

COASTAL WATER AUTHORITY

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

December 31, 2016

COASTAL WATER AUTHORITY

DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S 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, 2016, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material 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, 2016, 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*Required Supplementary Information*

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 on page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming 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 12, 2017

COASTAL WATER AUTHORITY

Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2016

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, 2016. Please read this discussion and analysis in conjunction with CWA's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total assets exceeded total liabilities by \$225.2 million at the end of 2016.
- CWA's net position increased by \$1.6 million primarily due to contributions from the City of Houston. Per the agreement the City is to subsidize certain expenses; however, these reimbursements are based on cash-basis expenditures, and therefore the effects of accrual items and non-cash expenses such as depreciation are not matched with cash amounts.
- During the year, revenues increased by \$0.9 million.
- Expenses decreased by \$2.4 million.
- Construction in progress increased by \$32.5 million.
- Long-term liabilities increased by \$133 million as the net result of the closing of a loan commitment with the Texas Water Development Board for \$136.4 million plus a \$0.5 million increase in other postemployment benefits payable, slightly offset by repayments on bonds of \$3.9 million.
- During 2015, CWA negotiated with the U.S. Department of Fish & Wildlife to exchange a property acquired at a cost of approximately \$8.6 million for the required environmental mitigation credits for the Project.
- During the year, CWA implemented a new Operating Contract for the Luce Bayou Water Conveyance System with the City of Houston.

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 (U.S. 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.

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Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2016

FINANCIAL ANALYSIS OF CWA

TABLE A-1
Coastal Water Authority's Summarized Financial Information

	<u>2016</u>	<u>2015</u>
Current Assets	\$ 256,835,159	\$ 148,535,787
Capital Assets, net	298,778,280	271,973,263
Other Noncurrent Assets	<u>25,559,144</u>	<u>17,701,535</u>
Total Assets	<u>581,172,583</u>	<u>438,210,585</u>
Deferred Outflows of Resources	<u>87,969</u>	<u>93,093</u>
Current Liabilities	7,086,962	6,128,966
Long-Term Liabilities	<u>348,947,764</u>	<u>208,578,350</u>
Total Liabilities	<u>356,034,726</u>	<u>214,707,316</u>
Net Position:		
Net investment in capital assets	158,715,705	158,622,654
Restricted	20,210,309	19,419,130
Unrestricted	<u>46,299,812</u>	<u>45,554,578</u>
Total Net Position	<u>\$ 225,225,826</u>	<u>\$ 223,596,362</u>

During 2016, the increase in current assets is primarily due to the increase in cash resulting from a loan from the Texas Water Development Board ("TWDB") related to the ongoing Luce Bayou Project. The increase in other noncurrent assets is due to an increase in long-term loan receivables from the City of Houston for the Luce Bayou Interbasin Transfer Project. The increase in current liabilities is due to an increase in Accounts Payables related to the Luce Bayou Project. The increase in long-term liabilities is primarily related to the Luce Bayou Project and the TWDB loan that closed in November.

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 \$225.2 million at the close of 2016. By far the largest portion of CWA's net position (70%) 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, 2016, that ratio was approximately 36:1. The ratio of total assets to total liabilities, in the absence of any deferred outflows and deferred inflows of resources, was approximately 2:1. These strong ratios reflect CWA's stable financial condition both in the short-term as

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Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2016

well as in the long-term outlook.

TABLE A-2
Changes in Coastal Water Authority's Net Position

	<u>2016</u>	<u>2015</u>
Operating Revenues	\$ 29,048,170	\$ 28,401,465
Non - Operating Revenues	<u>1,120,715</u>	<u>822,955</u>
Total Revenues	30,168,885	29,224,420
Operating Expenses - Field and Administration	(25,658,713)	(25,824,533)
Operating Expenses - Depreciation	<u>(6,618,342)</u>	<u>(6,936,942)</u>
Total Operating Expenses	(32,277,055)	(32,761,475)
Non - Operating Expenses	<u>(6,801,851)</u>	<u>(3,924,472)</u>
Total Expenses	<u>(39,078,906)</u>	<u>(36,685,947)</u>
Loss	<u>(8,910,021)</u>	<u>(7,461,527)</u>
Contributions Provided by City of Houston	<u>10,539,485</u>	<u>5,824,548</u>
Change in Net Position	<u>1,629,464</u>	<u>(1,636,979)</u>
Net Position - Beginning of Year	<u>223,596,362</u>	<u>225,233,341</u>
Net Position - End of Year	<u>\$ 225,225,826</u>	<u>\$ 223,596,362</u>

During 2016, the increase in operating revenues was primarily due to the implementation of the Luce Bayou Operating Contract with the City of Houston. The increase in non-operating revenues is due to an increase in investment income. The increase in contributions provided by the City of Houston was primarily due to an increase in debt service payments made on CWA's behalf by the City of Houston.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - CWA's net capital assets as of December 31, 2016, amounted to \$299 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 design, for the Luce Bayou Project.
- Replacement of several vehicles and pieces of equipment for field operations.

Long-Term Debt: At the end of 2016, CWA had total long-term debt outstanding of \$338 million. A portion (\$70 million) of this amount is backed by the Trinity River 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 \$268 million is backed by the Luce Bayou Projects Contract with the City. These

COASTAL WATER AUTHORITY

Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2016

bonds (loans) are secured by a pledge on the City's Combined Utility System Fund.

TABLE A-3
Outstanding Debt at Year-end

	<u>2016</u>	<u>2015</u>
Revenue bonds	\$ 106,637,767	\$ 110,420,972
Long-term loans (TWDB)	<u>231,779,000</u>	<u>95,319,000</u>
Total	<u>\$ 338,416,767</u>	<u>\$ 205,739,972</u>

ECONOMIC OUTLOOK

The demand for water delivered by the Coastal Water Authority has remained steady during the past few years and is expected to continue at the current rate for the next year or two. This steady water demand is occurring even as the regional overall economic situation is being negatively impacted by the oil and gas markets.

CWA continues to develop the final design and construction of a second Trinity River Conveyance System (the Luce Bayou Interbasin Transfer Project) that is scheduled to be completed in the summer of 2019. This will provide additional surface water for portions of the Houston Regional Area that are required to reduce their reliance on ground water sources.

CONTACT INFORMATION

Questions concerning any of the information provided in this report or requests for additional information should be addressed to Coastal Water Authority, 1801 Main Street, Suite 800, Houston, Texas 77002.

Basic Financial Statements

COASTAL WATER AUTHORITY

Statement of Net Position December 31, 2016

ASSETS

Current Assets – Unrestricted

Cash	\$	5,248,528
Investments		34,482,685
Receivables:		
Accounts receivable from City of Houston		2,992,832
Accounts receivable from other customers		665,153
Compensable absences – current portion		132,075
Total receivables		<u>3,790,060</u>
Total current assets – unrestricted		<u>43,521,273</u>

Current Assets – Restricted:

Cash – restricted for capital projects		137,160,156
Investments – restricted for contingencies		4,985,563
Investments – restricted for debt service		7,767,506
Investments – restricted for capital projects		63,400,661
Total current assets – restricted		<u>213,313,886</u>

Capital Assets, Net 298,778,280

Other Assets:

Interest receivable from City of Houston		7,604,951
Compensable absences receivable – non-current portion		2,509,425
Long-term loan receivable from City of Houston		15,444,768
Total other assets		<u>25,559,144</u>
Total assets	\$	<u>581,172,583</u>

Deferred Outflows of Resources \$ 87,969

Continued

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

COASTAL WATER AUTHORITY
Statement of Net Position (Continued)
December 31, 2016

Current Liabilities - Unrestricted:

Accounts payable	\$ 940,011
Compensable absences payable – current portion	132,075
Total current liabilities – unrestricted	1,072,086

Current Liabilities - Restricted:

Accounts payable	2,032,485
Retainage payable	372,541
Bonds payable – current portion	3,455,000
Bond interest payable	154,850
Total current liabilities – restricted	6,014,876

Long-Term Liabilities:

Bonds payable – non-current portion	103,182,767
Notes payable	231,779,000
Interest payable	7,303,268
Compensable absences payable – non-current portion	2,509,425
Other postemployment benefits payable	4,173,304
Total long-term liabilities	348,947,764
Total liabilities	356,034,726

NET POSITION

Net investment in capital assets	158,715,705
Restricted for:	
Capital projects, net of restricted liabilities	1,262,365
Contingencies, net of restricted liabilities	4,985,563
Debt service	7,877,430
Operating reserves	6,084,951
Unrestricted	46,299,812
Total net position	\$ 225,225,826

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

COASTAL WATER AUTHORITY

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

Year Ended December 31, 2016

Operating Revenues:

Funds provided by City of Houston	\$ 24,510,241
Funds provided by San Jacinto River Authority	79,876
Service revenues	4,458,053
Total operating revenues	<u>29,048,170</u>

Operating Expenses:

Utilities	7,069,516
Field salaries	5,618,175
Administrative	2,739,478
General operating	2,267,333
Materials and supplies	2,713,039
Engineering, legal, and other professional	1,218,203
Contract labor and equipment	4,032,969
Depreciation	6,618,342
Total operating expenses	<u>32,277,055</u>
Operating loss	(3,228,885)

Non-Operating Revenues/(Expenses):

Investment income	562,324
Interest income	558,391
Bond interest expense	(2,889,827)
Loan interest expense	(4,128,899)
Other (expense) income	216,875
Net non-operating revenues/(expenses)	<u>(5,681,136)</u>

Loss before contributions (8,910,021)

Contributions Provided by City of Houston 10,539,485

Change in net position 1,629,464

Net Position - beginning of year 223,596,362

Net Position - end of year \$ 225,225,826

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

COASTAL WATER AUTHORITY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

Cash Flows from Operating Activities:	
Cash received from municipalities	\$ 24,188,300
Cash received from customers	4,350,187
Cash payments to employees and suppliers for goods and services	(25,392,025)
Net cash provided by operating activities	3,146,462
Cash Flows from Capital and Related Financing Activities:	
Purchase of capital assets	(32,059,970)
Proceeds from sale of capital assets	21,300
Cash restricted for capital projects and contingencies	800,054
Long-term debt	136,460,000
Principal paid on bonds payable	(3,330,000)
Payments for interest on bonds payable and loan	(3,404,281)
Payments for debt issuance expenses	(210,000)
Interest payment on Inter-fund loan	332,969
Capital contribution	6,692,010
Net cash provided by capital and related financing activities	105,302,082
Cash Flows from Investing Activities:	
Purchases of investment securities	(775,587,065)
Proceeds from maturities and sales of investment securities	803,901,256
Cash advance to City of Houston	(443,373)
Payments received on note receivable	(325,067)
Investment income	512,132
Other income	199,603
Net cash provided by investing activities	28,257,486
Net increase in cash	136,706,030
Cash, beginning of year	5,702,654
Cash, end of year	\$ 142,408,684
Cash, unrestricted	\$ 5,248,528
Cash, restricted	137,160,156
Total cash:	\$ 142,408,684
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (3,228,885)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	6,618,342
Changes in assets and liabilities:	
Receivables, net	(509,683)
Accounts payable	(243,638)
Other post employment benefits payable	510,326
Net cash provided by operating activities	\$ 3,146,462

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

COASTAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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”, or “the Authority”) 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. CWA holds commercial papers from the City of Houston with a total market value of \$10,006,030 as of December 31, 2016.

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.

COASTAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

CWA's activities are accounted for on the flow of economic resources measurement focus with the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable. Expenses are recognized in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net assets, and unrestricted 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 deposits with a maturity of three months or less to be cash equivalents. Cash restricted by purpose is reported separately from unrestricted cash and cash equivalents.

Accounts Receivable

Accounts receivable at December 31, 2016 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.

COASTAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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 8).

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 the amortized amount decreasing interest expense over each period. The bond premiums arising from issuances have been capitalized and amortized on a straight-line basis over the life of the bonds in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") requirements. Balance outstanding as of December 31, 2016 on the premiums in the amount of \$5,767,767 has 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 14, 2016.

Compensable Absences

CWA maintains 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. 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 an additional day of vacation for each additional year of service subject to a maximum of fifteen additional days. Employees are required to utilize 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.

COASTAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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, 2016, CWA had deferred revenues of \$0.

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 are 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.

Recent Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement will improve the usefulness of postemployment benefits-related information for decisions made by the various users of the financial statements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. Management of CWA is evaluating the impact, if any, this Statement will have on the Authority's financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits, or OPEB). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. Management of CWA is evaluating the impact, if any, this Statement will have on the Authority's financial statements.

COASTAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016. Management of CWA is evaluating the impact, if any, this Statement will have on the Authority's financial statements.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial for certain asset retirement obligations (AROs). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2018. Management of CWA is evaluating the impact, if any, this Statement will have on the Authority's financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. The statement addressed a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. Management of CWA is evaluating the impact, if any, this Statement will have on the Authority's 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

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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 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 "restricted net position - operating reserves." As of December 31, 2016, this reserve amounted to \$5,188,040.

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 "restricted net position - operating reserves." As of December 31, 2016, this reserve amounted to \$24,741.

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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 2020.

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 “restricted net position - operating reserves.” As of December 31, 2016, this reserve amounted to \$678,978.

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 acquired 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 improved the Bayport Water System by the 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.

A Capital Improvement Fund was established through designation by the board of 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.

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NOTE 5 – WATER TREATMENT PLANT

In 1979, CWA acquired an existing water treatment plant (“the Plant”) from Crown Central Petroleum Company. The Plant is connected to CWA’s distribution system and its customers consist of large chemical processing companies.

In November 2002, Air Products and Chemicals, Inc., (“Air Products”) entered into an agreement with CWA to receive and treat untreated surface water. The termination date for the agreement is December 31, 2017; thereafter, the agreement may be renewed for two additional five-year periods. In return, Air Products will take delivery of the treated surface water and make monthly payments to CWA for water treatment services.

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

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. As of December 31, 2016, the loan balance was fully repaid.

NOTE 6 – LUCE BAYOU PROJECT

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 to Lake Houston. The Preliminary Project Costs of the Luce Bayou Project were 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 advanced funds in the amount of \$9,705,000 to pay for the City’s share of Land and Mitigation Costs. The funds were 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.

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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. 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 a 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.

Pursuant to a Master Agreement (the "Agreement") dated November 20, 2015, between CWA and TWDB, TWDB, during the year, made available to CWA funding in the amount of \$66,565,000. This funding is to enable TWDB to purchase an initial 35% undivided interest in the Luce Bayou Project. An amendment to the Agreement, dated October 24, 2016, made available to CWA additional funding in the amount of \$136,250,000. 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 are held in a construction fund created for such purpose and held by CWA. Funds in this 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 second supplement to the Luce Bayou Project contract to incorporate the City's pledge for payment on debt service of the loan.

In accordance with the terms of this contract, CWA is required to maintain, in the Luce Bayou 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 "restricted net position - operating reserves." As of December 31, 2016, this reserve amounted to \$193,192.

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NOTE 7 – DEPOSITS AND INVESTMENTS

As of December 31, 2016, CWA had the following deposits and investments:

<u>Deposits</u>	<u>Fair Value</u>	<u>Average Maturity in Days</u>
Cash and cash equivalent	\$ 5,248,528	39
Cash restricted	137,160,156	-
Total Value	<u>\$ 142,408,684</u>	

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Maturity in Days</u>
U.S. government and agency securities	\$ 100,630,385	26
Commercial papers issued by municipality	10,006,030	116
Total Value	<u>\$ 110,636,415</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, 2016, 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 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. As of December 31, 2016, investments in TexStar amounted to \$140,033,796.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 8 – CAPITAL ASSETS

Capital assets consisted of the following at December 31, 2016:

	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance December 31, 2016</u>
Land	\$ 26,870,424	\$ -	\$ -	\$ 216,830	\$ 27,087,254
Intangibles	8,669,664	-	-	-	8,669,664
Water systems	382,506,684	-	-	680,278	383,186,962
Trucks, equipment, and other	9,469,502	882,996	(425,145)	-	9,927,353
Construction in progress	37,994,127	32,544,393	-	(897,108)	69,641,412
	<u>465,510,401</u>	<u>33,427,389</u>	<u>(425,145)</u>	<u>-</u>	<u>498,512,645</u>
Accumulated depreciation:					
Water systems	(185,857,745)	(6,100,244)	-	-	(191,957,989)
Trucks, equipment, and other	(7,679,393)	(518,098)	421,115	-	(7,776,376)
	<u>(193,537,138)</u>	<u>(6,618,342)</u>	<u>421,115</u>	<u>-</u>	<u>(199,734,365)</u>
Total capital assets, net	<u>\$ 271,973,263</u>	<u>\$26,809,047</u>	<u>\$ (4,030)</u>	<u>\$ -</u>	<u>\$ 298,778,280</u>

Depreciation expense for the year ended December 31, 2016 was \$6,618,342.

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NOTE 9 – LONG-TERM LIABILITIES

The following is a summary of long-term liabilities for the year ended December 31, 2016:

Description	Balance as of December 31, 2015	Additions	Reductions	Balance as of December 31, 2016	Due within One Year
Bonds:					
Series 2009 Contract Revenue Bonds (Maturing 12/15/2028)	\$ 28,000,000	\$ -	\$ -	\$ 28,000,000	\$ -
Series 2010 Contract Revenue Bonds (Maturing 6/15/2030)	5,115,000	-	-	5,115,000	-
Series 2010 Contract Revenue Refunding Bonds (Maturing 12/15/2025)	33,525,000	-	(2,450,000)	31,075,000	2,550,000
Series 2014 Contract Revenue Refunding Bonds (Maturing 12/15/2034)	37,560,000	-	(880,000)	36,680,000	905,000
Texas Water Development Board Long-Term Loan- 2013 (Maturing 12/15/2046)	28,754,000	-	-	28,754,000	-
Texas Water Development Board Long-Term Loan- 2015 (Maturing 6/15/2050)	66,565,000	-	-	66,565,000	-
Texas Water Development Board Long-Term Loan- 2016 (Maturing 6/15/2051)	-	136,460,000	-	136,460,000	-
Sub-total	199,519,000	136,460,000	(3,330,000)	332,649,000	3,455,000
Add: Unamortized premium	6,220,972	-	(453,205)	5,767,767	-
	205,739,972	136,460,000	(3,783,205)	338,416,767	3,455,000.00
Other liabilities:					
Interest payable	3,455,525	3,847,743	-	7,303,268	-
Compensated absences	2,637,263	4,237	-	2,641,500	132,075
Other postemployment benefit payable	3,662,978	510,326	-	4,173,304	-
Total long-term liabilities	\$ 215,495,738	\$ 140,822,306	\$ (3,783,205)	\$ 352,534,839	\$ 3,587,075

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The annual debt service requirements for bonds payable as of December 31, 2016 are as follows:

Year Ending December 31,	Principal	Interest
2017	\$ 3,455,000	\$ 3,346,619
2018	3,590,000	3,609,483
2019	6,255,000	5,527,382
2020	6,930,000	5,839,784
2021	7,160,000	6,539,146
2022-2026	41,895,000	46,565,964
2027-2031	22,030,000	72,989,189
2032-2036	18,690,000	72,948,102
2037-2041	65,020,000	37,011,207
2042-2046	79,105,000	22,899,403
2047-2050	78,519,000	6,818,264
Total	<u>\$ 332,649,000</u>	<u>\$ 284,094,543</u>

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%, and Series 2010 Contract Revenue Refunding Bonds carry a fixed interest rate of 2%-5%. The TWDB 2013 loan carries a fixed interest rate of 4.44% - 4.69%. Series 2014 Contract Revenue Refunding Bonds carry a fixed interest rate of 3%-5% and are payable on June 15 and December 15 of each year. The TWDB 2015 loan carries a fixed interest rate of 3.98% - 4.11%. The TWDB 2016 loan carries a fixed interest rate of 3.46% - 3.88%

Source of Repayment

The Series 2009, 2010, 2010 Refunding Bonds, and 2014 Refunding Bonds (the “Bonds”) as well as the 2013, 2015 and 2016 loans are special limited obligations of CWA which are payable as to principal and interest solely from certain payments to be made by the City of Houston (the “City”) to CWA under certain project contracts.

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 a 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 the refunded debt upon completion of the refunding transactions.

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NOTES TO THE FINANCIAL STATEMENTS
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At December 31, 2016, refunded bond issues and the related principal payable from escrow accounts were as follows:

	Principal Balance Outstanding
Series 1986	\$ 730,000

NOTE 10 – 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, 2016 (100% covered by the plan) was \$6,229,140. Accordingly, the 2016 required contributions for employees were \$259,957 and CWA's requirement, net of forfeitures, was \$785,592. Actual contributions from employees and CWA during 2016 were \$394,305 and \$768,358, 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, 2016.

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Statement of Net Assets Available for Benefits

	<u>Year Ended</u> <u>September 30, 2016</u>
Assets	
Investments in U.S government and agency securities, at fair value	\$ 12,730,756
Employer's contribution receivable	18,718
Net Assets Available for Benefits	<u><u>\$ 12,749,474</u></u>

Statement of Changes in Net Assets Available for Benefits

	<u>Year Ended</u> <u>September 30, 2016</u>
Additions to Net Assets	
Investment Income	
Net Appreciation in fair value of investments	\$ 84,098
Contributions	
Employer	768,358
Participants	394,305
Total Contributions	<u>1,162,663</u>
Total additions to net assets	<u>1,246,761</u>
Deductions from Net Assets	
Benefits paid	648,395
Total deductions from net assets	<u>648,395</u>
Change in net assets	598,366
Net Assets Available for Benefits	
Beginning of year	12,151,108
End of year	<u><u>\$ 12,749,474</u></u>

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The Plan's investments at September 30, 2016 were as follows:

<u>September 30, 2016</u>	<u>Face Value</u>	<u>Fair Value</u>	<u>Amortized Cost</u>
Federal National Mortgage Assoc Dated 10/29/2015 1.40% Due 10/29/2019 Callable Quarterly	\$ 2,150,000	\$ 2,150,172	\$ 2,162,782
Federal Home Loan Banks Discount Note Dated 10/7/2015 Zero Coupon Due 10/7/2016	1,250,000	1,249,975	1,249,933
Federal Farm Credit Banks Dated 10/27/2015 0.52% Due 3/27/2017	1,000,000	1,000,010	999,861
Federal Home Loan Mortgage Corp Dated 3/26/2013 1.00% Due 3/26/2018 Callable On 3/26/2014 @ 100	1,500,000	1,501,980	1,500,267
Federal Home Loan Banks Dated 9/6/2016 1.20% Due 9/6/2019 Callable On 12/6/2016 @ 100	1,500,000	1,500,000	1,501,233
Federal Home Loan Mortgage Corp Dated 8/25/2016 1.15% Due 2/25/2019 Callable Quarterly Starting 11/25/2016 @ 100	1,000,000	999,130	1,001,166
Federal Home Loan Banks Discount Note Dated 7/11/2016 Zero Coupon Due 7/10/2017	1,500,000	1,493,940	1,492,950
Federal Home Loan Banks Discount Note Dated 4/11/2016 Zero Coupon Due 4/10/2017	1,500,000	1,496,775	1,495,623
Federal Home Loan Mortgage Corp Dated 1/16/2015 0.50% Due 1/27/2017	1,150,000	1,150,357	1,152,600
Cash Equivalents; SEI Daily Income TR Treasury II	188,417	188,417	188,417
	<u>\$ 12,738,417</u>	<u>\$ 12,730,756</u>	<u>\$ 12,744,832</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 11 – 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 \$48,876 for the year ended December 31, 2016.

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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, 2014 as required by GASB Statement No. 45. CWA's annual cost for the current year is as follows:

Annual required contribution	\$ 674,892
Interest on OPEB obligation	91,574
Adjustment to ARC	<u>(162,152)</u>
Annual OPEB cost (expense)	604,314
Age Adjusted Contributions Made	<u>(93,988)</u>
Increase in net OPEB obligation	510,326
Net OPEB obligation – beginning of year	<u>3,662,978</u>
Net OPEB obligation – end of year	<u><u>\$ 4,173,304</u></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 2016 and the preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$615,186	18%	\$2,944,144
2014	\$490,155	34%	\$3,268,028
2015	\$494,852	20%	\$3,662,978
2016	\$604,314	16%	\$4,173,304

Funded Status and Funding Progress: As of December 31, 2016, the actuarial accrued liability for benefits was \$6,485,951, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$6,566,542, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 98.77 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.

COASTAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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%
Health insurance premiums	2015 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.

COASTAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE 12 – COMMITMENTS

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:

<u>Year Ending, December 31,</u>	<u>Amount</u>
2017	\$ 211,496
2018	215,572
2019	215,572
2020	223,724
2021	223,724
2022 and thereafter	<u>111,862</u>
	<u>\$ 1,201,950</u>

Total lease expense for the year ended December 31, 2016, including any related taxes and other fees, was approximately \$185,580.

NOTE 13 – 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 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 72% of total revenues in the Bayport Water System. CWA believes that the possibility of losing any one of these customers is remote.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 12, 2017, 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, 2016

	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	\$ 143,070	\$ 3,370,321	\$ 96,815	\$ 1,041,037	\$ 597,285	\$ 5,248,528
Investments	-	29,016,549	-	5,276,335	189,801	34,482,685
Receivables:						
Accounts receivable from City of Houston	7,358,105	2,306,658	631,337	-	-	10,296,100
Accounts receivable from other customers	-	-	-	382,564	282,589	665,153
Compensable absence – current portion	-	98,477	18,433	8,735	6,430	132,075
Total Current Assets – Unrestricted:	<u>7,501,175</u>	<u>34,792,005</u>	<u>746,585</u>	<u>6,708,671</u>	<u>1,076,105</u>	<u>50,824,541</u>
Current Assets – Restricted						
Cash – restricted for capital projects	137,034,307	119,479	6,370	-	-	137,160,156
Investments – restricted for contingencies	-	2,991,338	1,994,225	-	-	4,985,563
Investments – restricted for debt service	-	7,767,506	-	-	-	7,767,506
Investments – restricted for capital projects	63,400,661	-	-	-	-	63,400,661
Total Current Assets – Restricted	<u>200,434,968</u>	<u>10,878,323</u>	<u>2,000,595</u>	<u>-</u>	<u>-</u>	<u>213,313,886</u>
Capital Assets, Net	<u>85,346,153</u>	<u>197,263,735</u>	<u>2,502,400</u>	<u>9,917,329</u>	<u>3,748,663</u>	<u>298,778,280</u>
Other Assets:						
Interest receivable from City of Houston	-	301,683	-	-	-	301,683
Obligation for comp. absences	-	1,871,063	350,230	165,958	122,174	2,509,425
Long-term loan receivable from City of Houston	-	15,444,768	-	-	-	15,444,768
Total Other Assets	<u>-</u>	<u>17,617,514</u>	<u>350,230</u>	<u>165,958</u>	<u>122,174</u>	<u>18,255,876</u>
Total Assets	<u>293,282,296</u>	<u>260,551,577</u>	<u>5,599,810</u>	<u>16,791,958</u>	<u>4,946,942</u>	<u>581,172,583</u>
Deferred outflows of resources	<u>-</u>	<u>87,969</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,969</u>
LIABILITIES:						
Current Liabilities - Unrestricted:						
Accounts payable	19,000	781,418	65,036	34,159	40,398	940,011
Retainage payable	323,281	-	49,260	-	-	372,541
Intercompany transfer	5,587	(32,801)	13,553	7,309	6,352	-
Compensable absence – current portion	-	98,477	18,433	8,735	6,430	132,075
Total Current Liabilities-Unrestricted	<u>347,868</u>	<u>847,094</u>	<u>146,282</u>	<u>50,203</u>	<u>53,180</u>	<u>1,444,627</u>
Current Liabilities - Restricted:						
Accounts payable	2,032,485	-	-	-	-	2,032,485
Current portion of bonds payable	-	3,455,000	-	-	-	3,455,000
Bond interest payable	7,321,970	136,148	-	-	-	7,458,118
Total Current Liabilities – Restricted	<u>9,354,455</u>	<u>3,591,148</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,945,603</u>
Long-Term Liabilities:						
Bonds payable	33,115,000	64,300,000	-	-	-	97,415,000
Long-term loan	231,779,000	-	-	-	-	231,779,000
Unamortized bond premium	-	5,767,767	-	-	-	5,767,767
Comp. absences payable	-	1,871,063	350,230	165,958	122,174	2,509,425
Other postemployment benefits	-	2,561,022	557,840	527,221	527,221	4,173,304
Total Long-Term Liabilities	<u>264,894,000</u>	<u>74,499,852</u>	<u>908,070</u>	<u>693,179</u>	<u>649,395</u>	<u>341,644,496</u>
Total Liabilities	<u>274,596,323</u>	<u>78,938,094</u>	<u>1,054,352</u>	<u>743,382</u>	<u>702,575</u>	<u>356,034,726</u>
Net Position	<u>\$ 18,685,973</u>	<u>\$ 181,701,452</u>	<u>\$ 4,545,458</u>	<u>\$ 16,048,576</u>	<u>\$ 4,244,367</u>	<u>\$ 225,225,826</u>

SCHEDULE II

COASTAL WATER AUTHORITY
 Schedule of Revenues, Expenses, and Changes in Net Position by System
 December 31, 2016

	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	\$ 686,094	\$ 20,391,182	\$ 3,432,965	\$ -	\$ -	\$ 24,510,241
Funds provided by San Jacinto	-	79,876	-	-	-	79,876
Service revenues	-	-	-	2,422,666	2,035,387	4,458,053
Total Operating Revenues	<u>686,094</u>	<u>20,471,058</u>	<u>3,432,965</u>	<u>2,422,666</u>	<u>2,035,387</u>	<u>29,048,170</u>
Operating Expenses:						
Utilities	5,257	6,736,953	124,501	75,992	126,813	7,069,516
Field salaries	283,967	3,409,280	921,695	515,064	483,572	5,613,578
Administrative	92,072	1,618,843	417,469	306,283	304,811	2,739,478
General operating	87,112	1,456,427	320,654	197,758	205,382	2,267,333
Material and supplies	3,267	2,089,188	147,515	118,650	354,419	2,713,039
Engineering, legal, and professional	32,389	962,108	118,578	65,453	39,675	1,218,203
Contract labor and equipment	8,076	3,391,906	457,821	133,537	41,629	4,032,969
SJRA Expenditures	-	4,597	-	-	-	4,597
Depreciation	-	6,074,813	64,755	364,635	114,139	6,618,342
Total Operating Expenses	<u>512,140</u>	<u>25,744,115</u>	<u>2,572,988</u>	<u>1,777,372</u>	<u>1,670,440</u>	<u>32,277,055</u>
Operating (loss) Income	<u>173,954</u>	<u>(5,273,057)</u>	<u>859,977</u>	<u>645,294</u>	<u>364,947</u>	<u>(3,228,885)</u>
Non-Operating Revenues (Expenses):						
Investment income	292,832	232,319	16,044	18,233	2,896	562,324
Interest income	-	558,391	-	-	-	558,391
Bond interest expense, net of amortization of bond issue costs	(4,330,997)	(2,679,827)	-	-	-	(7,010,824)
Gain (loss) on sale of capital assets	-	10,772	6,500	-	-	17,272
Loan interest expense	-	-	-	-	(7,902)	(7,902)
Other income	236	199,194	173	-	-	199,603
Total Non-Operating Revenues (expenses)	<u>(4,037,929)</u>	<u>(1,679,151)</u>	<u>22,717</u>	<u>18,233</u>	<u>(5,006)</u>	<u>(5,681,136)</u>
(Loss) income Before Contributions:	<u>(3,863,975)</u>	<u>(6,952,208)</u>	<u>882,694</u>	<u>663,527</u>	<u>359,941</u>	<u>(8,910,021)</u>
Contributions	4,114,425	6,425,060	-	-	-	10,539,485
Changes in Net Position	<u>250,450</u>	<u>(527,148)</u>	<u>882,694</u>	<u>663,527</u>	<u>359,941</u>	<u>1,629,464</u>
Net Position - beginning of year	<u>18,435,523</u>	<u>182,228,600</u>	<u>3,662,764</u>	<u>15,385,049</u>	<u>3,884,426</u>	<u>223,596,362</u>
Net Position - end of year	<u>\$ 18,685,973</u>	<u>\$ 181,701,452</u>	<u>\$ 4,545,458</u>	<u>\$ 16,048,576</u>	<u>\$ 4,244,367</u>	<u>\$ 225,225,826</u>

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, 2016

	Luce Bayou System Project		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Funds provided by City of Houston	\$ 1,236,831	\$ 631,258	\$ (605,573)
Interest on investments	75	-	(75)
Other	-	236	236
	<u>1,236,906</u>	<u>631,494</u>	<u>605,412</u>
Operating Expenses:			
Utilities	13,400	5,257	8,143
Field salaries	347,968	267,967	80,001
Administrative	128,054	105,747	22,307
General operating	138,203	70,437	67,766
Materials and supplies	64,500	3,267	61,233
Engineering, legal, and professional	8,640	32,389	(23,749)
Contract labor and equipment	72,000	8,076	63,924
	<u>772,765</u>	<u>493,140</u>	<u>279,625</u>
Non-Operating Revenues / (Expenses):			
Loan interest expense	(270,950)	(266,950)	4,000
	<u>(270,950)</u>	<u>(266,950)</u>	<u>4,000</u>
Change in Net Position	<u>\$ 193,191</u>	<u>\$ (128,596)</u>	<u>\$ 321,787</u>

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, 2016

	Trinity River Water Conveyance System		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Funds provided by City of Houston	\$ 29,549,259	\$ 26,904,409	\$ (2,644,850)
Funds provided by San Jacinto River Authority	100,000	79,876	(20,124)
Interest on investments	1,000	8,613	7,613
Other	50,000	199,194	149,194
	29,700,259	27,192,092	(2,508,167)
Operating Expenses:			
Utilities	7,628,580	6,766,835	861,745
Field salaries	3,119,226	3,395,280	(276,054)
Administrative	1,497,205	1,505,267	(8,062)
General operating	1,462,764	1,235,395	227,369
Materials and supplies	2,044,300	2,093,765	(49,465)
Engineering, legal, and professional	550,990	758,119	(207,129)
Contract labor and equipment	4,449,100	4,421,911	27,189
	20,752,165	20,176,572	575,593
Non-Operating Revenues / (Expenses):			
SJRA expenditures	-	(4,597)	(4,597)
Bond interest expense	(3,137,331)	(3,137,331)	-
Bond principal retirement	(3,330,000)	(3,330,000)	-
Paying agent fees	-	(2,350)	(2,350)
Construction program	(3,151,500)	(1,147,501)	2,003,999
	(9,618,831)	(7,621,779)	1,997,052
Change in Net Position	\$ (670,737)	\$ (606,259)	\$ 64,478

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, 2016

	Lake Houston Facilities Project		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Funds provided by City of Houston	\$ 2,788,013	\$ 3,040,088	\$ 252,075
Interest on investments	1,135	16,197	15,062
Other	-	173	173
	2,789,148	3,056,458	267,310
Operating Expenses:			
Utilities	113,528	124,626	(11,098)
Field salaries	934,328	915,695	18,633
Administrative	438,315	403,327	34,988
General operating	316,717	252,143	64,574
Materials and supplies	160,900	150,951	9,949
Engineering, legal, and professional	101,920	118,578	(16,658)
Contract labor and equipment	650,200	454,389	195,811
	2,715,908	2,419,709	296,199
Non-Operating Revenues / (Expenses):			
Construction program	-	(908,884)	(908,884)
	-	(908,884)	(908,884)
Change in Net Position	\$ 73,240	\$ (272,135)	\$ (345,375)

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, 2016

	Bayport Water System Project		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Interest on investments	\$ 750	\$ 17,616	\$ 16,866
Service revenues	2,078,448	2,432,586	354,138
	2,079,198	2,450,202	371,004
Operating Expenses:			
Utilities	74,947	76,080	(1,133)
Field salaries	607,576	520,064	87,512
Administrative	269,108	297,888	(28,780)
General operating	193,945	208,153	(14,208)
Materials and supplies	108,700	130,606	(21,906)
Engineering, legal, and professional	91,600	65,453	26,147
Contract labor and equipment	155,425	175,272	(19,847)
	1,501,301	1,473,516	27,785
Non-Operating Revenues / (Expenses):			
Construction program	(890,000)	-	890,000
	(890,000)	-	890,000
Change in Net Position	\$ (312,103)	\$ 976,686	\$ 1,288,789

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, 2016

	Red Bluff Water Treatment Plant Project		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Interest on investments	\$ 244	\$ 2,919	\$ 2,675
Service revenues	2,040,350	2,043,677	3,327
	2,040,594	2,046,596	6,002
Operating Expenses:			
Utilities	198,370	127,218	71,152
Field salaries	540,383	480,572	59,811
Administrative	256,039	287,992	(31,953)
General operating	214,998	221,201	(6,203)
Materials and supplies	372,300	368,929	3,371
Engineering, legal, and professional	76,400	39,674	36,726
Contract labor and equipment	98,965	41,629	57,336
	1,757,455	1,567,215	190,240
Non-Operating Revenues / (Expenses):			
Bond interest expense	(7,902)	(7,902)	-
Bond principal retirement	(325,067)	(325,067)	-
	(332,969)	(332,969)	-
Change in Net Position	\$ (49,830)	\$ 146,412	\$ 196,242

COASTAL WATER AUTHORITY
Schedule of Funding Progress for Other Postemployment Benefits
(Unaudited)
December 31, 2016

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, 2013	-	\$ 6,537,909	\$ 6,537,909	0%	\$ 5,563,024	110.82%
Dec 31, 2014	-	\$ 5,388,236	\$ 5,388,236	0%	\$ 5,869,691	91.80%
Dec 31, 2015	-	\$ 5,388,236	\$ 5,388,236	0%	\$ 6,348,632	85.00%
Dec 31, 2016	-	\$ 6,485,951	\$ 6,485,951	0%	\$ 6,566,542	98.77%

*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.