174,943)
	1,941,441	2,397,776	(456,335)
Non-Operating Revenues / (Expenses):			
Construction Program	(2,502,000)	(336,956)	2,165,044
	(2,502,000)	(336,956)	2,165,044
Change in Net Position	\$ (2,401,863)	\$ (427,940)	\$ 1,973,923

SCHEDULE III (Continued)

COASTAL WATER AUTHORITY
 Schedule of Revenues, Expenses,
 And Changes in Net Position –
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited)
 For the Year Ended December 31, 2014

	Red Bluff Water Treatment Plant Project		
	Budget	Actual	Variable Favorable (Unfavorable)
Operating Revenues:			
Service revenues	\$ 2,205,001	\$ 2,058,168	\$ (146,833)
Interest on investments	244	374	130
Other	-	-	-
	2,205,245	2,058,542	(146,703)
Operating Expenses:			
Utilities	181,420	193,004	(11,584)
Field salaries	538,624	477,613	61,011
Administrative	277,922	285,964	(8,042)
General operating	286,276	217,958	68,318
Materials and supplies	365,800	319,034	46,766
Engineering, legal, and professional	74,720	33,898	40,822
Contract labor and equipment	38,400	52,720	(14,320)
	1,763,162	1,580,191	182,971
Non-Operating Revenues/(Expenses):			
Loan interest expense	(57,645)	(57,645)	-
Loan retirement principal	(399,767)	(399,767)	-
	(457,412)	(457,412)	-
Change in Net Position	\$ (15,329)	\$ 20,939	\$ 36,268

COASTAL WATER AUTHORITY
Schedule of Funding Progress for Other Postemployment Benefits
(Unaudited)
December 31, 2014

Actuarial Valuation date	Actuarial Value of Assets {a}	Actuarial Accrued Liability (AAL)* {b}	Unfunded (Funded) AAL (UAAL) {b-a}	Funded Ratio {a/b}	Covered Payroll {c}	UAAL as a percentage of Covered Payroll {(b-a)/c}
Dec 31, 2012	-	\$ 6,537,909	\$ 6,537,909	0%	\$ 5,563,024	117.52%
Dec 31, 2013	-	\$ 6,537,909	\$ 6,537,909	0%	\$ 5,899,794	110.82%
Dec 31, 2014	-	\$ 5,388,236	\$ 5,388,236	0%	\$ 5,869,691	91.80%

*The aggregate actuarial cost method is used for funding purposes. However, because this method does not identify or separately amortize unfunded actuarial liabilities, the entry age actuarial cost method has been used to provide required information about funded status and funding progress. The information presented in this schedule is intended to approximate the funding progress of the plan based on the use of the aggregate actuarial cost method.