

# Coastal Water Authority

Financial Report  
December 31, 2017



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## Independent Auditor's Report

To the Board of Directors of  
Coastal Water Authority

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

We have audited the accompanying basic financial statements of Coastal Water Authority (CWA), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***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, 2017, and the changes in its financial position and its 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 Required Supplementary Information, 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.

Other Supplementary 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.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Houston, Texas  
April 11, 2018

## Management's Discussion and Analysis

As management of 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 fiscal year ended December 31, 2017. Please read this discussion and analysis in conjunction with CWA's basic financial statements which follow this section.

### Financial Highlights

- The assets and deferred outflows of resources of CWA exceed its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$227.6 million.
- CWA's total net position increased by \$2.4 million. This increase is primarily the result of the contributions by the City of Houston (the City). The City subsidizes 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.
- Revenues decreased by \$0.09 million.
- Expenses increased by \$0.6 million.
- Construction in progress increased by \$78.8 million.
- Long-term liabilities increased by \$102.8 million as the net result of closing of loan commitments with the Texas Water Development Board (TWDB) for \$97 million, plus an increase in interest payable of \$9.2 million, an increase of \$0.5 million in other postemployment benefits payable, slightly offset by repayment of bonds of \$3.5 million.

### Overview of the Financial Statements

The financial section of this annual report consists of two major 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, revenues are recognized in the period in which they are earned, and expenses are recognized in the period 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

Coastal Water Authority's Net Position – Table 1

	2017	2016	Change
Current assets	\$ 287,025,292	\$ 256,835,159	\$ 30,190,133
Capital assets, net	372,120,038	298,778,280	73,341,758
Other noncurrent assets	35,211,855	25,559,144	9,652,711
<b>Total assets</b>	<b>694,357,185</b>	<b>581,172,583</b>	<b>113,184,602</b>
Deferred outflows of resources	83,073	87,969	(4,896)
Current liabilities	15,959,627	7,086,962	8,872,665
Long-term liabilities	450,837,986	348,947,764	101,890,222
<b>Total liabilities</b>	<b>466,797,613</b>	<b>356,034,726</b>	<b>110,762,887</b>
Net position:			
Net investment in capital assets	168,684,744	158,715,705	9,969,039
Restricted	18,996,063	20,210,309	(1,214,246)
Unrestricted	39,961,838	46,299,812	(6,337,974)
<b>Total net position</b>	<b>\$ 227,642,645</b>	<b>\$ 225,225,826</b>	<b>\$ 2,416,819</b>

At December 31, 2017, the increase in current assets is primarily related to the increase in cash resulting from loans from the TWDB related to the ongoing Luce Bayou Interbasin Transfer Project (Luce Bayou Project). The increase in other noncurrent assets is due to an increase in long-term loan receivables from the City for the Luce Bayou Project. The increase in long-term liabilities is primarily related to the Luce Bayou Project and the TWDB loans that closed during the year.

Net position may, over time, serve as a useful indicator of a government's financial position. In the case of CWA, assets plus deferred outflows of resources exceeded the liabilities and any deferred inflows of resources by \$227.6 million at the close of 2017. By far the largest portion of CWA's net position (74%) 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 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, 2017, that ratio was approximately 18:1. The ratio of total assets to total liabilities, in the absence of any deferred outflows and deferred inflows of resources, was approximately 1:1. These strong ratios reflect CWA's stable financial condition both in the short-term as well as in the long-term outlook.

## Coastal Water Authority's Change in Net Position – Table 2

	2017	2016	Increase (Decrease)
Total operating revenues	\$ 28,959,222	\$ 29,048,170	\$ (88,948)
Operating expense	(32,831,820)	(32,277,055)	(554,765)
Non operating expense (net)	(9,565,255)	(5,681,136)	(3,884,119)
Excess (deficiency) of revenues over (under) expenses	(13,437,853)	(8,910,021)	(4,527,832)
Capital contributions	15,854,672	10,539,485	5,315,187
Change in net position	2,416,819	1,629,464	787,355
Net position beginning of year	225,225,826	223,596,362	1,629,464
<b>Net position at end of year</b>	<b>\$ 227,642,645</b>	<b>\$ 225,225,826</b>	<b>\$ 2,416,819</b>

During 2017, the decrease in operating revenues is due to a decrease in service revenues from customers. The increase in non operating expenses is due to the increase in interest expense on debt. The increase in contributions provided by the City was primarily due to an increase in debt service payments made on CWA's behalf by the City.

### Capital Assets and Debt Administration

**Capital assets:** CWA's capital assets as of December 31, 2017, totaled to \$372.1 million (net of accumulated depreciation). Capital assets includes land, intangibles, water systems, vehicles, equipment, and other, and construction in progress. Major capital asset events during the year included the following:

- Approximately \$79 million increase in construction on Luce Bayou Project new water systems.

Additional information on CWA's capital assets can be found in Note 8.

**Long-term debt:** At the end of 2017, CWA had total long-term debt outstanding of \$431 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 \$362 million is backed by the Luce Bayou Project with the City. These bonds (loans) are secured by a pledge on the City's Combined Utility Systems Fund.

### Outstanding Debt at Year-End – Bonds and Loans Payable

	2017	2016	Change
Revenue and refunding bonds (net)	\$ 126,910,801	\$ 106,637,767	\$ 20,273,034
Long-term loans (TWDB)	304,574,000	231,779,000	72,795,000
<b>Balance at end of year</b>	<b>\$ 431,484,801</b>	<b>\$ 338,416,767</b>	<b>\$ 93,068,034</b>

Additional information on CWA's long-term debt can be found beginning with Note 9.

## **Economic Factors and Next Year's Budget and Rates**

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 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.

## **Request for Information**

The financial report is designed to provide our residents, customers, investors and creditors with a general overview of the Authority's finances. 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, 2017

### ASSETS

#### Current assets - unrestricted:

Cash	\$	5,977,905
Investments		34,522,259
Receivables:		
Accounts receivable from City of Houston		2,167,644
Accounts receivable from other customers		723,013
Compensable absences - current portion		133,751
Total receivables		<u>3,024,408</u>
Total current assets - unrestricted		43,524,572

#### Current assets - restricted:

Cash - restricted for capital projects		202,940,642
Investments - restricted for contingencies		4,966,949
Investments - restricted for debt services		7,887,512
Investments - restricted for capital projects		<u>27,705,617</u>
Total current assets - restricted		243,500,720

Capital assets, net 372,120,038

#### Other assets:

Interest receivable from City of Houston		16,603,424
Compensable absences receivable - non-current portion		2,541,270
Long-term loan receivable from City of Houston		<u>16,067,161</u>
Total other assets		<u>35,211,855</u>

Total assets 694,357,185

Deferred outflows of resources 83,073

**TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** \$ 694,440,258

The Notes to the Financial Statements are an integral part of this statement.

**LIABILITIES AND NET POSITION**

## Current liabilities - unrestricted:

Accounts payable	\$ 1,814,084
Retainage payable	164,730
Compensable absences payable - current portion	<u>133,751</u>

Total current liabilities - unrestricted 2,112,565

## Current liabilities - restricted:

Accounts payable	6,778,582
Retainage payable	2,679,825
Bonds payable - current position	4,165,000
Bond interest payable	<u>223,655</u>

Total current liabilities - restricted 13,847,062

## Long-term liabilities:

Bonds payable - non-current portion	122,745,801
Notes payable	304,574,000
Interest payable	16,289,583
Compensable absences payable - non-current portion	2,541,270
Other postemployment benefits payable	<u>4,687,332</u>

Total long-term liabilities 450,837,986

Total liabilities 466,797,613

**NET POSITION**

Net investment in capital assets 168,684,744

## Restricted for:

Contingencies, net of restricted liabilities	4,966,949
Debt service	7,977,698
Operations reserves	6,051,416

Unrestricted 39,961,838

Total net position 227,642,645

**TOTAL LIABILITIES AND NET POSITION**

\$ 694,440,258

# Coastal Water Authority

## Statement of Revenues, Expenses, and Changes in Fund Net Position Year Ended December 31, 2017

### OPERATING REVENUES

Funds provided by City of Houston	\$ 24,949,307
Funds provided by San Jacinto River Authority	102,330
Service revenues	<u>3,907,585</u>
Total operating revenues	28,959,222

### OPERATING EXPENSES

Utilities	7,967,749
Field salaries	5,822,657
Administrative	2,688,100
General operating	2,452,334
Materials and supplies	3,090,295
Engineering, legal, and other professional	886,526
Contract labor and equipment	3,475,797
Depreciation	<u>6,448,362</u>
Total operating expenses	<u>32,831,820</u>
Operating loss	(3,872,598)

### NON-OPERATING REVENUES (EXPENSES)

Investment income	1,976,981
Interest income	634,551
Bond interest expense	(2,809,930)
Gain on sale of assets	79,046
Loan interest expense	(9,573,723)
Net other (expense) income	<u>127,820</u>
Net nonoperating revenues/(expenses)	<u>(9,565,255)</u>
Loss before contributions	(13,437,853)

### CONTRIBUTIONS PROVIDED BY CITY OF HOUSTON

	<u>15,854,672</u>
Change in net position	2,416,819
Net position - beginning	<u>225,225,826</u>
<b>NET POSITION - ENDING</b>	<u><u>\$ 227,642,645</u></u>

The Notes to the Financial Statements are an integral part of this statement.

**Coastal Water Authority**  
Statement of Cash Flows  
Year Ended December 31, 2017

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from municipalities	\$ 25,876,825
Cash received from customers	3,849,725
Cash payments to employees and suppliers for goods and services	<u>(17,777,246)</u>
Net cash provided by operating activities	11,949,304
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of capital assets	(79,821,197)
Proceeds from sale of capital assets	110,123
Proceeds from issuance of debt	96,975,000
Interest paid on notes and bonds, net of contributions	(12,158)
Advance to City of Houston	(622,393)
Payments for debt issuance expenses	<u>(362,246)</u>
Net cash provided by capital and related financing activities	16,267,129
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of investment securities	(756,742,814)
Proceeds from maturities and sales of investment securities	791,586,139
Investment income	3,322,285
Other income	<u>127,820</u>
Net cash provided by investing activities	<u>38,293,430</u>
Net increase in cash	66,509,863
Cash at beginning of year	<u>142,408,684</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$ 208,918,547</u></u>
<b>CASH, UNRESTRICTED</b>	\$ 5,977,905
<b>CASH, RESTRICTED</b>	<u>202,940,642</u>
Total cash	<u><u>\$ 208,918,547</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (3,872,598)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	6,448,362
Changes in assets and liabilities:	
Receivables, net	767,328
Accounts payable	5,620,170
Retainage payable	2,472,014
Other post employment benefits payable	<u>514,028</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 11,949,304</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Interest and principal payments made by City of Houston	<u><u>\$ 15,854,672</u></u>

The Notes to the Financial Statements are an integral part of this statement.

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# Coastal Water Authority

## Notes to the Financial Statements

### Note 1. Reporting Entity and Summary of Significant Accounting Policies

#### A. 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.

#### B. 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.

#### C. 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'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 net position is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

**Coastal Water Authority**  
Notes to the Financial Statements

**D. 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 obligation, and the assets and liabilities for compensable absences.

**E. 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.

**F. Accounts Receivable**

Accounts receivable at December 31, 2017 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.

**G. 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 8).

## **Coastal Water Authority**

### Notes to the Financial Statements

#### **H. 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 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, 2017 on the premiums in the amount of \$5,315,801 has been recorded in the accompanying financial statements as an addition to the face value of the bonds to arrive at its carrying value.

#### **I. 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 13, 2017.

#### **J. 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 due from the City when incurred by 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

#### K. 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.

#### L. 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.

#### M. 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.

#### N. Net Position

Sometimes CWA will fund expense for a particular purpose from both restricted (e.g., restricted debt service or contingency) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is CWA's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

#### 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.

## **Coastal Water Authority**

### Notes to the Financial Statements

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 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, 2017, this reserve amounted to \$5,088,973.

### **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, 2017, this reserve amounted to \$22,177.

## Coastal Water Authority

### Notes to the Financial Statements

#### 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, 2017, this reserve amounted to \$684,529.

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.

#### 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.

## Coastal Water Authority

### Notes to the Financial Statements

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 in the amount of \$28,000,000 in 2009 and an additional \$5,115,000 in 2010. 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 1<sup>st</sup> or July 1<sup>st</sup> 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 from 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 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.

## Coastal Water Authority

### Notes to the Financial Statements

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. 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.

An amendment to the Agreement dated October 24, 2016 made available to CWA additional funding in the amount of \$136,250,000. In conjunction with the Agreement, CWA and the City entered in a third supplement to the Luce Bayou Project contract to incorporate the City's pledge for payment on debt service of the loan.

A second amendment to the Agreement dated November 13, 2017 made available to CWA additional funding in the amount of \$72,795,000. In conjunction with the Agreement, CWA and the City entered in a fourth supplement to the Luce Bayou Project contract to incorporate the City's pledge for payment on debt service of the loan.

The Texas Water Development Board on July 20, 2017 adopted Texas Water Development Board Resolution No. 17-076 to provide Financial Assistance to the Coastal Water Authority in the amount of \$24,180,000. 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. In conjunction with the Agreement, CWA and the City entered into a fifth supplement to the Luce Bayou Project contract to incorporate the City's pledge for payment on debt service of the Contract Revenue Bond, Series 2017.

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, 2017, this reserve amounted to \$255,736.

#### Note 7. Deposits and Investments

CWA's investments are stated at fair value, with certain exceptions described below. CWA categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, which provides a framework for measuring fair value and establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

## Coastal Water Authority

### Notes to the Financial Statements

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Certain investment types are not required to be measured at fair value; these include certain investment pools which are measured at the net asset value (NAV) determined by the pool, which approximates fair value. These instruments are exempt from categorization within the fair value hierarchy.

As of December 31, 2017, CWA had the following deposits and investments:

Deposits	Value	(in Days)	Rating
Cash and cash equivalents	\$ 5,977,905	36	AAAm
Restricted cash and cash equivalents	202,940,642	-	
	\$ 208,918,547		
		Average Maturity	
Investment Type	Fair value	(in Days)	Rating
U.S. government & agency securities	\$ 75,082,337	39	N/A
* Standard & Poor's rating			

The U.S. government and agency securities are classified in Level 2 of the fair value hierarchy and are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

#### 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, 2017, 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. J.P. Morgan

**Coastal Water Authority**  
Notes to the Financial Statements

Fleming Asset Management and First Southwest Asset Management serve as co-administrators for TexStar under an agreement with the TexStar board.

TexStar measures its investments at fair value; therefore, the investment is reported at net asset value in the accompanying financial statements. The investment pool does not have any limitations or restrictions on withdrawals, such as notice periods or maximum transaction amounts, and do not impose any liquidity fees or redemption gates. As of December 31, 2017, investments in TexStar amounted to \$1,502,313.

**Note 8. Capital Assets**

Capital assets consisted of the following at December 31, 2017:

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
Land	\$ 27,087,254	\$ -	\$ (6,556)	\$ -	\$ 27,080,698
Intangibles	8,669,664	-	-	-	8,669,664
Water systems	383,186,962	-	-	1,347,134	384,534,096
Trucks, equipment, and other	9,927,353	1,017,898	(365,724)	36,000	10,615,527
Construction in progress	69,641,412	78,803,299	-	(1,383,134)	147,061,577
<b>Total capital assets, costs</b>	<b>498,512,645</b>	<b>79,821,197</b>	<b>(372,280)</b>	<b>-</b>	<b>577,961,562</b>
Accumulated depreciation:					
Water systems	(191,957,989)	(5,939,580)	-	-	(197,897,569)
Trucks, equipment, and others	(7,776,376)	(508,782)	341,203	-	(7,943,955)
<b>Total accumulated depreciation</b>	<b>(199,734,365)</b>	<b>(6,448,362)</b>	<b>341,203</b>	<b>-</b>	<b>(205,841,524)</b>
<b>Total capital assets, net</b>	<b>\$ 298,778,280</b>	<b>\$ 73,372,835</b>	<b>\$ (31,077)</b>	<b>\$ -</b>	<b>\$ 372,120,038</b>

Depreciation expense for the year ended December 31, 2017 was \$6,448,362.

**Coastal Water Authority**  
Notes to the Financial Statements

**Note 9. Long-Term Liabilities**

The following is a summary of long-term liabilities for the year ended December 31, 2017:

Descriptions	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	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)	31,075,000	-	(2,550,000)	28,525,000	2,645,000
Series 2014 contract revenue refunding bonds (maturing 12/15/2034)	36,680,000	-	(905,000)	35,775,000	945,000
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	-
Texas Water Development Board long-term loan - 2017 (maturing 6/15/2052)	-	72,795,000	-	72,795,000	-
Series 2017 contract revenue bonds (maturing 6/15/2047)	-	24,180,000	-	24,180,000	575,000
	332,649,000	96,975,000	(3,455,000)	426,169,000	4,165,000
Add:					
Unamortized premium	5,767,767	-	(451,966)	5,315,801	-
	338,416,767	96,975,000	(3,906,966)	431,484,801	4,165,000
Other liabilities:					
Interest payable	7,303,268	9,209,970	-	16,513,238	223,655
Compensated absences	2,641,500	33,521	-	2,675,021	133,751
Other post employment benefit payable	4,173,304	514,028	-	4,687,332	-
<b>Total long-term liabilities</b>	<b>\$ 352,534,839</b>	<b>\$ 106,732,519</b>	<b>\$ (3,906,966)</b>	<b>\$ 455,360,392</b>	<b>\$ 4,522,406</b>

**Coastal Water Authority**  
Notes to the Financial Statements

The annual debt service requirements for bonds payable as of December 31, 2017 are as follows:

Year Ending December 31,	Principal	Interest
2018	\$ 4,165,000	\$ 4,280,203
2019	6,880,000	6,180,499
2020	7,555,000	7,038,412
2021	7,795,000	7,732,226
2022	8,050,000	8,783,678
2023-2027	43,895,000	63,129,169
2028-2032	23,980,000	99,585,543
2033-2037	32,080,000	90,577,618
2038-2042	92,600,000	47,410,034
2043-2047	109,434,000	27,616,375
2048-2052	89,735,000	7,058,095
<b>Totals</b>	<b>\$ 426,169,000</b>	<b>\$ 369,391,852</b>

Series 2009 bonds carry a fixed interest rate of 2.13%-2.88%, 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 2.0%-5.0%. 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 3.0%-5.0% 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%. Series 2017 Contract Revenue Bonds carry a fixed interest rate of .69%-3.0% and are payable on June 15 and December 15 of each year. The TWDB 2017 loan carries a fixed interest rate of 3.57% - 3.86%.

**1. Source of Repayment**

The Series 2009, 2010, 2010 Refunding Bonds, 2014 Refunding Bonds, and 2017 (the Bonds) as well as the 2013, 2015, 2016, and 2017 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.

**2. 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. At December 31, 2017, no outstanding bonds were considered defeased.

**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.

# Coastal Water Authority

## Notes to the Financial Statements

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, 2017 (100% covered by the plan) was \$6,498,278. Accordingly, the 2017 required contributions for employees was \$259,931 and CWA's requirement, net of forfeitures, was \$762,556. Actual contributions from employees and CWA during 2017 were \$403,034 and \$813,129, 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, 2017.

### Statement of Net Assets Available for Benefits

Assets:	
Investments in U.S government and agency securities at fair value	\$ 13,404,490
Employer's contribution receivable	18,122
Other receivables	40,367
Cash	45,417
<b>Net assets available for benefits</b>	<b>\$ 13,508,396</b>

### Statement of Changes in Net Assets Available for Benefits

Additions to net assets investment income:	
Net appreciation in fair value of investments	\$ 132,679
Contributions:	
Employer	813,129
Participants	403,034
Total contributions	1,216,163
Total additions to net assets	1,348,842
Deductions from net assets:	
Benefits paid	589,920
Total deductions from net assets	589,920
Change in net assets	758,922
Net assets available for benefits, beginning of year	12,749,474
<b>Net assets available for benefits, end of year</b>	<b>\$ 13,508,396</b>

**Coastal Water Authority**  
Notes to the Financial Statements

The Plan's investments at September 30, 2017 were as follows:

September 30, 2017	Face Value	Fair Value	Amortized Cash
Federal National Mortgage Assoc, dated 10/29/2015, 1.40% due 10/29/2019, callable quarterly	\$ 2,150,000	\$ 2,125,404	\$ 2,162,782
Federal Home Loan Mortgage Corp dated 3/26/2013 1.00% due 3/26/2018 callable on 3/26/2014 @ 100	1,500,000	1,498,275	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	1,487,325	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	994,290	1,001,166
Federal Home Loan Banks dated 1/23/2017 0.75% due 1/23/2018	1,500,000	1,498,560	1,501,564
Federal Home Loan Banks dated 10/9/2015 0.625% due 10/26/2017	1,250,000	1,249,663	1,253,282
Federal Home Loan Banks dated 2/27/2015 1.125% due 4/25/2018	1,500,000	1,498,860	1,507,294
Federal Home Loan Mortgage Corp dated 4/26/2016 0.95% due 4/26/2018	1,000,000	998,810	1,003,309
Federal Home Loan Banks Discount Note dated 7/3/2017 zero coupon due 7/2/2018	1,500,000	1,485,780	1,485,615
Cash Equivalents: SEI Daily Income TR Treasury II	567,523	567,523	567,523
<b>Totals</b>	<b>\$ 13,467,523</b>	<b>\$ 13,404,490</b>	<b>\$ 13,484,035</b>

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.

**Coastal Water Authority**  
Notes to the Financial Statements

**Note 11. Postemployment Benefits**

**A. 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.

**B. 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 \$48,882 for the year ended December 31, 2017.

**C. 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	\$ 688,388
Interest on OPEB obligation	104,333
Adjustments to ARC	<u>(184,742)</u>
Annual OPEB cost (expenses)	607,979
Age adjusted contributions made	<u>(93,951)</u>
Increase in net OPEB obligation	514,028
Net OPEB obligation - beginning of year	<u>4,173,304</u>
<b>Net OPEB obligation - end of year</b>	<b><u><u>\$ 4,687,332</u></u></b>

## Coastal Water Authority

### Notes to the Financial Statements

CWA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2017 and the preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
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
2017	\$ 607,979	16%	\$ 4,687,332

#### D. Funded Status and Funding Progress

As of December 31, 2017, 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 \$6,847,313, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 94.72 percent.

#### E. 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

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:

### 1. Actuarial Methods and Assumptions

Average retirement age for active employees	65 years
Marital assumption	Marital status of members at the calculation 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 and 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

**Note 12. Commitments**

**A. 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:

Year Ending, December 31,	Amount
2018	\$ 215,572
2019	215,572
2020	223,724
2021	223,724
2022	111,862
<b>Totals</b>	<b>\$ 990,454</b>

Total lease expense for the year ended December 31, 2017, including any related taxes and other fees, was approximately \$184,000.

**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 77% 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 11, 2018, 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.

## Required Supplementary Information

## Coastal Water Authority

### Schedule of Funding Progress for Other Postemployment Benefits (Unaudited)

December 31, 2017

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}
12/31/2013	\$ -	\$ 6,537,909	\$ 6,537,909	0%	\$ 5,563,024	117.52%
12/31/2014	-	5,388,236	5,388,236	0%	5,869,691	91.80%
12/31/2015	-	5,388,236	5,388,236	0%	6,348,632	84.87%
12/31/2016	-	6,485,951	6,485,951	0%	6,566,542	98.77%
12/31/2017	-	6,485,951	6,485,951	0%	6,847,313	94.72%

## Other Supplementary Information

**Coastal Water Authority**  
Schedule I - Schedule of Net Position by System  
December 31, 2017

	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
<b>ASSETS</b>						
Current assets unrestricted:						
Cash	\$ 210,617	\$ 3,676,045	\$ 449,233	\$ 987,089	\$ 654,921	\$ 5,977,905
Investments	-	28,211,114	-	6,121,122	190,023	34,522,259
Receivables:						
Accounts receivable from City of Houston	40,001	1,844,462	283,181	-	-	2,167,644
Accounts receivable from other customers	-	8,674	-	476,308	238,031	723,013
Compensable absence current portion	-	101,186	16,862	9,245	6,458	133,751
Total current assets unrestricted	250,618	33,841,481	749,276	7,593,764	1,089,433	43,524,572
Current assets restricted:						
Cash - restricted for capital projects	202,842,259	83,702	14,681	-	-	202,940,642
Investments - restricted for contingencies	-	2,980,170	1,986,779	-	-	4,966,949
Investments - restricted for debt services	-	7,887,512	-	-	-	7,887,512
Investments - restricted for capital projects	27,705,617	-	-	-	-	27,705,617
Total current assets restricted	230,547,876	10,951,384	2,001,460	-	-	243,500,720
Capital assets, net	160,451,550	195,377,528	2,964,990	9,688,007	3,637,963	372,120,038
Other assets:						
Interest receivable from City of Houston	16,289,583	313,841	-	-	-	16,603,424
Obligation for comp absences	-	1,922,525	320,384	175,663	122,698	2,541,270
Long-term loan receivable from City of Houston	-	16,067,161	-	-	-	16,067,161
Total other assets	16,289,583	18,303,527	320,384	175,663	122,698	35,211,855
Total assets	407,539,627	258,473,920	6,036,110	17,457,434	4,850,094	694,357,185
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	-	83,073	-	-	-	83,073
<b>LIABILITIES</b>						
Current liabilities unrestricted:						
Accounts payable	421	1,625,857	84,997	40,792	62,017	1,814,084
Retainage payable	-	164,730	-	-	-	164,730
Intercompany transfer	5,031	(21,024)	12,122	(3,104)	6,975	-
Compensable absence - current portion	-	101,186	16,862	9,245	6,458	133,751
Total current liabilities unrestricted	5,452	1,870,749	113,981	46,933	75,450	2,112,565
Current liabilities restricted:						
Accounts payable	6,778,582	-	-	-	-	6,778,582
Retainage payable	2,679,825	-	-	-	-	2,679,825
Current portion of bonds payable	575,000	3,590,000	-	-	-	4,165,000
Bond interest payable	97,273	126,382	-	-	-	223,655
Total current liabilities restricted	10,130,680	3,716,382	-	-	-	13,847,062
Long-term liabilities:						
Bonds payable	56,720,000	66,025,801	-	-	-	122,745,801
Long-term loan	304,574,000	-	-	-	-	304,574,000
Interest payable	16,289,583	-	-	-	-	16,289,583
Comp absences payable	-	1,922,525	320,384	175,663	122,698	2,541,270
Other postemployment benefits	15,421	2,874,579	640,084	578,624	578,624	4,687,332
Total long-term liabilities	377,599,004	70,822,905	960,468	754,287	701,322	450,837,986
Total liabilities	387,735,136	76,410,036	1,074,449	801,220	776,772	466,797,613
<b>TOTAL NET POSITION</b>	<b>\$ 19,804,491</b>	<b>\$ 182,146,957</b>	<b>\$ 4,961,661</b>	<b>\$ 16,656,214</b>	<b>\$ 4,073,322</b>	<b>\$ 227,642,645</b>

# Coastal Water Authority

## Schedule II - Schedule of Revenues, Expenses, and Changes in Net Position by System December 31, 2017

	Luce Bayou Interbasin Transfer Project	Trinity River Water Conveyance System Project	Lake Houston Facilities Project	Bayport Water System Project	Red Bluff Water Water Treatment Plant Project	Totals
<b>OPERATING REVENUES</b>						
Funds provided by City	\$ 907,589	\$ 21,225,380	\$ 2,816,338	\$ -	\$ -	\$ 24,949,307
Funds provided by San Jacinto	-	102,330	-	-	-	102,330
Service revenues	-	-	-	2,331,837	1,575,748	3,907,585
Total operating revenues	907,589	21,327,710	2,816,338	2,331,837	1,575,748	28,959,222
<b>OPERATING EXPENSES</b>						
Utilities	9,714	7,601,871	121,283	71,568	163,313	7,967,749
Field Salaries	467,005	3,524,898	940,286	431,864	458,604	5,822,657
Administrative	170,789	1,589,563	386,083	261,199	280,466	2,688,100
General operating	137,459	1,524,567	341,383	216,439	232,486	2,452,334
Material and supplies	16,570	2,238,160	162,533	247,822	425,210	3,090,295
Engineering, legal, and professional	55,838	631,026	115,359	43,733	40,570	886,526
Contract labor and equipment	35,239	2,975,772	260,165	164,392	40,229	3,475,797
Depreciation	-	5,879,289	94,967	363,406	110,700	6,448,362
Total operating expenses	892,614	25,965,146	2,422,059	1,800,423	1,751,578	32,831,820
Operating (loss) income	14,975	(4,637,436)	394,279	531,414	(175,830)	(3,872,598)
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Investment income	1,544,360	357,516	21,443	48,877	4,785	1,976,981
Interest income	-	634,551	-	-	-	634,551
Bond interest expense, net of amortization of bond issues	(253,835)	(2,556,095)	-	-	-	(2,809,930)
Gain (loss) in sale of capital assets	-	51,218	481	27,347	-	79,046
Loan interest expense	(9,573,723)	-	-	-	-	(9,573,723)
Other Income	-	127,820	-	-	-	127,820
Total nonoperating revenues (expenses)	(8,283,198)	(1,384,990)	21,924	76,224	4,785	(9,565,255)
(Loss) Income before contributions	(8,268,223)	(6,022,426)	416,203	607,638	(171,045)	(13,437,853)
<b>CONTRIBUTIONS</b>						
Changes in net position	1,118,518	445,505	416,203	607,638	(171,045)	2,416,819
Net position - beginning of year	18,685,973	181,701,452	4,545,458	16,048,576	4,244,367	225,225,826
<b>TOTAL NET POSITION - ENDING</b>	<b>\$ 19,804,491</b>	<b>\$ 182,146,957</b>	<b>\$ 4,961,661</b>	<b>\$ 16,656,214</b>	<b>\$ 4,073,322</b>	<b>\$ 227,642,645</b>

**Coastal Water Authority**

Schedule III - Schedule of Revenues, Expenses, and Changes in Net Position –  
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited)  
 December 31, 2017

	<b>Luce Bayou System Project</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>OPERATING REVENUES</b>			
Funds provided by City of Houston	\$ 1,485,541	\$ 885,044	\$ (600,497)
Interest in investments	375	-	(375)
<b>Total operating revenues</b>	<b>1,485,916</b>	<b>885,044</b>	<b>(600,872)</b>
<b>OPERATING EXPENSES</b>			
Utilities	21,000	9,714	11,286
Field salaries	515,140	483,005	32,135
Administrative	194,484	168,790	25,694
General operating	110,861	122,038	(11,177)
Material and supplies	64,500	17,583	46,917
Engineering, legal, and professional	44,960	55,837	(10,877)
Contract labor and equipment	72,000	41,961	30,039
<b>Total operating expenses</b>	<b>1,022,945</b>	<b>898,928</b>	<b>124,017</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Loan interest expense	400,426	400,426	-
<b>Total nonoperating revenues (expenses)</b>	<b>400,426</b>	<b>400,426</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 863,397</b>	<b>\$ 386,542</b>	<b>\$ (476,855)</b>

## Coastal Water Authority

Schedule III - Schedule of Revenues, Expenses, and Changes in Net Position –  
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited) – Continued  
 December 31, 2017

	<u>Trinity River Water Conveyance System</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>OPERATING REVENUES</b>			
Funds provided by City of Houston	\$ 26,569,755	\$ 28,254,575	\$ 1,684,820
Funds provided by San Jacinto River Authority	100,000	96,224	(3,776)
Interest on investments	5,000	12,386	7,386
Other	50,000	127,815	77,815
	<u>26,724,755</u>	<u>28,491,000</u>	<u>1,766,245</u>
<b>OPERATING EXPENSES</b>			
Utilities	7,236,152	7,533,166	(297,014)
Field salaries	3,280,721	3,522,898	(242,177)
Administrative	1,549,565	1,585,563	(35,998)
General operating	1,259,124	1,211,009	48,115
Material and supplies	2,217,100	2,245,810	(28,710)
Engineering, legal, and professional	549,280	613,157	(63,877)
Contract labor and equipment	4,263,950	3,511,260	752,690
	<u>20,355,892</u>	<u>20,222,863</u>	<u>133,029</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
SJRA expenditures	-	(30,429)	(30,429)
Bond interest expense	(3,012,931)	(3,012,931)	-
Bond principal retirement	(3,455,000)	(3,455,000)	-
Paying agent fees	-	(750)	(750)
Construction program	-	(1,326,444)	(1,326,444)
	<u>(6,467,931)</u>	<u>(7,825,554)</u>	<u>(1,357,623)</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ (99,068)</u>	<u>\$ 442,583</u>	<u>\$ 541,651</u>

## Coastal Water Authority

Schedule III - Schedule of Revenues, Expenses, and Changes in Net Position –  
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited) – Continued  
 December 31, 2017

	<u>Lake Houston Facilities Project</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>OPERATING REVENUES</b>			
Funds provided by City of Houston	\$ 2,677,988	\$ 3,158,942	\$ 480,954
Interest in investments	5,675	20,433	14,758
Other	60,000	-	(60,000)
	<u>2,743,663</u>	<u>3,179,375</u>	<u>435,712</u>
<b>OPERATING EXPENSES</b>			
Utilities	123,600	114,191	9,409
Field Salaries	926,579	942,286	(15,707)
Administrative	431,657	387,082	44,575
General operating	273,546	259,139	14,407
Material and supplies	183,000	161,655	21,345
Engineering, legal, and professional	99,760	100,234	(474)
Contract labor and equipment	699,970	428,866	271,104
	<u>2,738,112</u>	<u>2,393,453</u>	<u>344,659</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Construction program	<u>-</u>	<u>(438,249)</u>	<u>(438,249)</u>
	<u>-</u>	<u>(438,249)</u>	<u>(438,249)</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 5,551</u>	<u>\$ 347,673</u>	<u>\$ 342,122</u>

## Coastal Water Authority

Schedule III - Schedule of Revenues, Expenses, and Changes in Net Position –  
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited) – Continued  
 December 31, 2017

	<b>Bayport Water System Project</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>OPERATING REVENUES</b>			
Interest in investments	\$ 3,800	\$ 44,550	\$ 40,750
Service revenues	2,202,860	2,320,350	117,490
Total operating revenues	2,206,660	2,364,900	158,240
<b>OPERATING EXPENSES</b>			
Utilities	80,600	70,934	9,666
Field salaries	612,279	426,864	185,415
Administrative	276,238	258,192	18,046
General operating	175,735	167,044	8,691
Material and supplies	109,600	249,667	(140,067)
Engineering, legal, and professional	81,600	46,803	34,797
Contract labor and equipment	199,725	159,477	40,248
Total operating expenses	1,535,777	1,378,981	156,796
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Construction program	1,000,000	37,054	(962,946)
Total nonoperating revenues (expenses)	1,000,000	37,054	(962,946)
<b>CHANGE IN NET POSITION</b>	<b>\$ 1,670,883</b>	<b>\$ 1,022,973</b>	<b>\$ (647,910)</b>

## Coastal Water Authority

Schedule III - Schedule of Revenues, Expenses, and Changes in Net Position –  
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited) – Continued  
 December 31, 2017

	<u>Red Bluff Water Treatment Plant Project</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>OPERATING REVENUES</b>			
Interest in investments	\$ 1,200	\$ 6,449	\$ 5,249
Service revenues	1,718,090	1,603,479	(114,611)
Total operating revenues	1,719,290	1,609,928	(109,362)
<b>OPERATING EXPENSES</b>			
Utilities	179,300	161,864	17,436
Field salaries	543,989	458,604	85,385
Administrative	262,954	279,868	(16,914)
General operating	191,235	181,084	10,151
Material and supplies	363,100	420,022	(56,922)
Engineering, legal, and professional	66,400	42,346	24,054
Contract labor and equipment	117,365	25,067	92,298
Total operating expenses	1,724,343	1,568,855	155,488
<b>CHANGE IN NET POSITION</b>	<u>\$ (5,053)</u>	<u>\$ 41,073</u>	<u>\$ 46,126</u>