



Comprehensive Annual Financial Report
Gulf Coast Water Authority
Texas City, Texas
For the Fiscal Year Ended August 31, 2017

Prepared by:

Ivan Langford
General Manager

Bob Webb
Business Manager



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

GULF COAST WATER AUTHORITY
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INTRODUCTORY SECTION



Gulf Coast Water Authority



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December 21, 2017

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

We are pleased to submit the Comprehensive Annual Financial Report (the “CAFR”) of the Gulf Coast Water Authority (the “Authority”) for the fiscal year ended August 31, 2017. The purpose of the CAFR is to provide reliable financial information about the Authority to the Authority’s Board of Directors, customers, and other interested parties. The Authority’s Accounting Department has prepared the CAFR in accordance with generally accepted accounting principles (“GAAP”). Management assumes full responsibility for the completeness and reliability of the information contained in the CAFR, based upon a comprehensive framework of internal controls that are established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective of such internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Our auditor, Whitley Penn, LLP, Certified Public Accountants, has issued an unmodified (“clean”) opinion on the Authority’s financial statements for the year ended August 31, 2017. The independent auditors’ report is located at the front of the financial section of the CAFR.

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

Profile of the Government Agency

The Gulf Coast Water Authority (then named the Galveston County Water Authority) was created in 1965 by the 59th regular session of the Texas Legislature. The Authority is a conservation and reclamation district, body politic and corporate, and a governmental agency of the State of Texas created and operating under the provisions of a series of acts compiled as Vernon’s Annotated Texas Civil Statutes, Article 8280-121, enacted pursuant to the provisions of Section 59 of Article XVI of the Texas Constitution.

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

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

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

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

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

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

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

Canal Division - The Authority's Canal Division operates out of its office located in Alvin. The division operates the American, Briscoe, and Juliff/Chocolate Bayou Canal systems. This includes approximately 400 miles of main-line canals and laterals, and about 380,000 ac-ft. of water rights on the lower basin of the Brazos River. River water is delivered to 1) approximately 13,000 acres of commercial and hybrid seed rice in Brazoria and Galveston Counties as well as a Rice Research Facility located outside of Alvin, Texas, a provider of world-wide technology for the rice industry, 2) industrial customers served by the Canal Division include INEOS Olefins and Polymers, and Ascend Performance Materials, 3) municipal customers served include the cities of Sugar Land, Pearland and Missouri City, as well as Ft. Bend WCID #2 and Pecan Grove MUD, and 4) to the Industrial and Municipal divisions in Galveston County.

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

Water Treatment – The Authority owns and operates the Thomas S. Mackey Water Treatment Plant located in Texas City. The 50 million gallon per day (MGD) conventional surface water plant serves 13 water utilities in Galveston County. The plant was originally constructed by the City of Texas City in 1978 and acquired by the Authority in 1983. The plant's most recent expansion occurred in 2000. Those customers include the cities of Texas City, La Marque, Galveston, Hitchcock, League City, GCWCID #1, GCWCID #8, GCWCID #12, GCFWD #6, GCMUD 12, Bacliff MUD, Bayview MUD and San Leon MUD.

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

ECONOMIC CONDITIONS AND OUTLOOK

The Texas Economy. According to the DALLAS FED September 18, 2017 issue of “Texas Economic Indicators,” Texas added jobs in 12 of 13 major sectors. The Dallas Fed’s Texas Employment Forecast indicates a solid 2.6 percent annualized job growth in 2017. Employment in the energy sector posted the fastest growth at an annualized 9.9 percent in the month of August 2017, while information services and other services sector experienced steep declines. Outside of information services employment, payrolls in most sectors have expanded year to date. Additionally, Texas’ unemployment rate fell to 4.2 percent in August, which represents the lowest level since July 2007 and lower than the U.S. unemployment rate of 4.4 percent.

The Local & Regional Economy. The Authority and its customers are part of the Greater Houston Metropolitan Area. According to the Bureau of Labor Statistics, the Houston Metro Area added 54,200 jobs as of July ’17 (year over year). These gains represent an eleventh consecutive month over-the-year job gains. Local unemployment has increased nearly 0.9 percent to 5.7 percent over the past year, which is currently higher than the National rate of 4.8 percent. Much of the job loss in the Houston Metro Area may be attributed to Hurricane Harvey. In September ’17, instead of gaining 5,000 jobs, the Gulf Coast is projected to lose between 55,000 and 75,000 jobs. The overall outlook for 2017 calls for no-growth/low-growth.

GCWA’s Revenue Source

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

IMPACT OF TEXAS DROUGHT AND RECOVERY

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

The drought ended with the rainfalls that began in late April, 2015. According to the National Center of Environmental Information (formerly the National Climate Data Center), the 2015 precipitation totals for the contiguous U.S. was the third wettest year on record, with only 1973 and 1983 recording more precipitation. The latest published information from the National Weather Service Climate Prediction Center (November 2017) gives an early indication of returning drought conditions for much of Texas. According to the National Centers for Environmental Information, globally 2017 is the third warmest year on record going back over the last 138 years. This adds confirmation that the Authority must continue to seek additional firm water supplies to insure against the next drought.

The Authority has undertaken multiple studies over the past six years attempting to find affordable alternatives. Those studies have looked at a water supply from other river basins, seawater desalination, reuse, brackish desalination, groundwater from the Carrizo-Wilcox aquifer, as well as development of additional surface water storage on the Brazos River. At this time, further development of water supplies on the Brazos River presents the best alternative for the Authority to focus its attention. Meanwhile, the

Authority will continue to work with the Brazos River Authority and its customers through annual purchases of interruptible stored water to meet our customers' needs.

FINANCIAL INFORMATION

Management of the Authority is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Authority are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As demonstrated by the statements and schedules included in the financial section of this report as well as the Management Discussion and Analysis ("MD&A") also included herein, the Authority continues to meet its responsibility for sound financial management. The Authority recommends that readers closely review each section of this report including the review provided by the MD&A in order to have a thorough understanding of the Authority, its activities, financial position, and results of operations.

MAJOR INITIATIVES

Major initiatives of the Industrial Division included issuing bond debt and groundbreaking for two of the Authority's largest capital investments to date. The first being the replacement of all inlet and outlet flow control structures on the 1948 Texas City Industrial Reservoir at an estimated cost of \$11,555,000. Second, replacement of the Texas City Industrial Pump Station that will bear the name, "Joseph A. Wilhelm Industrial Pump Station" at a cost of \$18,135,000, (Mr. Wilhelm being the first full-time General Manager of the Authority.)

Major initiatives at the Water Treatment Plant included the replacement of the Thomas Mackey Water Treatment Plant roof at a cost of \$537,000. Additional projects were Reactor-Clarifier No. 3 Launder replacements and recoating at a cost of \$240,600, design and construction of the Sediment Basin #1 at a cost of \$577,300 and LPU#3 (Local Power Unit) in the Control Building as well as replacement of twelve PLC Panels (Programmable Logic Controllers) in the Filter Pipe Gallery at a cost of \$265,500.

Major initiatives at the Canal Division included the completion of the reconstruction of the Lateral 10 Diversion structure on the A Canal System at a cost of \$247,900. Additionally, the Canal Division saw the replacement of dual 72-inch diameter aerial pipe crossing of the Madera Ditch at a cost of \$101,500 and installation of TCEQ mandated Takepoint Meter Stations at the Shannon Plant Pump Station (\$147,800) and Briscoe Plant Pump Station (\$89,600).

Major initiatives at the Chocolate Bayou section of the Canal Division included the purchase of another 10 Irrigation Meters at a cost of \$145,100, providing enough meters to measure water usage at each farmer's fields. Additionally, the Chocolate Bayou section continues to work with the US Army Corps of Engineers and the Authority's engineering design consultants on improvements to Chocolate Bayou Salt Water Barrier at a cost of \$50,600-now into its fourth year, the installation of a TCEQ mandated Takepoint Meter Station at the William J May Plant (\$108,800) and continued work on the William J May Plant #2 Steel Support Structure project at a cost of \$112,300.

A significant rolling stock purchase was addition of a new Komatsu Short-Boom Excavator to at a cost of \$203,000.

Annual reconditioning of pumps and motors across all the Authority's assets totaled over \$601,750. This included pumps/motors at the Industrial Pump Station, Water Treatment Plant, and Briscoe Pump Station on the Brazos.

In the near term. The Authority plans to begin East Levee Improvements of the Texas City Industrial Reservoir. This is a long-needed project to stabilize the slope along this 1.5 mile section of the Texas City Industrial Reservoir with the addition an earthen structure that will increase the base of the levee by nearly fifty percent and rise up at least a third of the height of the levee.

The Authority plans to begin the construction of the second of two Sediment Basins and one Monofil at the Thomas Mackey Surface Water Treatment Plant. This project is estimated to cost \$2.1 million for phases 2 & 3 and set to go into service by September 2018. Additionally, the Authority expects to receive approval from TCEQ to increase the capacity of the Thomas Mackey Water Treatment Plant by approximately 6 million gallons a day. In order to produce and deliver this additional capacity, engineering studies will be conducted in FY 2018 to determine capital improvements that will be needed to achieve the additional output.

The Authority will also embark on replacing the Chocolate Bayou Pump Station, which is a 60+ year old pump station built on wooden pilings on the edge of Chocolate Bayou in Brazoria County. The wooden pilings are well past their life expectancy with many showing considerable signs of deterioration. The new pump station will be built adjacent to the old station sized to meet the demands of industry and farmers alike. Lastly, the Authority has identified numerous capital improvements that will be needed as a result of damages from Hurricane Harvey this past year. The potentially largest projects will be river bank slope stabilization projects on and around the Shannon and William J May Pump Station's locates along the Brazos.

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

ACKNOWLEDGEMENTS

Independent Audit. Section 49.191 of the Texas Water Code requires an annual audit of the Authority's accounting records by a certified public accountant or public accountant holding a permit from the Texas State Board of Public Accountancy and selected by the Board of Directors. The firm Whitley Penn, LLP, was selected by the Board for the 2017 fiscal year. We appreciate their professionalism, timeliness, and assistance in completing this report.

Awards. The Government Finance Officers Association of the United States and Canada ("GFOA") awarded the Certificate of Achievement for Excellence in Financial Reporting to the Authority for its Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended August 31, 2016. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

Our Employees. We congratulate our employees for another successful year of operation. Without their dedication and professionalism, we could not have provided such a high level of service to the customers of the Authority's service area. In addition, the preparation of this Comprehensive Annual Financial Report

on a timely basis was made possible by the dedicated staff of the Authority's Accounting Department. Of particular note, the Authority achieved a new safety milestone of 12 consecutive months with zero incidents.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ivan Langford".

Ivan Langford
General Manager

A handwritten signature in blue ink, appearing to read "Bob Webb".

Bob Webb
Business Manager



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Gulf Coast Water Authority
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

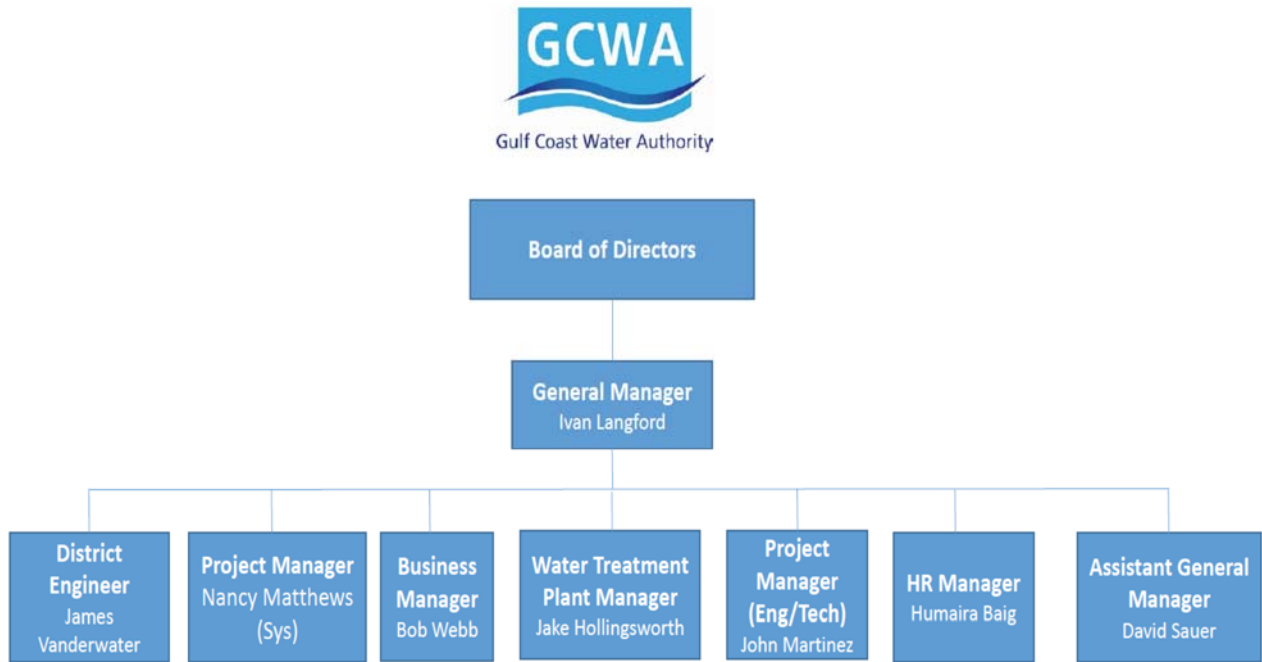
August 31, 2016

Christopher P. Morill

Executive Director/CEO

GULF COAST WATER AUTHORITY

Organizational Chart



GULF COAST WATER AUTHORITY

Board of Directors

POSITION & NAME	TITLE	TERM
GALVESTON COUNTY MUNICIPAL POSITION NO. 1 Mr. James McWhorter jmcwhorter@gcwater.org	Director Capital Project Review Committee Personnel & Compensation Committee	2017-2019
GALVESTON COUNTY INDUSTRIAL POSITION NO.1 Mr. Dave Leaver dleaver@gcwater.org	Director	2017-2019
GALVESTON COUNTY INDUSTRIAL POSITION NO. 2 Mr. C.B. "Bix" Rathburn, Ph.D. brathburn@gcwater.org	Vice President Finance and Insurance Committee Long Range Planning Committee	2016-2018
GALVESTON COUNTY AT LARGE POSITION NO. 1 Mr. Shane Hamilton shamilton@gcwater.org	Director Safety Committee Personnel & Compensation Committee *	2017-2019
GALVESTON COUNTY AT LARGE POSITION NO. 2 Mr. Brad Matlock, P.E. bmatlock@gcwater.org	Assistant Secretary Safety Committee Personnel & Compensation Committee	2016-2018
BRAZORIA COUNTY MUNICIPAL POSITION NO. 1 Mr. Eric Wilson ewilson@gcwater.org	Secretary Capital Project Review Committee Personnel & Compensation Committee	2017-2019
BRAZORIA COUNTY INDUSTRIAL POSITION NO. 1 Mr. Bennie Jones Jr. bjonesjr@gcwater.org	Treasurer Finance and Insurance Committee Long Range Planning Committee	2016-2018
BRAZORIA COUNTY AGRICULTURAL POSITION NO. 1 Mr. Cliff Mock cmock@gcwater.org	Director Safety Committee Long Range Planning Committee	2016-2018
FORT BEND COUNTY MUNICIPAL POSITION NO. 1 Mr. Russell C Jones rjones@gcwater.org	President Capital Project Review Committee Long Range Planning Committee	2017-2019
FORT BEND COUNTY AT LARGE POSITION NO. 1 Mr. Mike O'Connell moconnell@gcwater.org	Director Capital Project Review Committee Finance and Insurance Committee	2016-2018



Gulf Coast Water Authority

FINANCIAL SECTION



Gulf Coast Water Authority

REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying statements of net position and the related statements of revenues, expenses and changes in net position and cash flows of the Gulf Coast Water Authority (the “Authority”) as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gulf Coast Water Authority, as of August 31, 2017, and the respective changes in financial position and the results of cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and required other pension system supplementary information on pages 32 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The information in the other supplementary and Texas supplementary section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in the other supplementary and Texas supplementary information sections is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Whitley Penn LLP

Houston, Texas
December 21, 2017

GULF COAST WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Gulf Coast Water Authority (the "Authority") offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended August 31, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The Authority's total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$138,386,189. Of this amount, \$89,007,877 represents net investment in capital assets; \$5,758,363 is restricted net position and the remaining \$43,619,949 represents unrestricted net position.
- Operating expenses for the Authority at year-end were \$43,502,984 and were less than operating revenues by \$3,549,349.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a financial statement position. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$138,386,189 at the close of the most recent fiscal year.

	2017	2016	Increase / (Decrease)	
			\$	%
Current and other assets	\$ 79,788,226	\$ 53,119,321	\$ 26,668,905	50.2%
Capital assets	111,651,868	114,423,314	(2,771,446)	-2.4%
Total assets	<u>191,440,094</u>	<u>167,542,635</u>	<u>23,897,459</u>	14.3%
Total deferred outflows of resources	<u>2,016,988</u>	<u>2,364,818</u>	<u>(347,830)</u>	-14.7%
Current liabilities	10,840,930	9,290,066	1,550,864	16.7%
Noncurrent liabilities	<u>43,444,914</u>	<u>24,821,192</u>	<u>18,623,722</u>	75.0%
Total liabilities	<u>54,285,844</u>	<u>34,111,258</u>	<u>20,174,586</u>	59.1%
Total deferred inflows of resources	<u>785,049</u>	<u>384,766</u>	<u>400,283</u>	100.0%
Net Position:				
Net Investment in capital assets	89,007,877	86,052,697	2,955,180	3.4%
Restricted				
Debt Service	5,758,363	3,593,830	2,164,533	60.2%
Unrestricted	<u>43,619,949</u>	<u>45,764,902</u>	<u>(2,144,953)</u>	-4.7%
Total Net Position	<u>\$ 138,386,189</u>	<u>\$ 135,411,429</u>	<u>\$ 2,974,760</u>	2.2%

- Capital assets decreased by approximately \$2.8 million, a 2.4% decrease from the prior year mainly due to increased depreciation. Depreciable capital assets increased by \$9.1 million, of which \$9.1 million came from construction in progress.
- Noncurrent liabilities increased by approximately \$18.6 million, a 75.0% increase from the prior year due to the issuance of \$25.7 million of Series 2016A, Series 2016B, and Series 2017 contract revenue bonds issued for the Industrial Division, offset by principal payments of \$7.0 million.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

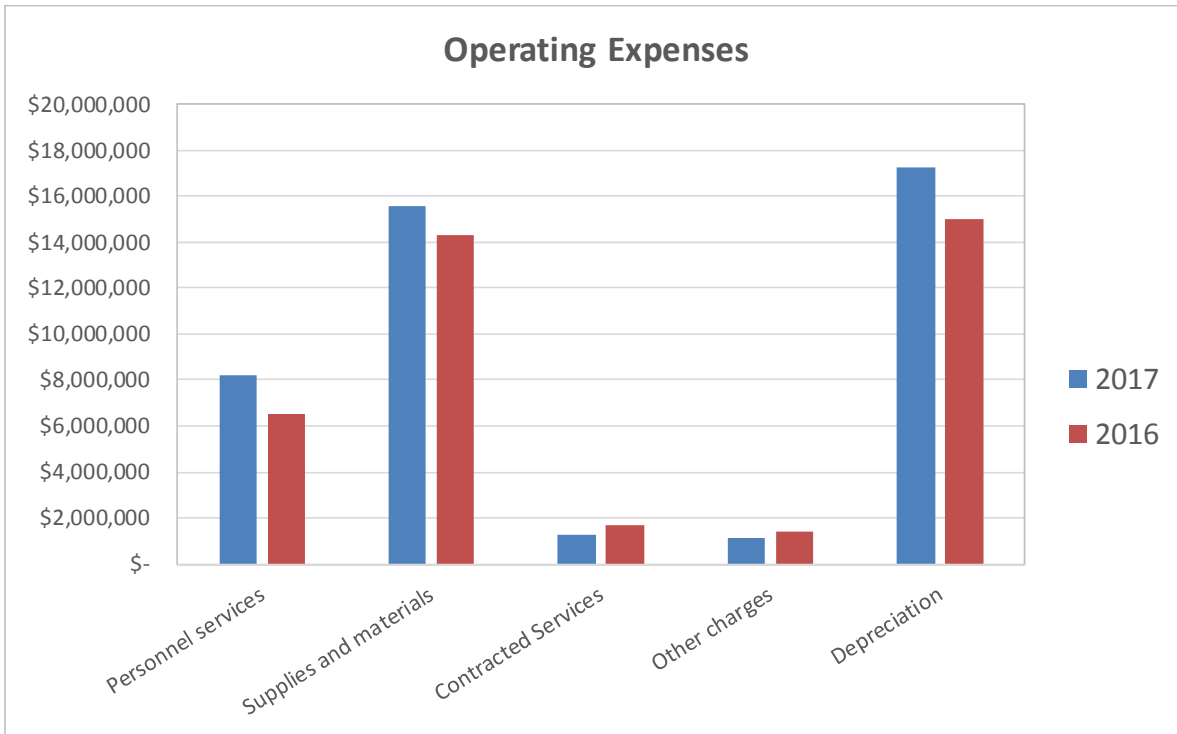
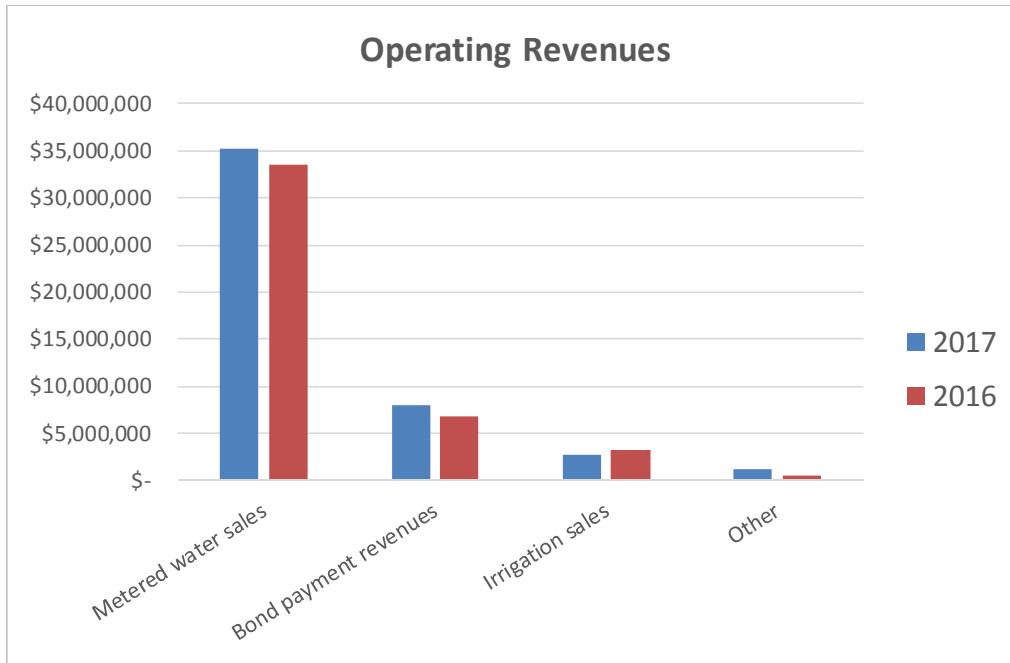
The Statement of Revenues, Expenses and Changes in Net Position measures how well annual costs are covered by fees and charges. The Authority does not seek to earn a profit in the long term. However, the Authority must cover its operations, maintenance and other costs, and provide sufficient reserves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

	2017	2016	Increase / (Decrease)	
			\$	%
Operating Revenues:				
Program revenues				
Metered water sales	\$ 35,155,368	\$ 33,425,561	\$ 1,729,807	5.2%
Bond payment revenue	7,948,943	6,725,417	1,223,526	18.2%
Irrigation sales	2,705,542	3,210,886	(505,344)	-15.7%
Other	1,242,480	493,332	749,148	151.9%
Total operating revenues	47,052,333	43,855,196	3,197,137	7.3%
Expenses:				
Personnel services	8,214,064	6,501,190	1,712,874	26.3%
Supplies and materials	15,554,551	14,283,436	1,271,115	8.9%
Contracted services	1,285,284	1,660,523	(375,239)	-22.6%
Other charges	1,163,632	1,377,152	(213,520)	-15.5%
Depreciation	17,285,453	15,026,000	2,259,453	15.0%
Total expenses	43,502,984	38,848,301	4,654,683	12.0%
Operating income (loss)	3,549,349	5,006,895	(1,457,546)	
Non-operating revenues (expenses)	(574,589)	(2,326,430)	1,751,841	-75.3%
Change in Net Position	2,974,760	2,680,465	294,295	11.0%
Net Position, beginning	135,411,429	133,507,008	1,904,421	1.4%
Prior Period Adjustment	-	(776,044)	776,044	
Net Position, ending	\$ 138,386,189	\$ 135,411,429	\$ 2,974,760	2.2%

- Metered water sales increased by approximately \$1.7 million or 5.2%, due to an increase in budgeted expenditures and an increase in water sales from the City of Houston Southeast Water Treatment Plant.
- Irrigation sales decreased by \$0.5 million or 15.7%, due to a decrease of acres watered in 2017.
- Supplies and materials increased by approximately \$1.3 million due to increased raw water cost from Brazos River Authority. Additionally, GCWA experienced a significant increase of water purchases as well as an increase in the cost of water from the City of Houston.
- Depreciation expense increased by approximately \$2.3 million or 15.0%, due to an increase in depreciable assets in the current fiscal year.

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

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



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

CAPITAL ASSETS AND LONG-TERM DEBT

CAPITAL ASSETS

The Authority's capital assets totaled \$111,651,868 as of August 31, 2017. These capital assets include land; construction in progress; office furniture, fixtures and equipment; other machinery and equipment; automobiles and trucks; buildings; and infrastructure. The total net decrease in the Authority's capital assets for the current fiscal year was 2.4%.

	2017	2016	Increase/(Decrease)	
			\$	%
Land	\$ 1,959,588	\$ 1,959,588	\$ -	
Construction in progress	13,083,874	7,680,440	5,403,434	70.4%
Infrastructure	249,523,137	241,680,389	7,842,748	3.2%
Buildings	4,418,977	3,745,197	673,780	18.0%
Plant and equipment	7,849,927	7,255,887	594,040	8.2%
Less accumulated depreciation	(165,183,635)	(147,898,187)	(17,285,448)	11.7%
Total	\$ 111,651,868	\$ 114,423,314	\$ (2,771,446)	-2.4%

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

LONG-TERM DEBT

At the end of the current fiscal year, the Authority had long-term debt outstanding of \$47.4 million. The debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

	2017	2016	Increase/(Decrease)	
			\$	%
Revenue bonds	\$ 46,393,000	\$27,710,000	\$ 18,683,000	67.4%
Bond premiums	989,538	1,229,566	(240,028)	-19.5%
Totals	\$ 47,382,538	\$28,939,566	\$ 18,442,972	63.7%

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Administrator, 3630 FM 1765, Texas City, Texas 77591.



Gulf Coast Water Authority

BASIC FINANCIAL STATEMENTS

GULF COAST WATER AUTHORITY

Statement of Net Position

August 31, 2017

Assets

Current Assets:

Cash and cash equivalents	\$ 1,708,602
Investments	40,396,919
Accounts receivable	6,205,683
Interest receivable	79,394
Prepaid items	720,333
Restricted:	
Cash and cash equivalents	11,806
Investments	30,665,489

Total current assets 79,788,226

Noncurrent Assets:

Capital assets, not subject to depreciation	15,043,462
Capital assets net of accumulated depreciation	96,608,406
Total capital assets (net of accumulated depreciation)	<u>111,651,868</u>
Total assets	<u>191,440,094</u>

Deferred Outflows of Resources

Deferred loss on refunding	118,145
Deferred outflows for pension	1,898,843
Total deferred outflows of resources	<u>2,016,988</u>

Liabilities

Current liabilities:

Accounts payable and accrued liabilities	4,511,626
Accrued wages payable	439,611
Current portion of bonds payable	5,385,000
Accrued interest payable	84,606
Current portion of compensated absences	420,087
Total current liabilities	<u>10,840,930</u>

Noncurrent liabilities:

Revenue bonds payable (net of premiums and discounts)	41,905,250
Compensated absences (less current portion)	840,175
Net pension liability	699,489

Total noncurrent liabilities 43,444,914

Total liabilities 54,285,844

Deferred Inflows of Resources

Deferred gain on refunding	306,212
Deferred inflows for pension	478,837

Total Deferred Inflows of Resources 785,049

Net Position

Net investment in capital assets	89,007,877
Restricted for:	
Debt service	5,758,363
Unrestricted	43,619,949

Total Net Position \$ 138,386,189

See notes to the financial statements

GULF COAST WATER AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended August 31, 2017

Operating revenues	
Charges for sales and services:	
Metered Water Sales	\$ 35,155,368
Bond Payment Revenue	7,948,943
Irrigation	2,705,542
Other	1,242,480
Total operating revenues	<u>47,052,333</u>
Operating expenses	
Personnel services	8,214,064
Supplies and materials	15,554,551
Contractual services	1,285,284
Other charges	1,163,632
Depreciation	17,285,453
Total operating expenses	<u>43,502,984</u>
Operating income (loss)	<u>3,549,349</u>
Non-operating revenues (expenses)	
Investment income (loss)	311,266
Interest expense	(1,336,523)
Amortization of deferred charges and premium	450,668
Total non-operating revenues (expenses)	<u>(574,589)</u>
Changes in Net Position	2,974,760
Beginning Net Position	<u>135,411,429</u>
Ending Net Position	<u>\$ 138,386,189</u>

See notes to the financial statements

GULF COAST WATER AUTHORITY*Page 1 of 2**Statement of Cash Flows**For the Year Ended August 31, 2017***Cash Flows from Operating Activities**

Receipts from customers	\$ 47,419,121
Payments to suppliers	(16,567,015)
Payments to employees	(7,191,149)
Net cash provided by operating activities	<u>23,660,957</u>

Cash Flows from Capital and Related Financing Activities

Acquisition and construction of capital assets	(14,527,655)
Principal paid on bonds	(7,007,000)
Proceeds from sale of revenue bonds	25,690,000
Interest paid on capital related debt	(1,319,238)
Net cash provided (used) by capital and related financing activities	<u>2,836,107</u>

Cash Flows from Investing Activities

Purchase of investments	(55,095,236)
Interest received	283,496
Net cash used by investing activities	<u>(54,811,740)</u>

Net increase (decrease) in cash and cash equivalents

(28,314,676)

Beginning cash and cash equivalents30,035,084**Ending cash and cash equivalents**\$ 1,720,408

Unrestricted cash and cash equivalents	\$ 1,708,602
Restricted cash and cash equivalents	11,806
Ending cash and cash equivalents	<u>\$ 1,720,408</u>

See notes to the financial statements.

GULF COAST WATER AUTHORITY*Page 2 of 2**Statement of Cash Flows (continued)**For the Year Ended August 31, 2017***Reconciliation of Operating Income (Loss) to Net Cash
Provided by Operating Activities**

Operating income (loss)	\$	3,549,349
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation		17,285,453
Changes in Operating Assets and Liabilities		
(Increase) decrease in assets:		
Accounts receivable		366,788
Prepays		(213,715)
Deferred outflows for pensions		465,975
Increase (decrease) in liabilities:		
Accounts payable		1,650,167
Wages payable		168,239
Compensated absences payable		53,468
Deferred inflows for pensions		417,841
Net pension liability		(82,608)
Net cash provided by operating activities	\$	<u>23,660,957</u>

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The accounting and reporting policies of the Gulf Coast Water Authority (the “Authority”), a governmental agency and political subdivision of the State of Texas, conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the more significant policies consistently applied in the preparation of the accompanying financial statements:

A. Reporting Entity

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

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

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

As a single purpose government engaging only in business type activities, the Authority follows enterprise fund accounting. Enterprise Funds have a net income or economic resources measurement focus and are accounted for using the accrual basis of accounting, under which revenues are recognized when they are earned including unbilled water which is accrued. Expenses are recognized at the time the liability is incurred. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the Statement of Net Position.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash and Cash Equivalents

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

D. Accounts Receivable

Accounts receivable consist of balances due from customers of the various activities of the Authority. The allowance for doubtful accounts is established to provide an estimate of bad debts charged to revenues. Losses are charged against the allowance when management believes the collectability of a receivable is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. As of August 31, 2017, no allowance for bad debts is recorded.

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

E. Capital Assets

Depreciation is provided for in amounts sufficient to relate the cost of the depreciable property to operations on a straight-line basis over their estimated useful lives in the Enterprise Funds. The Authority's policy is to capitalize assets with an initial cost exceeding \$5,000 and useful life of three years or greater.

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

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

F. Deferred Outflows and Inflows of Resources

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

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

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

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

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

G. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas County and District Retirement System (“TCDRS”) and additions to/deductions from TCDRS’s Fiduciary Net Position have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

H. Unamortized Bond Discounts and Premiums

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

I. Prepaid Items

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

J. Reclassifications

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

K. Estimates

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

L. Date of Management’s Review

Subsequent events have been evaluated through December 21, 2017, which is the date the financial statements were available to be issued.

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

M. Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net position net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent bond proceeds.

Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net position represents the remaining portion of net position.

A summary of net investment in capital assets by division as of August 31, 2017, follows:

	Capital Assets Net of Depreciation	Unspent Bond Proceeds	Capital Related Bonds Payable*	Net Investment In Capital Assets
Industrial Division	\$ 18,644,072	\$ 24,834,326	\$ (24,885,000)	\$ 18,593,398
League City SE Water Purification Plant (SEWPP)	18,418,256	-	(1,015,781)	17,402,475
Thomas Mackey Water Treatment Plant	8,358,729	-	-	8,358,729
Canal Division	8,542,394	-	-	8,542,394
Galveston County WCID #12	92,110	-	-	92,110
1997 Galveston Projects	314,888	-	-	314,888
1998 A-B Series South Projects	11,921,071	-	(13,324,626)	(1,403,555)
1998 C Series Texas City Projects	5,987,455	-	(3,679,440)	2,308,015
1998 D Series La Marque Projects	1,179,565	-	(1,178,615)	950
2002 Series Galveston Projects	9,319,882	-	(3,394,855)	5,925,027
Juliff Chocolate Bayou Operations	4,305,377	-	-	4,305,377
Pearland SE Water Purification Plant (SEWPP)	24,131,621	-	-	24,131,621
Northline Group	103,371	-	-	103,371
Bayshore Group	52,397	-	-	52,397
Administrative Operations	280,680	-	-	280,680
	<u>\$ 111,651,868</u>	<u>\$ 24,834,326</u>	<u>\$ (47,478,317)</u>	<u>\$ 89,007,877</u>

* Includes premium and deferred gains/losses on refunding

A summary of net position restricted for debt service as of August 31, 2017 follows:

	Restricted Cash and Investments for Debt Service	Liabilities Payable from Restricted Cash and Investments for Debt Service	Total
Industrial Division	\$ 1,827,909	\$ (46,190)	\$ 1,781,719
League City SE Water Purification Plant (SEWPP)	256,397	(1,518)	254,879
1998 A-B South Projects	2,388,014	(23,832)	2,364,182
1998 C Series Texas City Projects	642,970	(7,063)	635,907
1998 D Series La Marque Projects	239,873	(2,210)	237,663
2002 Galveston Projects	81,136	(3,793)	77,343
Total	<u>\$ 5,842,969</u>	<u>\$ (84,606)</u>	<u>\$ 5,758,363</u>

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Cash and Cash Equivalents and Investments

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

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

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

Deposits

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

As of August 31, 2017, all cash and cash equivalents were secured by FDIC coverage or pledged securities.

Investments

The Authority's investment policy is in accordance with the Public Funds Investment Act and federal and state laws. The statutes authorize the Authority to invest in obligations of the U.S. Treasury, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, investment pools, qualified commercial paper, and common trust funds.

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$ 28,563,246	40.2%	51
FHLMC	4,500,000	6.3%	257
FAMC	1,000,000	1.4%	229
US Treasury Securities	9,485,764	13.4%	120
Commercial Paper	27,512,918	38.7%	52
Total fair value	<u>\$ 71,061,928</u>	<u>100%</u>	76

Note 3 - Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Reclassifications/ Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 1,959,588	\$ -	\$ -	\$ 1,959,588
Construction in progress	7,680,440	14,573,660	(9,170,226)	13,083,874
Total capital assets not being depreciated	<u>9,640,028</u>	<u>14,573,660</u>	<u>(9,170,226)</u>	<u>15,043,462</u>
Capital assets being depreciated:				
Office furniture, fixtures and equipment	546,848	49,367	-	596,215
Other machinery and equipment	5,509,595	314,979	-	5,824,574
Automobiles and trucks	1,199,444	229,694	-	1,429,138
Buildings	3,745,197	673,780	-	4,418,977
Infrastructure	241,680,389	7,856,401	(13,653)	249,523,137
Total capital assets being depreciated	<u>252,681,473</u>	<u>9,124,221</u>	<u>(13,653)</u>	<u>261,792,041</u>
Less accumulated depreciation for:				
Office furniture, fixtures and equipment	(402,858)	(58,128)	-	(460,986)
Other machinery and equipment	(3,684,815)	(435,959)	-	(4,120,774)
Automobiles and trucks	(806,735)	(181,761)	-	(988,496)
Buildings	(2,309,641)	(329,577)	-	(2,639,218)
Infrastructure	(140,694,138)	(16,280,028)	5	(156,974,161)
Total accumulated depreciation	<u>(147,898,187)</u>	<u>(17,285,453)</u>	<u>5</u>	<u>(165,183,635)</u>
Total capital assets being depreciated, net	<u>104,783,286</u>	<u>(8,161,232)</u>	<u>(13,648)</u>	<u>96,608,406</u>
Total Capital Assets, net	<u>\$ 114,423,314</u>	<u>\$ 6,412,428</u>	<u>\$ (9,183,874)</u>	<u>\$ 111,651,868</u>

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Capital Assets (continued)

Construction in Progress

Construction in progress for the various projects and remaining commitments under these construction contracts as of August 31, 2017, is as follows:

<u>Project Description</u>	<u>Authorized Contract</u>	<u>Contract Expenditures</u>	<u>Remaining Commitment</u>
Industrial Division:			
Industrial Pump Station (IPS) Replacement	\$ 18,135,000	\$ 3,370,956	\$ 14,764,044
Reservoir Intake & Discharge Pipe & Gate	11,555,000	5,318,290	6,236,710
IPS Switchgear Upgrade	297,000	296,920	80
I-Canal Levee Improvements	100,000	24,996	75,004
Replacement of 18-in Line at Marathon-TRD	1,912,000	90,018	1,821,982
IPS VFD and Transformer	25,000	5,058	19,942
Emergency Pipe Repair-Marathon-TRD	307,000	306,840	160
IPS - Camera	19,000	18,392	608
IPS Water Supply Hydrant	50,000	49,146	854
IPS Spare Bowl Assembly	80,000	76,360	3,640
Replace Syphon at Humble Camp Road	135,000	132,306	2,694
Replace Syphon at 1st Ditch Crossing	70,000	69,832	168
Replace Clayton Clark Shell Road Crossing	69,000	68,361	639
Valve Cut-in for 42" Pipe on Grant Avenue	10,000	9,638	362
Replace Syphon at 1st Ditch Crossing	37,000	36,360	640
Totals	<u>32,801,000</u>	<u>9,873,473</u>	<u>22,927,527</u>
League City SE Water Purification Plant:			
League City Transmission Line from SEWPP	1,200,000	1,063,885	136,115
Totals	<u>1,200,000</u>	<u>1,063,885</u>	<u>136,115</u>
Thomas S Mackey Water Treatment Plant Division:			
Backwash Basin Improvements	86,000	85,282	718
Replace Transformer T3	160,000	105,222	54,778
Thickener Drive Unit CP	17,000	16,424	576
Chlorine Building Improvements	250,000	59,393	190,607
Chemical Feed Automation	50,000	33,787	16,213
Operators Control Room Equipment	200,000	83,909	116,091
Rebuild of P555 Pump Set	150,000	51,768	98,232
San Leon Takepoint Meter	12,000	11,570	430
Clearwell Effluent Flow Meter	25,000	9,636	15,364
Customer Takepoint Improvements - Dickinson South	5,000	3,470	1,530
Relocate Line I-45 @ SH-96	1,600,000	9,554	1,590,446
WTP Training Room Upgrade	10,000	1,799	8,201
Deep Well Anode - Rectifier Wiring	5,000	667	4,333
Rebuild of P101 Pump Set - Low Lift	15,000	11,657	3,343
Ferric Feed System	20,000	15,700	4,300
Rebuild of P553 Pump Set	150,000	37,472	112,528
Totals	<u>2,755,000</u>	<u>537,310</u>	<u>2,217,690</u>

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Capital Assets (continued)

<u>Project Description (continued)</u>	<u>Authorized Contract</u>	<u>Contract Expenditures</u>	<u>Remaining Commitment</u>
Canal Division:			
Rebuild of P2 Pump Set-Briscoe System	\$ 350,000	\$ 317,316	\$ 32,684
Admin Office Electrical Improvements	55,000	50,157	4,843
Algoa/Friendswood Check #2	408,000	407,461	539
Replacement of ANE.010 U-33 at FM 528	114,000	22,697	91,303
Replacement of Security Fencing at Briscoe Plant	30,000	26,775	3,225
Switchgear and Relay Upgrade at Briscoe Plant	130,000	12,750	117,250
Clearing of Oyster Creek at Cullinan Park	225,000	2,020	222,980
Purchase of Land for Lateral 10: L10.015 to L10.025	403,000	26,150	376,850
Preliminary Work on G-Canal at I-45 for Freeway Expansion	85,000	37,198	47,802
Totals	<u>1,800,000</u>	<u>902,524</u>	<u>897,476</u>
Galveston County WCID #12:			
Construction of FM 517 Booster Pump Station	1,300,000	69,268	1,230,732
Totals	<u>1,300,000</u>	<u>69,268</u>	<u>1,230,732</u>
Galveston 97 Bonds:			
Feasibility Study - Galveston Wells	50,000	44,961	5,039
Rehabilitation of Galveston Causeway Line	160,000	59,139	100,861
Improvements to Virginia Point Reduction Valve	630,000	25,488	604,512
Galveston Line Extension to TxDOT Bridge	34,000	33,924	76
Totals	<u>874,000</u>	<u>163,512</u>	<u>710,488</u>
1998 A-B Series Projects:			
Alta Loma Bypass Improvements	582,000	27,305	554,695
Totals	<u>582,000</u>	<u>27,305</u>	<u>554,695</u>
Chocolate Bayou Division:			
Salt Water Barrier Improvements - Engineering Study Klotz	1,600,000	270,499	1,329,501
Replacement of Check #6 at West Mustang Reservoir	25,000	15,430	9,570
Repairs to Chocolate Bayou Reservoir South Inlet	40,000	20,900	19,100
Replacement of 3rd Underdrain at Miller Road	22,000	21,459	541
Construction of Catwalk at Check #1 - Juliff Canal	7,500	6,037	1,463
Support Structure Refurbishment at May Plant #2	457,000	112,272	344,728
Totals	<u>2,151,500</u>	<u>446,597</u>	<u>1,704,903</u>
Grand CIP Totals	<u>\$ 43,463,500</u>	<u>\$ 13,083,874</u>	<u>\$ 30,379,626</u>

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

Note 4 - Long-Term Debt

Changes in Long Term Liabilities

Total long-term liability activity for the year ended August 31, 2017, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due In More Than One Year</u>
Bonds Payable:						
Revenue bonds	\$ 27,710,000	\$25,690,000	\$ 7,007,000	\$ 46,393,000	\$ 5,385,000	\$41,008,000
Bond premiums	1,229,566	-	332,316	897,250	-	897,250
Total bonds payable	28,939,566	25,690,000	7,339,316	47,290,250	5,385,000	41,905,250
Compensated absences	1,206,794	402,819	349,351	1,260,262	420,087	840,175
Long term liabilities	\$ 30,146,360	\$26,092,819	\$ 7,688,667	\$ 48,550,512	\$ 5,805,087	\$42,745,425

Revenue bond long-term activity for the year ended August 31, 2017, is as follows:

	<u>Balances at September 01, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances at August 31, 2017</u>	<u>Due Within One Year</u>
Industrial Division					
Contract Revenue Bonds:					
Series 2016 A	\$ -	\$ 5,185,000	\$ 310,000	\$ 4,875,000	\$ 440,000
Series 2016 B	-	6,370,000	495,000	5,875,000	510,000
Series 2017	-	14,135,000	-	14,135,000	490,000
Total Industrial Division	-	25,690,000	805,000	24,885,000	1,440,000
League City Southeast Division					
Contract Revenue Bonds:					
Series 2011 F	1,210,000	-	225,000	985,000	235,000
Total League City Southeast Division	1,210,000	-	225,000	985,000	235,000
1998-A South Projects					
Contract Revenue Bonds:					
Series 2011 A	12,815,000	-	1,980,000	10,835,000	1,985,000
Series 2011 B	1,985,000	-	300,000	1,685,000	310,000
Total 1998 A-B South Projects	14,800,000	-	2,280,000	12,520,000	2,295,000
1998 C Series Texas City Projects					
Contract Revenue Bonds:					
Series 2011 C	3,820,000	-	430,000	3,390,000	450,000
Total 1998 C Series Texas City Projects	3,820,000	-	430,000	3,390,000	450,000
2002 Galveston Projects					
Contract Revenue Bonds:					
Series 2012	4,755,000	-	1,242,000	3,513,000	770,000
Total Galveston Projects	4,755,000	-	1,242,000	3,513,000	770,000
Chocolate Bayou					
Contract Revenue Bonds:					
Series 2006	1,045,000	-	1,045,000	-	-
Total Chocolate Bayou	1,045,000	-	1,045,000	-	-
1997 Series Galveston Projects					
Contract Revenue Bonds:					
Series 2011 E	795,000	-	795,000	-	-
Total 1997 Series Galveston Projects	795,000	-	795,000	-	-
1998 D Series La Marque Projects					
Contract Revenue Bonds:					
Series 2011 D	1,285,000	-	185,000	1,100,000	195,000
Total 1998 D Series La Marque Projects	1,285,000	-	185,000	1,100,000	195,000
Total Bonds Payable	\$ 27,710,000	\$25,690,000	\$ 7,007,000	\$ 46,393,000	\$ 5,385,000

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

Note 4 - Long-Term Debt (continued)

Maturities of bonds payable is as follows:

Years	Principal	Interest	Total
2018	\$ 5,385,000	\$ 1,890,688	\$ 7,275,688
2019	5,710,000	1,579,209	7,289,209
2020	5,945,000	1,332,100	7,277,100
2021	6,155,000	1,110,893	7,265,893
2022	6,573,000	863,545	7,436,545
2023	9,825,000	2,243,351	12,068,351
2024	6,800,000	656,239	7,456,239
Total	\$ 46,393,000	\$ 9,676,025	\$ 56,069,025

Note 5 - Compensated Absences

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

Full-time employees will accrue vacation hours each pay period beginning on their hire date. Employees will be able to take vacation upon completion of ninety (90) days of service. The maximum accrued balance an employee may carry is two times their annual accrual limit. At August 31, 2017, accrued compensated absences are \$1,260,262.

Note 6 - Defined Benefit Pension Plan

Plan Description

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

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

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

Note 6 - Defined Benefit Pension Plan (continued)

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

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Funding Policy/Contributions

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

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

Net Pension Liability (Asset)

The Authority's Net Pension Liability (Asset) ("NPL" or "NPA") was measured as of December 31, 2016, and the Total Pension Liability ("TPL") used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Real rate of return	5.0%
Inflation	3.0%
Long-term investment return	8.0%
Growth in membership	0.0%
Payroll growth	0.5%

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

Note 6 - Defined Benefit Pension Plan (continued)

Actuarial Assumptions (continued)

Salary increases were based on a service-related table. Mortality rates for active depositing members were based on the RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Mortality Table for females with a four-year setback, both with the projection scale AA and then projected with 110% of the MP-2014 Ultimate scale thereafter. Mortality rates for service retirees, beneficiaries and non-depositing members were based on the RP-2000 Combined Mortality Table with the projection scale AA, with a one-year set-forward for males and no age adjustment for females. Mortality rates for disabled retirees were based on the RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale thereafter, with no age adjustment for males and a two-year set-forward for females.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TCDRS was for the period January 1, 2009 through December 31, 2012, except where required to be different by GASB 68. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2012, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (“EAN”) actuarial cost method. Assumptions are reviewed annually.

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

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

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected Minus Inflation)
US Equities	13.50%	4.70%
Private Equity	16.00%	7.70%
Global Equities	1.50%	5.00%
International Equities - Developed	10.00%	4.70%
International Equities - Emerging	7.00%	5.70%
Investment-Grade Bonds	3.00%	60.00%
High-Yield Bonds	3.00%	3.70%
Opportunistic Credit	2.00%	3.83%
Direct Lending	10.00%	8.15%
Distressed Debt	3.00%	6.70%
REIT Equities	2.00%	3.85%
Master Limited Partnerships	3.00%	5.60%
Private Real Estate Partnerships	6.00%	7.20%
Hedge Funds	20.00%	3.85%
Total Assets	100.00%	7.26%

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

Note 6 - Defined Benefit Pension Plan (continued)

Changes in Actuarial Valuation

Legislation effective in 2017 changed the fund structure for TCDRS. Previously, when a member retired, assets were transferred to a system-wide fund (the Current Service Annuity Reserve Fund or CSARF) and the associated benefit was paid from the CSARF. Effective January 1, 2017, benefits that were previously paid from the CSARF will now be paid by the retiree's former employer. CSARF assets have been allocated back to the employer in proportion to their share of the liabilities. For valuation purposes, this allocation is treated as having occurred on December 31, 2016.

The asset smoothing method was modified to provide more stable year-to-year changes. The recognition period remains five years.

The treatment of extra contributions due to employer lump sums or elected rates was changed to provide more immediate impact on employer liabilities, resulting in a greater reduction in the required contribution rate.

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.10%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of December 31, 2015	\$ 21,203,830	\$ 20,421,733	\$ 782,097
Changes for the Year			
Service cost	521,896	-	521,896
Interest on total pension liability	1,705,631	-	1,705,631
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	(541,362)	-	(541,362)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(39,657)	(39,657)	-
Benefit payments	(781,376)	(781,376)	-
Administrative expenses	-	(16,435)	16,435
Member contributions	-	302,310	(302,310)
Net investment income	-	1,511,562	(1,511,562)
Employer contributions	-	374,433	(374,433)
Other	-	(403,097)	403,097
Balances as of December 31, 2016	\$ 22,068,962	\$ 21,369,473	\$ 699,489

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

Note 6 - Defined Benefit Pension Plan (continued)

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

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

	1% Decrease in Discount Rate 7.1%	Discount Rate 8.1%	1% Increase in Discount Rate 9.1%
Total pension liability	\$ 24,694,352	\$ 22,068,962	\$ 19,855,522
Fiduciary net position	21,369,474	21,369,473	21,369,474
	<u>\$ 3,324,878</u>	<u>\$ 699,489</u>	<u>\$ (1,513,952)</u>

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

For the year ended August 31, 2017, the Authority recognized pension expense of \$801,208.

As of August 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experiences	\$ 203,583	\$ 478,837
Changes in assumptions	87,253	-
Net difference between projected and actual earnings	1,356,031	-
Contributions made subsequent to the measurement date	251,976	-
	<u>\$ 1,898,843</u>	<u>\$ 478,837</u>

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

<u>Year Ended December 31,</u>	<u>Amount</u>
2017	\$ 470,058
2018	470,058
2019	312,143
2020	(84,229)
	<u>\$ 1,168,030</u>

Note 7 - Contingent Liability

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

GULF COAST WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Contracts

Customer Contracts

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

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

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

Note 9 - Employee 401(K) Plan Trust

The Authority adopted the Gulf Coast Water Authority Employee 401(K) Plan (the "Plan") for the benefit of its employees. The Plan is exempt from tax under section 501(a) of the Internal Revenue Code of 1986, by reason of qualifying under section 401 (a) of the Code. The Plan is self-directed, as each participant directs the Trustees as to the investment of the assets for each participant's account. Employer contributions are 4% of gross income for employees hired prior to January 1, 1999, the effective date of the Plan. For employees employed after the effective date of the Supplemental Plan, the Authority will match on a dollar-for-dollar basis up to a maximum of 4% of employee's gross income from the Authority to the Supplemental Plan; any employee would be vested in 100% of the Authority's contributions to the Supplemental Plan who has been employed with the Authority for three (3) years of continuous service, including service prior to the effective date of the Supplemental Plan. Employees may contribute to the plan up to the maximum amount permitted under the Internal Revenue Code. Total employer contributions for the year ended August 31, 2017, were \$159,266.

Note 10 - Insurance

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries; and natural disasters. Significant losses are covered by insurance as described below. There were no reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years. Risk of loss retained by the Authority is the annual premium plus the related deductibles. No uninsured losses for the year exceeded these amounts.

At August 31, 2017, the Authority had a property and machinery breakdown coverage of \$58,890,410; flood and earth movement coverage of \$5,000,000; general liability coverage with a per occurrence limit of \$1,000,000 and a general aggregate limit of \$3,000,000; umbrella liability of \$1,000,000; director's liability of \$5,000,000; automobile liability of \$1,000,000; and workers compensation with statutory coverage.

All coverages with the exception of automobile and workers compensation are insured with admitted A.M. Best rated A insurance companies. The automobile and workers compensation are placed with Texas Municipal League Intergovernmental Risk Pool. The Authority participates in the Texas Municipal League Intergovernmental Risk Pool. Risk of loss retained by the Authority is the annual premium plus the related deductibles. No uninsured losses for the year exceeded these amounts.



Gulf Coast Water Authority

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service cost	\$ 521,896	\$ 446,105	\$ 424,292
Interest on total pension liability	1,705,631	1,600,213	1,451,551
Effect of plan changes	-	(50,096)	-
Effect of economic/demographic gains or losses	(541,362)	(76,245)	-
Effect of assumptions changes or inputs	-	145,422	-
Difference between expected and actual performance	-	-	508,957
Refund of contributions	(39,657)	(52,491)	-
Benefit payments/refunds of contributions	<u>(781,376)</u>	<u>(637,742)</u>	<u>(526,744)</u>
Net change in total pension liability	865,132	1,375,166	1,858,056
Total pension liability, beginning	<u>21,203,830</u>	<u>19,828,664</u>	<u>17,970,608</u>
Total pension liability, ending (a)	<u>\$ 22,068,962</u>	<u>\$ 21,203,830</u>	<u>\$ 19,828,664</u>
Fiduciary Net Position			
Employer contributions	\$ 374,433	\$ 332,112	\$ 550,788
Member contributions	302,310	268,141	242,851
Investment income net of investment expenses	1,511,562	(222,362)	1,283,888
Benefit payments	(781,376)	(637,742)	(526,744)
Refunds of contributions	(39,657)	(52,491)	-
Administrative expenses	(16,435)	(14,817)	(15,246)
Other	<u>(403,097)</u>	<u>23,896</u>	<u>365,134</u>
Net change in fiduciary net position	947,740	(303,263)	1,900,671
Fiduciary net position, beginning	<u>20,421,733</u>	<u>20,724,996</u>	<u>18,824,325</u>
Fiduciary net position, ending (b)	<u>\$ 21,369,473</u>	<u>\$ 20,421,733</u>	<u>\$ 20,724,996</u>
Net pension liability / (asset), ending = (a) - (b)	\$ 699,489	\$ 782,097	\$ (896,332)
Fiduciary net position as a % of total pension liability	96.83%	96.31%	104.52%
Pensionable covered payroll	4,404,012	3,830,584	3,469,295
Net pension liability as a % of covered payroll	15.88%	20.42%	-25.84%

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

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

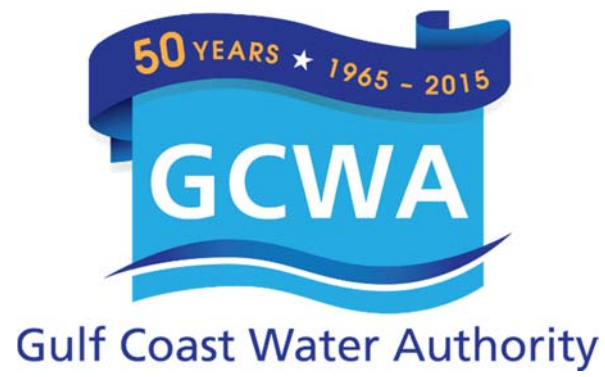
Year Ending August 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	\$ 332,112	\$ 332,112	\$ -	\$ 3,830,588	8.7%
2016	363,871	363,871	-	4,198,263	8.7%
2017	381,828	381,828	-	4,404,012	8.7%

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



Gulf Coast Water Authority

OTHER SUPPLEMENTARY INFORMATION



GULF COAST WATER AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES-
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended August 31, 2017

	Budgeted Amounts		Actual	Variance from Final
	Original	Final		
Operating Revenues:				
Metered water sales	\$ 49,931,003	\$ 49,931,003	\$ 48,143,952	\$ (1,787,051)
Bond payment revenue	8,947,345	8,947,345	7,948,943	(998,402)
Irrigation sales	1,583,244	1,583,244	2,705,542	1,122,298
Total Operating Revenues	\$ 60,461,592	\$ 60,461,592	\$ 58,798,437	\$ (1,663,155)
Operating Expenses:				
Personnel services	7,413,952	7,413,952	8,214,064	800,112
Supplies and materials	28,986,062	28,986,062	28,543,135	(442,927)
Contract services	2,459,717	2,459,717	1,285,284	(1,174,433)
Other charges	1,348,581	1,348,581	1,163,632	(184,949)
Capital	32,633,600	32,633,600	14,527,655	(18,105,945)
Total Operating Expenses	72,841,912	72,841,912	53,733,770	(19,108,142)
Nonoperating Revenues (Expenses)				
Investment earnings	216,345	216,345	311,266	94,921
Other revenues and (expenses)	43,000	43,000	1,242,480	1,199,480
Other sources	19,515,000	19,515,000	25,690,000	6,175,000
Interest expense	(3,998,081)	(3,998,081)	(1,336,523)	2,661,558
Total Nonoperating Revenues (Expenses)	15,776,264	15,776,264	25,907,223	10,130,959
Change in Net Position	3,395,944	3,395,944	30,971,890	27,575,946
Net Position at Beginning of Year	135,411,429	135,411,429	135,411,429	-
Net Position at End of Year	\$ 138,807,373	\$ 138,807,373	\$ 166,383,319	\$ 27,575,946
Reconciliation to GAAP based Financial Statements				
Net Position budgetary basis			\$ 166,383,319	
Add: Capital outlay			14,527,655	
Add: Amortization of bond premiums			450,668	
Less: Depreciation			(17,285,453)	
Less: Revenue bonds issued			(25,690,000)	
Net Position GAAP Basis			\$ 138,386,189	

GULF COAST WATER AUTHORITY
COMBINING INFORMATION BY DIVISION - NET POSITION
August 31, 2017

	<u>Industrial Division</u>	<u>League City SE Water Purification Plant</u>	<u>Thomas S. Mackey Water Treatment Plant</u>	<u>Canal Division</u>
Assets				
Current Assets:				
Cash and cash equivalents	\$ 44,002	\$ 567,357	\$ 185,126	\$ 204,613
Investments	11,047,946	72,485	7,149,567	13,062,437
Accounts receivable	877,205	290,457	1,240,763	931,034
Interest receivable	69,811	20	2,412	4,259
Due from other divisions	-	-	-	-
Prepaid items	-	-	-	658,313
Restricted:				
Cash and cash equivalents	-	1,513	-	-
Investments	26,662,235	254,884	-	-
Total current assets	<u>38,701,199</u>	<u>1,186,716</u>	<u>8,577,868</u>	<u>14,860,656</u>
Capital Assets				
Capital assets, non depreciable	10,717,239	1,063,885	1,185,067	1,349,613
Capital assets, net of accumulated depreciation	7,926,833	17,354,371	7,173,662	7,192,781
Total capital assets	<u>18,644,072</u>	<u>18,418,256</u>	<u>8,358,729</u>	<u>8,542,394</u>
Total assets	<u>57,345,271</u>	<u>19,604,972</u>	<u>16,936,597</u>	<u>23,403,050</u>
Deferred Outflows of Resources				
Deferred loss on refunding	-	-	-	-
Deferred outflows for pension	132,900	-	683,600	740,543
Total deferred outflows of resources	<u>132,900</u>	<u>-</u>	<u>683,600</u>	<u>740,543</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	1,690,967	732,980	1,061,001	294,780
Accrued wages payable	24,910	25	142,370	160,234
Current portion of bonds payable	1,440,000	235,000	-	-
Accrued interest payable	46,190	1,518	-	-
Due to other divisions	42,263	3,995	132,576	133,173
Current portion of compensated absences	21,141	13	67,614	149,124
Total current liabilities	<u>3,265,471</u>	<u>973,531</u>	<u>1,403,561</u>	<u>737,311</u>
Noncurrent liabilities:				
Revenue bonds payable (net of premiums and discounts)	23,445,000	780,781	-	-
Compensated absences (less current portion)	42,283	27	135,229	298,247
Net pension liability	49,000	-	251,800	272,789
Total noncurrent liabilities	<u>23,536,283</u>	<u>780,808</u>	<u>387,029</u>	<u>571,036</u>
Total liabilities	<u>26,801,754</u>	<u>1,754,339</u>	<u>1,790,590</u>	<u>1,308,347</u>
Deferred Inflows of Resources				
Deferred gain on refunding	-	-	-	-
Deferred inflows for pension	33,500	-	172,400	186,737
Total deferred inflows of resources	<u>33,500</u>	<u>-</u>	<u>172,400</u>	<u>186,737</u>
Net Position				
Net investment in capital assets	18,593,398	17,402,475	8,358,729	8,542,394
Restricted for:				
Debt service	1,781,719	254,879	-	-
Unrestricted	10,267,800	193,279	7,298,478	14,106,115
Total Net Position	<u>\$ 30,642,917</u>	<u>\$ 17,850,633</u>	<u>\$ 15,657,207</u>	<u>\$ 22,648,509</u>

Galveston County WCID #12	1997 Galveston Projects	1998 A-B Series South Projects	1998 C Series Texas City Projects	1998 D La Marque Projects	2002 Galveston Projects
\$ 23,838	\$ 109,119	\$ 106,282	\$ (4,115)	\$ 249	\$ (2,350)
-	266,916	-	-	-	-
12,743	27,077	278,059	51,623	20,815	71,272
-	64	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	3,481	1,511	1,954	3,330
-	-	2,384,533	641,459	237,919	77,806
<u>36,581</u>	<u>403,176</u>	<u>2,772,355</u>	<u>690,478</u>	<u>260,937</u>	<u>150,058</u>
69,268	163,512	27,305	-	-	-
<u>22,842</u>	<u>151,376</u>	<u>11,893,766</u>	<u>5,987,455</u>	<u>1,179,565</u>	<u>9,319,882</u>
<u>92,110</u>	<u>314,888</u>	<u>11,921,071</u>	<u>5,987,455</u>	<u>1,179,565</u>	<u>9,319,882</u>
<u>128,691</u>	<u>718,064</u>	<u>14,693,426</u>	<u>6,677,933</u>	<u>1,440,502</u>	<u>9,469,940</u>
-	-	-	-	-	118,145
-	19,000	-	-	-	-
-	19,000	-	-	-	118,145
57,287	7,921	10,588	-	-	-
39	2,038	39	-	-	-
-	-	2,295,000	450,000	195,000	770,000
-	-	23,832	7,063	2,210	3,793
-	4,704	-	-	-	-
852	1,400	2,877	-	-	-
<u>58,178</u>	<u>16,063</u>	<u>2,332,336</u>	<u>457,063</u>	<u>197,210</u>	<u>773,793</u>
-	-	10,773,053	3,179,801	983,615	2,743,000
1,704	2,799	5,754	-	-	-
-	7,000	-	-	-	-
<u>1,704</u>	<u>9,799</u>	<u>10,778,807</u>	<u>3,179,801</u>	<u>983,615</u>	<u>2,743,000</u>
<u>59,882</u>	<u>25,862</u>	<u>13,111,143</u>	<u>3,636,864</u>	<u>1,180,825</u>	<u>3,516,793</u>
-	-	256,573	49,639	-	-
-	4,800	-	-	-	-
-	4,800	256,573	49,639	-	-
92,110	314,888	(1,403,555)	2,308,015	950	5,925,027
-	-	2,364,182	635,907	237,663	77,343
(23,301)	391,514	365,083	47,508	21,064	68,922
<u>\$ 68,809</u>	<u>\$ 706,402</u>	<u>\$ 1,325,710</u>	<u>\$ 2,991,430</u>	<u>\$ 259,677</u>	<u>\$ 6,071,292</u>

GULF COAST WATER AUTHORITY
COMBINING INFORMATION BY DIVISION - NET POSITION
August 31, 2017

	Thomas Mackey Water Treatment Plant Expansion	Juliff-Chocolate Bayou Operations	Pearland Southeast Water Purification Plant	Northline Group
Assets				
Current Assets:				
Cash and cash equivalents	\$ 37,073	\$ 66,430	\$ 147,702	\$ 100,061
Investments	141,194	7,109,639	-	-
Accounts receivable	-	2,293,269	100,533	7,500
Interest receivable	39	2,789	-	-
Due from other divisions	-	-	-	-
Prepaid items	-	62,020	-	-
Restricted:				
Cash and cash equivalents	-	17	-	-
Investments	-	406,653	-	-
Total current assets	178,306	9,940,817	248,235	107,561
Capital Assets				
Capital assets, non depreciable	-	467,573	-	-
Capital assets, net of accumulated depreciation	-	3,837,804	24,131,621	103,371
Total capital assets	-	4,305,377	24,131,621	103,371
Total assets	178,306	14,246,194	24,379,856	210,932
Deferred Outflows of Resources				
Deferred loss on refunding	-	-	-	-
Deferred outflows for pension	-	322,800	-	-
Total deferred outflows of resources	-	322,800	-	-
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	-	173,450	336,108	1,650
Accrued wages payable	-	65,322	26	39
Current portion of bonds payable	-	-	-	-
Accrued interest payable	-	-	-	-
Due to other divisions	-	53,277	3,360	-
Current portion of compensated absences	-	72,053	13	1,924
Total current liabilities	-	364,102	339,507	3,613
Noncurrent liabilities:				
Revenue bonds payable (net of premiums and discounts)	-	-	-	-
Compensated absences (less current portion)	-	144,105	26	3,848
Net pension liability	-	118,900	-	-
Total noncurrent liabilities	-	263,005	26	3,848
Total liabilities	-	627,107	339,533	7,461
Deferred Inflows of Resources				
Deferred gain on refunding	-	-	-	-
Deferred inflows for pension	-	81,400	-	-
Total deferred inflows of resources	-	81,400	-	-
Net Position				
Net investment in capital assets	-	4,305,377	24,131,621	103,371
Restricted for:				
Debt service	-	406,670	-	-
Unrestricted	178,306	9,148,440	(91,298)	100,100
Total Net Position	\$ 178,306	\$ 13,860,487	\$ 24,040,323	\$ 203,471

<u>Bayshore Group</u>	<u>Administrative Operations</u>	<u>Eliminations</u>	<u>Total</u>
\$ 8,454	\$ 114,761	\$ -	\$ 1,708,602
-	1,546,735	-	40,396,919
3,333	-	-	6,205,683
-	-	-	79,394
-	373,348	(373,348)	-
-	-	-	720,333
-	-	-	11,806
-	-	-	30,665,489
<u>11,787</u>	<u>2,034,844</u>	<u>(373,348)</u>	<u>79,788,226</u>
-	-	-	15,043,462
<u>52,397</u>	<u>280,680</u>	<u>-</u>	<u>96,608,406</u>
<u>52,397</u>	<u>280,680</u>	<u>-</u>	<u>111,651,868</u>
<u>64,184</u>	<u>2,315,524</u>	<u>(373,348)</u>	<u>191,440,094</u>
-	-	-	118,145
-	-	-	1,898,843
-	-	-	2,016,988
1,650	143,244	-	4,511,626
39	44,530	-	439,611
-	-	-	5,385,000
-	-	-	84,606
-	-	(373,348)	-
1,090	101,986	-	420,087
<u>2,779</u>	<u>289,760</u>	<u>(373,348)</u>	<u>10,840,930</u>
-	-	-	41,905,250
2,181	203,972	-	840,175
-	-	-	699,489
<u>2,181</u>	<u>203,972</u>	<u>-</u>	<u>43,444,914</u>
<u>4,960</u>	<u>493,732</u>	<u>(373,348)</u>	<u>54,285,844</u>
-	-	-	306,212
-	-	-	478,837
-	-	-	785,049
52,397	280,680	-	89,007,877
-	-	-	5,758,363
6,827	1,541,112	-	43,619,949
<u>\$ 59,224</u>	<u>\$ 1,821,792</u>	<u>\$ -</u>	<u>\$ 138,386,189</u>

GULF COAST WATER AUTHORITY
COMBINING INFORMATION BY DIVISION - CHANGES IN NET POSITION
Year Ended August 31, 2017

	Industrial Division	League City SE Water Purification Plant	Thomas S. Mackey Water Treatment Plant	Canal Division
Operating revenues				
Charges for sales and services				
Metered water sales	\$ 13,305,780	\$ 3,273,920	\$ 13,352,629	\$ 13,151,730
Bond payment revenue	1,257,081	269,627	290,832	-
Irrigation sales	-	-	-	616,808
Other income	4,724	1,080,343	12,093	65,605
Total operating revenues	<u>14,567,585</u>	<u>4,623,890</u>	<u>13,655,554</u>	<u>13,834,143</u>
Operating expenses				
Personnel services	648,691	19,667	2,901,630	3,213,727
Materials	9,073,561	3,426,846	7,587,252	5,861,893
Contractual services	113,853	9,535	261,927	718,399
Other charges	52,310	1,787	214,908	459,415
Depreciation	1,111,449	1,296,499	2,153,609	1,532,343
Total operating expenses	<u>10,999,864</u>	<u>4,754,334</u>	<u>13,119,326</u>	<u>11,785,777</u>
Operating income (loss)	<u>3,567,721</u>	<u>(130,444)</u>	<u>536,228</u>	<u>2,048,366</u>
Nonoperating revenues (expenses)				
Investment income (loss)	84,116	3,023	45,132	75,857
Interest expense	(271,307)	(42,906)	-	-
Amortization of deferred losses/gains and premiums	-	9,394	-	-
Total nonoperating revenues (expenses)	<u>(187,191)</u>	<u>(30,489)</u>	<u>45,132</u>	<u>75,857</u>
Changes in Net Position	3,380,530	(160,933)	581,360	2,124,223
Beginning Net Position	<u>27,262,387</u>	<u>18,011,566</u>	<u>15,075,847</u>	<u>20,524,286</u>
Ending Net Position	<u>\$ 30,642,917</u>	<u>\$ 17,850,633</u>	<u>\$ 15,657,207</u>	<u>\$ 22,648,509</u>

Galveston County WCID #12	1997 Galveston Projects	1998 A-B Series South Projects	1998 C Series Texas City Projects	1998 D La Marque Projects	2002 Galveston Projects
\$ 40,379	\$ 324,922	\$ 318,001	\$ -	\$ -	\$ -
-	246,648	3,109,746	619,473	249,781	855,269
-	-	-	-	-	-
10,660	-	-	-	-	-
<u>51,039</u>	<u>571,570</u>	<u>3,427,747</u>	<u>619,473</u>	<u>249,781</u>	<u>855,269</u>
2,595	65,094	8,671	-	-	-
-	-	-	-	-	-
3,476	909	15,966	-	-	-
-	1,659	-	-	-	-
<u>1,159</u>	<u>1,007,454</u>	<u>1,979,621</u>	<u>939,392</u>	<u>198,023</u>	<u>1,226,769</u>
<u>7,230</u>	<u>1,075,116</u>	<u>2,004,258</u>	<u>939,392</u>	<u>198,023</u>	<u>1,226,769</u>
43,809	(503,546)	1,423,489	(319,919)	51,758	(371,500)
-	5,180	23,778	6,759	2,288	6,116
-	(19,047)	(640,400)	(190,104)	(60,142)	(107,234)
-	38,413	245,281	21,408	20,377	115,795
<u>-</u>	<u>24,546</u>	<u>(371,341)</u>	<u>(161,937)</u>	<u>(37,477)</u>	<u>14,677</u>
43,809	(479,000)	1,052,148	(481,856)	14,281	(356,823)
25,000	1,185,402	273,562	3,473,286	245,396	6,428,115
<u>\$ 68,809</u>	<u>\$ 706,402</u>	<u>\$ 1,325,710</u>	<u>\$ 2,991,430</u>	<u>\$ 259,677</u>	<u>\$ 6,071,292</u>

GULF COAST WATER AUTHORITY
COMBINING INFORMATION BY DIVISION - CHANGES IN NET POSITION
Year Ended August 31, 2017

	Thomas Mackey Water Treatment Plant Expansion	Juliff-Chocolate Bayou Operations	Pearland Southeast Water Purification Plant	Northline Group
Operating revenues				
Charges for sales and services				
Metered water sales	\$ -	\$ 3,115,322	\$ 1,131,267	\$ 90,001
Bond payment revenue	-	1,050,486	-	-
Irrigation sales	-	2,088,734	-	-
Other income	-	25,967	-	-
Total operating revenues	-	6,280,509	1,131,267	90,001
Operating expenses				
Personnel services	-	1,327,677	17,191	5,811
Materials	-	1,327,804	1,265,779	-
Contractual services	-	132,738	4,480	9,650
Other charges	-	424,400	1,185	-
Depreciation	-	4,962,314	763,865	10,250
Total operating expenses	-	8,174,933	2,052,500	25,711
Operating income (loss)	-	(1,894,424)	(921,233)	64,290
Nonoperating revenues (expenses)				
Investment income (loss)	929	49,333	-	-
Interest expense	-	(5,383)	-	-
Amortization of deferred losses/gains and premiums	-	-	-	-
Total nonoperating revenues (expenses)	929	43,950	-	-
Changes in Net Position	929	(1,850,474)	(921,233)	64,290
Beginning Net Position	177,377	15,710,961	24,961,556	139,181
Ending Net Position	\$ 178,306	\$ 13,860,487	\$ 24,040,323	\$ 203,471

<u>Bayshore Group</u>	<u>Administrative Operations</u>	<u>Eliminations</u>	<u>Total</u>
\$ 40,001	\$ -	\$ (12,988,584)	\$ 35,155,368
-	-	-	7,948,943
-	-	-	2,705,542
-	43,088	-	1,242,480
<u>40,001</u>	<u>43,088</u>	<u>(12,988,584)</u>	<u>47,052,333</u>
3,310	-	-	8,214,064
-	-	(12,988,584)	15,554,551
14,351	-	-	1,285,284
-	7,968	-	1,163,632
<u>2,813</u>	<u>99,893</u>	<u>-</u>	<u>17,285,453</u>
<u>20,474</u>	<u>107,861</u>	<u>(12,988,584)</u>	<u>43,502,984</u>
19,527	(64,773)	-	3,549,349
-	8,755	-	311,266
-	-	-	(1,336,523)
-	-	-	450,668
<u>-</u>	<u>8,755</u>	<u>-</u>	<u>(574,589)</u>
19,527	(56,018)	-	2,974,760
<u>39,697</u>	<u>1,877,810</u>	<u>-</u>	<u>135,411,429</u>
<u>\$ 59,224</u>	<u>\$ 1,821,792</u>	<u>\$ -</u>	<u>\$ 138,386,189</u>

GULF COAST WATER AUTHORITY
COMBINING INFORMATION BY DIVISION - CASH FLOWS
Year Ended August 31, 2017

	Industrial Division	League City SE Water Purification Plant	Thomas S. Mackey Water Treatment Plant	Canal Division
Cash Flows from Operating Activities				
Receipts from customers and users	\$ 14,453,991	\$ 4,685,412	\$ 13,618,110	\$ 14,092,070
Payments to suppliers	(8,179,127)	(3,032,636)	(8,132,747)	(7,215,567)
Payments to employees	(553,677)	(17,836)	(2,540,045)	(2,799,634)
Net cash provided (used) by operating activities	5,721,187	1,634,940	2,945,318	4,076,869
Cash Flows from Capital and Related Financing Activities				
Acquisition and construction of capital assets	(7,071,778)	(1,077,525)	(3,096,984)	(1,924,300)
Principal paid on bonds	(805,000)	(225,000)	-	-
Proceeds from sale of revenue bonds	25,690,000	-	-	-
Interest paid on capital related debt	(225,117)	(45,687)	-	-
Net cash provided (used) by capital and related financing activities	17,588,105	(1,348,212)	(3,096,984)	(1,924,300)
Cash Flows from Investing Activities				
Maturity (purchase) of investments	(31,870,296)	(213,702)	(5,245,919)	(8,962,437)
Interest received	30,835	3,546	48,548	82,639
Net cash provided by investing activities	(31,839,461)	(210,156)	(5,197,371)	(8,879,798)
Net increase (decrease) in cash and cash equivalents	(8,530,169)	76,572	(5,349,037)	(6,727,229)
Beginning cash and cash equivalents	8,574,171	492,298	5,534,163	6,931,842
Ending cash and cash equivalents	\$ 44,002	\$ 568,870	\$ 185,126	\$ 204,613
Ending cash and cash equivalents				
Unrestricted cash and cash equivalents	\$ 44,002	\$ 567,357	\$ 185,126	\$ 204,613
Restricted cash and cash equivalents	-	1,513	-	-
	\$ 44,002	\$ 568,870	\$ 185,126	\$ 204,613
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ 3,567,721	\$ (130,444)	\$ 536,228	\$ 2,048,366
Adjustment to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	1,111,449	1,296,499	2,153,609	1,532,343
Changes in Operating Assets and Liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(113,594)	61,522	(37,444)	257,927
Prepays	5,141	-	5,141	(205,108)
Deferred outflows for pensions	9,000	-	191,400	158,175
Due from other divisions	8,218	965	27,258	29,886
Increase (decrease) in liabilities:				
Accounts payable	1,055,456	405,532	(73,801)	29,248
Wages payable	7,585	(622)	33,520	42,501
Compensated absences payable	(3,952)	(2,507)	(135,369)	(88,875)
Due to other divisions	42,263	3,995	132,576	133,173
Deferred inflows for pension	29,800	-	149,800	163,641
Net pension liability	2,100	-	(37,600)	(24,408)
Net cash provided (used) by operating activities	\$ 5,721,187	\$ 1,634,940	\$ 2,945,318	\$ 4,076,869

Galveston County WCID #12	1997 Galveston Projects	1998 A-B Series South Projects	1998 C Series Texas City Projects	1998 D La Marque Projects	2002 Galveston Projects
\$ 40,379	\$ 638,159	\$ 3,335,421	\$ 619,654	\$ 249,583	\$ 855,788
53,811	1,605	(20,535)	(750)	-	-
-	(52,904)	(1)	-	-	-
<u>94,190</u>	<u>586,860</u>	<u>3,314,885</u>	<u>618,904</u>	<u>249,583</u>	<u>855,788</u>
(93,269)	(163,512)	(263,880)	-	-	(3)
-	(795,000)	(2,280,000)	(430,000)	(185,000)	(1,242,000)
-	-	-	-	-	-
-	(21,875)	(647,375)	(194,249)	(63,702)	(110,288)
<u>(93,269)</u>	<u>(980,387)</u>	<u>(3,191,255)</u>	<u>(624,249)</u>	<u>(248,702)</u>	<u>(1,352,291)</u>
-	(58,304)	(1,321,174)	(353,088)	(130,189)	(77,806)
-	7,922	28,835	7,635	2,798	6,340
-	(50,382)	(1,292,339)	(345,453)	(127,391)	(71,466)
921	(443,909)	(1,168,709)	(350,798)	(126,510)	(567,969)
22,917	553,028	1,278,472	348,194	128,713	568,949
<u>\$ 23,838</u>	<u>\$ 109,119</u>	<u>\$ 109,763</u>	<u>\$ (2,604)</u>	<u>\$ 2,203</u>	<u>\$ 980</u>
\$ 23,838	\$ 109,119	\$ 106,282	\$ (4,115)	\$ 249	\$ (2,350)
-	-	3,481	1,511	1,954	3,330
<u>\$ 23,838</u>	<u>\$ 109,119</u>	<u>\$ 109,763</u>	<u>\$ (2,604)</u>	<u>\$ 2,203</u>	<u>\$ 980</u>
\$ 43,809	\$ (503,546)	\$ 1,423,489	\$ (319,919)	\$ 51,758	\$ (371,500)
1,159	1,007,454	1,979,621	939,392	198,023	1,226,769
(10,660)	66,589	(92,326)	181	(198)	519
-	-	-	-	-	-
-	4,600	-	-	-	-
-	915	-	-	-	-
57,287	4,173	(4,569)	(750)	-	-
39	(216)	39	-	-	-
2,556	(1,213)	8,631	-	-	-
-	4,704	-	-	-	-
-	4,200	-	-	-	-
-	(800)	-	-	-	-
<u>\$ 94,190</u>	<u>\$ 586,860</u>	<u>\$ 3,314,885</u>	<u>\$ 618,904</u>	<u>\$ 249,583</u>	<u>\$ 855,788</u>

GULF COAST WATER AUTHORITY
COMBINING INFORMATION BY DIVISION - CASH FLOWS (continued)
Year Ended August 31, 2017

	Thomas Mackey Water Treatment Plant Expansion	Juliff-Chocolate Bayou Operations	Pearland Southeast Water Purification Plant	Northline Group
Cash Flows from Operating Activities				
Receipts from customers and users	\$ -	\$ 6,467,604	\$ 1,174,276	\$ 94,168
Payments to suppliers	-	(1,945,170)	(1,054,574)	(21,112)
Payments to employees	-	(1,134,788)	(15,177)	-
Net cash provided (used) by operating activities	-	3,387,646	104,525	73,056
Cash Flows from Capital and Related Financing Activities				
Acquisition and construction of capital assets	-	(736,378)	-	(13,675)
Principal paid on bonds	-	(1,045,000)	-	-
Proceeds from sale of revenue bonds	-	-	-	-
Interest paid on capital related debt	-	(10,945)	-	-
Net cash provided (used) by capital and related financing activities	-	(1,792,323)	-	(13,675)
Cash Flows from Investing Activities				
Maturity (purchase) of investments	(131,194)	(5,831,292)	-	-
Interest received	903	52,406	-	-
Net cash provided by investing activities	(130,291)	(5,778,886)	-	-
Net increase (decrease) in cash and cash equivalents	(130,291)	(4,183,563)	104,525	59,381
Beginning cash and cash equivalents	167,364	4,250,010	43,177	40,680
Ending cash and cash equivalents	\$ 37,073	\$ 66,447	\$ 147,702	\$ 100,061
Ending cash and cash equivalents				
Unrestricted cash and cash equivalents	\$ 37,073	\$ 66,430	\$ 147,702	\$ 100,061
Restricted cash and cash equivalents	-	17	-	-
	\$ 37,073	\$ 66,447	\$ 147,702	\$ 100,061
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ -	\$ (1,894,424)	\$ (921,233)	\$ 64,290
Adjustment to reconcile operating income to net cash provided (used) by operating activities				
Depreciation	-	4,962,314	763,865	10,250
Changes in Operating Assets and Liabilities:				
(Increase) decrease in assets:				
Accounts receivable	-	187,095	43,009	4,167
Prepays	-	(18,889)	-	-
Deferred outflows for pensions	-	102,800	-	-
Due from other divisions	-	15,330	607	-
Increase (Decrease) in Liabilities:				
Accounts payable	-	(41,339)	216,870	(11,462)
Wages Payable	-	12,223	(390)	39
Compensated absences payable	-	(39,241)	(1,563)	5,772
Due to other divisions	-	53,277	3,360	-
Deferred inflows for pension	-	70,400	-	-
Net pension liability	-	(21,900)	-	-
Net cash provided by operating activities	\$ -	\$ 3,387,646	\$ 104,525	\$ 73,056

Bayshore Group	Administrative Operations	Eliminations	Total
\$ 40,002	\$ 43,088	\$ (12,988,584)	\$ 47,419,121
(12,701)	3,904	12,988,584	(16,567,015)
-	(77,087)	-	(7,191,149)
<u>27,301</u>	<u>(30,095)</u>	<u>-</u>	<u>23,660,957</u>
(43,354)	(42,997)	-	(14,527,655)
-	-	-	(7,007,000)
-	-	-	25,690,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,319,238)</u>
<u>(43,354)</u>	<u>(42,997)</u>	<u>-</u>	<u>2,836,107</u>
-	(899,835)	-	(55,095,236)
<u>-</u>	<u>11,089</u>	<u>-</u>	<u>283,496</u>
<u>-</u>	<u>(888,746)</u>	<u>-</u>	<u>(54,811,740)</u>
(16,053)	(961,838)	-	(28,314,676)
<u>24,507</u>	<u>1,076,599</u>	<u>-</u>	<u>30,035,084</u>
<u>\$ 8,454</u>	<u>\$ 114,761</u>	<u>\$ -</u>	<u>\$ 1,720,408</u>
\$ 8,454	\$ 114,761	\$ -	\$ 1,708,602
<u>-</u>	<u>-</u>	<u>-</u>	<u>11,806</u>
<u>\$ 8,454</u>	<u>\$ 114,761</u>	<u>\$ -</u>	<u>\$ 1,720,408</u>
\$ 19,527	\$ (64,773)	\$ -	\$ 3,549,349
2,813	99,893	-	17,285,453
1	-	-	366,788
-	-	-	(213,715)
-	-	-	465,975
-	(373,348)	290,169	-
1,650	11,872	-	1,650,167
39	73,482	-	168,239
3,271	305,958	-	53,468
-	(83,179)	(290,169)	-
-	-	-	417,841
<u>-</u>	<u>-</u>	<u>-</u>	<u>(82,608)</u>
<u>\$ 27,301</u>	<u>\$ (30,095)</u>	<u>\$ -</u>	<u>\$ 23,660,957</u>



Gulf Coast Water Authority

UNAUDITED STATISTICAL SECTION
(Unaudited)

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

<u>Contents</u>	<u>Pages</u>
Financial Trends	52
These schedules contain trend information to help the reader understand how the Authority’s financial performance and well-being have changed over time.	
Revenue Capacity	56
These schedules contain information to help the reader assess the Authority’s most significant local revenue source, the water and sewer service.	
Debt Capacity	60
These schedules present information to help the reader assess the affordability of the Authority’s current levels of outstanding debt and the Authority’s ability to issue additional debt in the future.	
Demographic and Economic Information	62
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority’s financial activities take place.	
Operating Information	64
These schedules contain service and infrastructure data to help the reader understand how the information in the Authority’s financial report relates to the services the Authority provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the annual financial reports for the relevant year.

GULF COAST WATER AUTHORITY
Net Position By Component
Last Ten Years

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Business-type activities				
Net investment in capital assets	\$ 48,028,442	\$ 61,739,333	\$ 62,285,473	\$ 68,818,981
Restricted	12,211,372	9,248,402	8,991,124	7,410,661
Unrestricted	<u>37,571,068</u>	<u>43,108,938</u>	<u>48,711,327</u>	<u>46,555,388</u>
Total business-type activities net position	<u>\$ 97,810,882</u>	<u>\$114,096,673</u>	<u>\$ 119,987,924</u>	<u>\$122,785,030</u>

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

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 71,596,314	\$ 82,210,275	\$ 89,968,160	\$ 89,164,201	\$ 86,052,697	\$ 89,007,877
5,661,833	4,613,439	4,402,858	3,660,154	3,593,830	5,758,363
<u>44,998,487</u>	<u>45,079,354</u>	<u>39,492,731</u>	<u>40,682,653</u>	<u>45,764,902</u>	<u>43,619,949</u>
<u>\$ 122,256,634</u>	<u>\$ 131,903,068</u>	<u>\$ 133,863,749</u>	<u>\$ 133,507,008</u>	<u>\$ 135,411,429</u>	<u>\$ 138,386,189</u>

GULF COAST WATER AUTHORITY
CHANGE IN NET POSITION
Last Ten Years

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Revenues				
Metered water sales	\$ 17,624,153	\$ 18,104,978	\$ 18,438,418	\$ 21,032,627
Bond payment revenue	5,935,102	16,747,932	7,675,036	7,901,210
Irrigation sales and other	<u>1,521,572</u>	<u>2,683,969</u>	<u>1,777,600</u>	<u>4,305,418</u>
Total operating revenues	<u>25,080,827</u>	<u>37,536,879</u>	<u>27,891,054</u>	<u>33,239,255</u>
Operating Expenses:				
Personnel services	3,332,108	3,455,994	3,660,715	4,012,351
Supplies and materials	8,968,443	10,104,430	8,272,368	14,066,690
Contracted services	1,633,723	1,886,120	2,071,717	2,563,779
Other charges	40,269	58,919	45,734	45,035
Depreciation	<u>6,090,142</u>	<u>4,860,043</u>	<u>5,710,496</u>	<u>6,681,940</u>
Total operating expenses	<u>20,064,685</u>	<u>20,365,506</u>	<u>19,761,030</u>	<u>27,369,795</u>
Operating income (loss)	<u>5,016,142</u>	<u>17,171,373</u>	<u>8,130,024</u>	<u>5,869,460</u>
Nonoperating Revenues (Expenses)				
Investment earnings	-	-	-	-
Investment earnings and other revenue	1,893,176	1,783,685	379,543	(684,067)
Other revenues and (expenses)	-	-	-	-
Bond issuance costs	-	-	-	-
Interest expense	(3,145,816)	(2,501,973)	(2,451,023)	(2,220,993)
Intergovernmental transfers	<u>(200,402)</u>	<u>(167,294)</u>	<u>(167,293)</u>	<u>(167,294)</u>
Total nonoperating revenues (expenses)	<u>(1,453,042)</u>	<u>(885,582)</u>	<u>(2,238,773)</u>	<u>(3,072,354)</u>
Change in Net Position before Special items	3,563,100	16,285,791	5,891,251	2,797,106
Special Items:				
Sales of additional water capacity	<u>43,414,800</u> **	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	46,977,900	16,285,791	5,891,251	2,797,106
Net Position at beginning of year	50,832,982	97,810,882	114,096,673	119,987,924
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Position at end of year	<u>\$ 97,810,882</u>	<u>\$ 114,096,673</u>	<u>\$ 119,987,924</u>	<u>\$ 122,785,030</u>

* GASB 65 impact.

** The sale of additional water capacity in 2008 is attributable to the following:

League City Southeast Plant (SEWPP)	\$ 16,605,800
Pearland Southeast Water Purification Plant (SEWPP)	<u>26,809,000</u>
	<u>\$ 43,414,800</u>

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 19,378,636	\$ 24,612,505	\$ 25,858,256	\$ 25,230,737	\$ 33,425,561	\$ 35,155,368
6,679,086	6,901,675	5,498,227	5,788,454	6,725,417	7,948,943
3,298,860	2,855,535	520,201	949,941	3,704,218	3,948,022
<u>29,356,582</u>	<u>34,369,715</u>	<u>31,876,684</u>	<u>31,969,132</u>	<u>43,855,196</u>	<u>47,052,333</u>
4,386,157	4,900,543	5,272,420	4,988,132	6,501,190	8,214,064
11,814,066	11,595,411	13,133,355	12,071,554	14,283,436	15,554,551
2,700,910	3,382,054	1,916,074	1,620,916	1,660,523	1,285,284
99,300	114,604	879,053	1,141,508	1,377,152	1,163,632
8,128,117	9,506,366	11,521,295	13,446,858	15,026,000	17,285,453
<u>27,128,550</u>	<u>29,498,978</u>	<u>32,722,197</u>	<u>33,268,968</u>	<u>38,848,301</u>	<u>43,502,984</u>
2,228,032	4,870,737	(845,513)	(1,299,836)	5,006,895	3,549,349
125,975	132,077	88,724	68,494	132,478	311,266
-	-	-	-	-	-
485,166	7,139,601	3,805,305	927,631	(1,507,389)	450,668
(1,150,528) *	-	-	-	-	-
(1,518,535)	(1,443,992)	(1,087,835)	(1,105,019)	(951,519)	(1,336,523)
(698,506)	-	-	-	-	-
<u>(2,756,428)</u>	<u>5,827,686</u>	<u>2,806,194</u>	<u>(108,894)</u>	<u>(2,326,430)</u>	<u>(574,589)</u>
(528,396)	10,698,423	1,960,681	(1,408,730)	2,680,465	2,974,760
-	-	-	-	-	-
(528,396)	10,698,423	1,960,681	(1,408,730)	2,680,465	2,974,760
122,785,030	122,256,634	132,955,057	134,915,738	133,507,008	135,411,429
-	-	-	-	(776,044)	-
<u>\$ 122,256,634</u>	<u>\$ 132,955,057</u>	<u>\$ 134,915,738</u>	<u>\$ 133,507,008</u>	<u>\$ 135,411,429</u>	<u>\$ 138,386,189</u>

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

<u>Fiscal Year</u>	<u>Water Fees</u>	<u>Raw Water Rates (1) (2)</u>		<u>Treated Water Rates (1) (2)</u>		<u>Irrigation & Other</u>
		<u>Per Kgal</u>				
2008	\$ 17,624,153	\$ 0.10	\$ 0.25	\$ 0.50	\$ 0.79	\$ 1,521,572
2009	18,104,978	0.10	0.21	0.55	0.93	2,863,969
2010	18,438,418	0.04	0.20	0.54	0.94	1,777,600
2011	21,032,627	0.04	0.18	0.53	0.91	4,305,418
2012	19,378,636	0.04	0.21	0.53	0.92	3,298,860
2013	24,612,505	0.10	0.35	0.61	0.12	2,855,535
2014	25,858,256	0.12	0.38	0.66	1.15	520,201
2015	25,230,737	0.14	0.35	0.69	1.53	949,941
2016	33,425,561	0.19	0.37	1.05	2.22	3,704,218
2017	35,155,368	0.20	0.38	1.11	2.09	3,948,022

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

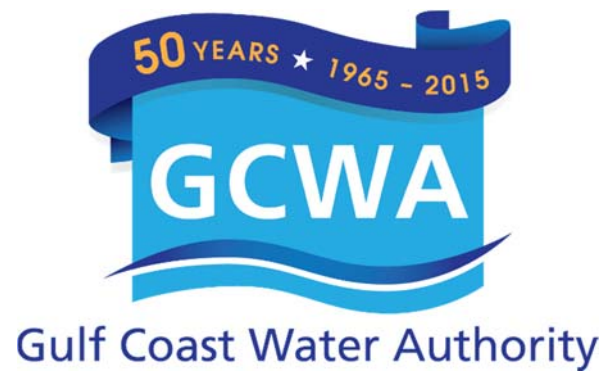
(2) Price varies by customer.

Note: This schedule does not include interruptible water.

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

<u>Customer</u>	<u>2017</u>			<u>2010</u>		
	<u>Revenue Base</u> <u>Attributable</u>	<u>Rank</u>	<u>% Base of</u> <u>The total</u> <u>Revenue</u> <u>Base</u>	<u>Revenue</u> <u>Base</u> <u>Attributable</u>	<u>Rank</u>	<u>% Base of</u> <u>The total</u> <u>Revenue</u> <u>Base</u>
City of Galveston	\$ 7,016,882	1	14%	\$ 3,651,676	1	15%
Blanchard/Marathon GBR	4,816,994	2	10%	2,090,394	2	9%
City of League City - SEWPP	4,163,786	3	8%	1,939,924	3	8%
City of Texas City	3,223,505	4	7%	1,640,205	4	7%
INEOS	3,110,826	5	6%	1,252,278	5	5%
Union Carbide Corp./DOW	1,831,129	6	4%	887,738	6	4%
Ascend	1,332,602	7	3%			0%
City of Pearland	1,258,510	8	3%			0%
Eastman Chemical	1,167,896	9	2%	501,554	10	2%
Galveston County WCID #1	1,150,247	10	2%	757,160	7	3%
City of Missouri City				633,567	8	3%
City of La Marque				525,671	9	2%

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



GULF COAST WATER AUTHORITY
LIST OF PRINCIPAL CUSTOMERS
August 31, 2017
(Unaudited)

Industrial Customers

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

Municipal Customers

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

Canal Division

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

Chocolate Bayou

INEOS

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

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

<u>Fiscal Year</u>	<u>Water Revenue Bonds</u>	<u>Percentage of Revenue (1)</u>
2008	\$ 84,270,000	335.99%
2009	70,025,000	186.55%
2010	64,970,000	232.94%
2011	56,825,000	170.96%
2012	51,160,000	174.27%
2013	41,080,000	119.52%
2014	36,750,000	115.29%
2015	33,769,594	105.63%
2016	28,939,566	65.99%
2017	47,290,250	99.99%

(1) Based on operating revenues.

The Authority has no taxation authority, therefore relating the Authority's debt to personal income or population is not applicable. Further, certain of the Authority's customers are industrial or other non-municipal users such that the Authority's debt to personal income or population is not applicable.

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

GULF COAST WATER AUTHORITY
PLEDGE - REVENUE COVERAGE BY FUND
Fiscal Year Ending August 31, 2017
(Unaudited)

<u>Division</u>	<u>Water Revenue Bonds</u>					<u>Cover Ratio</u>
	<u>Revenue</u>	<u>Less Operating Expenses*</u>	<u>Net Available for Debt Service</u>	<u>Debt Service</u>		
				<u>Principal</u>	<u>Interest</u>	
Industrial Division	\$ 14,567,585	\$ 9,888,415	\$ 4,679,170	\$ 805,000	\$ 206,016	4.63
League City SE Water Purification Plant	4,623,890	3,457,835	1,166,055	225,000	43,188	4.35
1997 Galveston Projects	571,570	67,662	503,908	795,000	19,875	0.62
1998 A-B Series South Projects	3,427,747	24,637	3,403,110	2,280,000	643,375	1.16
1998 C Series Texas City Projects	619,473	-	619,473	430,000	191,000	1.00
1998 D La Marque Projects	249,781	-	249,781	185,000	60,450	1.02
2002 Galveston Projects	855,269	-	855,269	745,000	107,939	1.00
Other Divisions	<u>22,137,018</u>	<u>12,778,982</u>	<u>9,358,036</u>	<u>-</u>	<u>-</u>	
	<u>\$ 47,052,333</u>	<u>\$ 26,217,531</u>	<u>\$ 20,834,802</u>	<u>\$ 5,465,000</u>	<u>\$ 1,271,843</u>	

* Operating expenses do not include depreciation.

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

GULF COAST WATER AUTHORITY
DISTRICT DEMOGRAPHICS
(Unaudited)

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

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

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

Source US Census Bureau, Census 2010 & Kemah website.

Educational Attainment

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

Source US Census Bureau, Quick Facts

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

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

Note: Information not available as of the report date.

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

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

Source <http://suburbanstats.org/population/texas/>
Source Comprehensive Annual Financial Report for each entity

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

Source US Census Bureau, Quick Facts & Kemah website

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

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

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

Division	2008	2009	2010	2011
Administrative	7	8	8	8
Industrial	2	2	2	2
Water treatment plant	15	14	15	13
Canal	16	18	16	19
Chocolate Bayou	3	4	4	4
Total	43	46	45	46

Note: This table reports the number of filled, full-time employees positions based on the division in which they are employed. Table does not include budgeted, unfilled positions. Employees in the Administration Division provide centralized services to all four operating divisions, and their time and salary costs are allocated to each division based on time worked.

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

**Number of Positions
Full-Time Equivalent**

2012	2013	2014	2015	2016	2017
9	9	10	11	10	10
2	2	2	2	2	1
13	14	12	17	19	21
19	20	22	22	26	27
4	4	5	5	4	6
47	49	51	57	61	65

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Annual Acre Feet</u>				
Industrial	\$ 97,030	\$ 82,406	\$ 62,320	\$ 89,713
Irrigation	103,872	122,979	99,295	119,065
Municipal	95,754	96,226	83,556	73,714
Total Pumpage	\$ 296,656	\$ 301,611	\$ 245,171	\$ 282,492

Source: Annual Report to Texas Commission on Environmental Quality.

* 2017 amounts represent estimated pumpage through August 31, 2017.

Brazos River Water Rights held by GCWA

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

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017*</u>
\$ 65,347	\$ 61,266	\$ 116,816	\$ 77,032	\$ 77,500	\$ 54,292
99,019	50,929	23,864	21,091	82,037	46,451
<u>75,787</u>	<u>47,574</u>	<u>29,795</u>	<u>54,648</u>	<u>67,367</u>	<u>43,110</u>
<u>\$ 240,153</u>	<u>\$ 159,769</u>	<u>\$ 170,475</u>	<u>\$ 152,771</u>	<u>\$ 226,904</u>	<u>\$ 143,853</u>

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Industrial Division				
Office furniture, fixtures and equipment	\$ -	\$ -	\$ -	\$ -
Other machinery and equipment	-	721	-	15,644
Automobiles and trucks	-	-	-	21,418
Buildings	-	-	10,619	18,359
Infrastructure	11,667	177,695	109,373	261,585
League City Southeast Division				
Office furniture, fixtures and equipment	-	16	-	-
Other machinery and equipment	-	-	-	-
Automobiles and trucks	-	-	-	-
Buildings	-	-	-	-
Infrastructure	16,605,800	-	-	-
Water Treatment Plant				
Land	-	-	-	-
Office furniture, fixtures and equipment	-	2,964	-	36,202
Other machinery and equipment	14,460	61,936	-	34,132
Automobiles and trucks	25,262	-	-	38,265
Buildings	6,024	8,198	120,633	379,374
Infrastructure	461,387	994,592	532,987	714,445
Canal Division				
Land	-	-	-	3,500
Office furniture, fixtures and equipment	-	2,426	-	-
Other machinery and equipment	-	380,385	13,829	1,084,011
Automobiles and trucks	-	31,207	35,618	126,061
Buildings	-	-	-	-
Infrastructure	59,330	109,976	193,152	881,794
Galveston County WCID #12				
Infrastructure	-	-	-	-
1998 A-B South Projects				
Infrastructure	-	-	-	-

2012	2013	2014	2015	2016	2017
\$ 1,036	\$ 10,152	\$ 6,159	\$ -	\$ -	\$ -
-	3,128	-	5,758	61,713	-
-	22,636	3,921	-	-	34,302
43,157	132,908	-	-	-	31,139
737,943	3,033,669	4,278,111	4,059,378	1,624,938	7,006,745
46	416	302	-	-	-
-	128	-	-	-	-
-	140	192	-	-	-
-	1,066	980	-	-	-
236	16,900	2,672,018	76,941	110,591	1,077,525
-	-	-	-	-	-
4,040	19,999	121,377	-	38,607	32,228
107,436	70,529	67,924	15,205	5,159	-
-	6,723	33,445	32,885	33,095	82,347
250,527	365,709	168,524	65,404	200,519	572,268
684,908	1,767,842	2,663,309	1,714,354	3,082,780	2,410,859
37,182	-	-	-	-	-
2,802	21,759	23,021	-	-	-
47,628	576,821	766,934	57,250	332,343	314,979
-	167,857	82,211	209,334	102,464	46,770
38,281	141,007	286,642	79,435	112,303	28,403
2,979,058	2,345,951	1,425,510	762,469	453,388	1,534,180
-	-	-	-	-	93,269
-	-	-	-	269,326	263,881

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
1998 C Series Texas City Projects				
Infrastructure	\$ 644,434	\$ 488,882	\$ 1,252	\$ 358,485
2002 Galveston Projects				
Infrastructure	555,917	653,352	491,884	683,873
Chocolate Bayou				
Land	-	-	-	-
Office furniture, fixtures and equipment	-	979	-	-
Other machinery and equipment	-	-	-	18,134
Automobiles and trucks	-	-	20,010	63,770
Buildings	-	-	-	-
Infrastructure	868,289	1,352,768	95,670	135,286
Pearland Southeast Plant				
Office furniture, fixtures and equipment	-	-	-	-
Other machinery and equipment	-	-	-	-
Automobiles and trucks	-	-	-	-
Buildings	-	-	-	-
Infrastructure	26,809,000	-	-	-
1997 Galveston Projects				
Office furniture, fixtures and equipment	-	41	-	-
Other machinery and equipment	-	-	-	-
Automobiles and trucks	-	-	-	-
Buildings	-	-	-	-
Infrastructure	-	-	18,277	31,189

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
505,472	1,216,421	274,779	-	-	-
20,975	-	-	-	-	-
1,337	10,425	6,832	-	-	-
14,058	3,212	167,071	-	-	-
-	50,000	28,486	-	32,248	33,405
-	26,741	35,772	30,774	273,689	41,972
837,833	892,215	1,555,893	740,258	734,486	661,001
46	416	302	-	-	-
-	128	-	-	-	-
-	140	192	-	-	-
-	1,066	980	-	-	-
236	-	-	-	-	-
73	1,786	418	-	-	-
-	550	-	-	-	-
-	600	266	-	-	-
-	4,582	1,357	-	-	-
82,739	37,212	39,483	-	42,371	163,512

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Water Treatment Plant Expansion 2011				
Infrastructure	\$ 150,633	\$ 17,335	\$ -	\$ -
Northline Group				
Infrastructure	-	-	-	-
Bayshore Group				
Infrastructure	-	-	-	-
Administrative				
Office furniture, fixtures and equipment	-	-	-	-
Other machinery and equipment	-	-	-	-
Automobiles and trucks	-	-	-	-
Buildings	-	-	-	-
Infrastructure	-	-	-	-
Total Capital Assets	<u>\$ 46,212,203</u>	<u>\$ 4,283,473</u>	<u>\$ 1,643,304</u>	<u>\$ 4,905,527</u>

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	100,765	13,674
-	-	-	-	12,159	43,354
-	-	-	22,598	7,739	10,128
-	-	-	-	-	-
-	-	-	28,825	31,453	32,869
-	-	-	-	9,299	-
-	-	-	19,160	-	-
<u>\$ 6,397,049</u>	<u>\$ 10,950,834</u>	<u>\$ 14,712,411</u>	<u>\$ 7,920,028</u>	<u>\$ 7,671,435</u>	<u>\$ 14,528,810</u>