

ANNUAL FINANCIAL REPORT

of the

**BAYTOWN AREA
WATER AUTHORITY**

(A Component Unit of the City of Baytown, Texas)

For the Year Ended
September 30, 2019

Prepared by the

**CITY OF BAYTOWN, TEXAS
FINANCE DEPARTMENT**

**GENERAL MANAGER
Rick Davis**

**PLANT MANAGER
Frank Simoneaux**

**INTERIM DIRECTOR OF FINANCE
Gina Guillory**

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BAYTOWN AREA WATER AUTHORITY

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BAYTOWN AREA WATER AUTHORITY

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Transmittal Letter

January 3, 2020

To the President and Members of
the Baytown Area Water Authority Board,
Baytown Area Water Authority, and Citizens of the
City of Baytown, Texas:

The financial statements of the Baytown Area Water Authority (the "Authority") for the year ended September 30, 2019 are hereby submitted. The Authority is presented as a discrete component unit of the City of Baytown (the "City") in the City's Comprehensive Annual Financial Report. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with management. We believe the information, as presented, is accurate in all material respects. It is presented in a manner designed to set forth fairly, in all material respects, the financial position and results of operations of the Authority as measured and reported by its financial activity. All disclosures necessary to enable the reader to gain an adequate understanding of the Authority's financial affairs have been included.

Belt Harris Pechacek, LLLP has audited the financial records of the Authority for the fiscal year ended September 30, 2019, and their opinion is included in this report. The financial statements are the responsibility of the Authority. The responsibility of the independent public accountant is to express an opinion on the Authority's financial statements based on their audit. An audit is conducted in accordance with generally accepted auditing standards. Those standards require that the audit be planned and performed in a manner to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

The timely preparation of this report could not have been accomplished without the efforts and dedication of the staff. We would like to express our appreciation to our staff and other personnel who assisted in its preparation. In addition, we would like to thank the Board of Directors for their interest and support in planning and conducting the financial operations of the Authority in a responsible and progressive manner.

Respectfully submitted,

A blue ink signature of Rick Davis, written in a cursive style.

Rick Davis
General Manager

A blue ink signature of Gina Guillory, written in a cursive style.

Gina Guillory
Interim Director of Finance

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Baytown Area Water Authority of the
City of Baytown, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Baytown Area Water Authority (the "Authority"), a component unit of the City of Baytown, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the Authority's 2018 financial statements and, in our report dated January 2, 2019, we expressed an unmodified opinion on the respective financial statements of the business-type activities.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 Authority'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 Authority'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of September 30, 2019, and the respective changes in financial position and, where applicable, 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 and budgetary comparison information, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 transmittal letter, Texas Supplementary Information, and other supplementary information are presented for purposes of additional analysis and are not required parts of the financial statements. They 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 3, 2020



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

January 3, 2020

To the Board of Directors of the
Baytown Area Water Authority of the
City of Baytown, Texas:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the business-type activities of the Baytown Area Water Authority (the "Authority"), a component unit of the City of Baytown, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents and have issued our report thereon dated January 3, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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BAYTOWN AREA WATER AUTHORITY

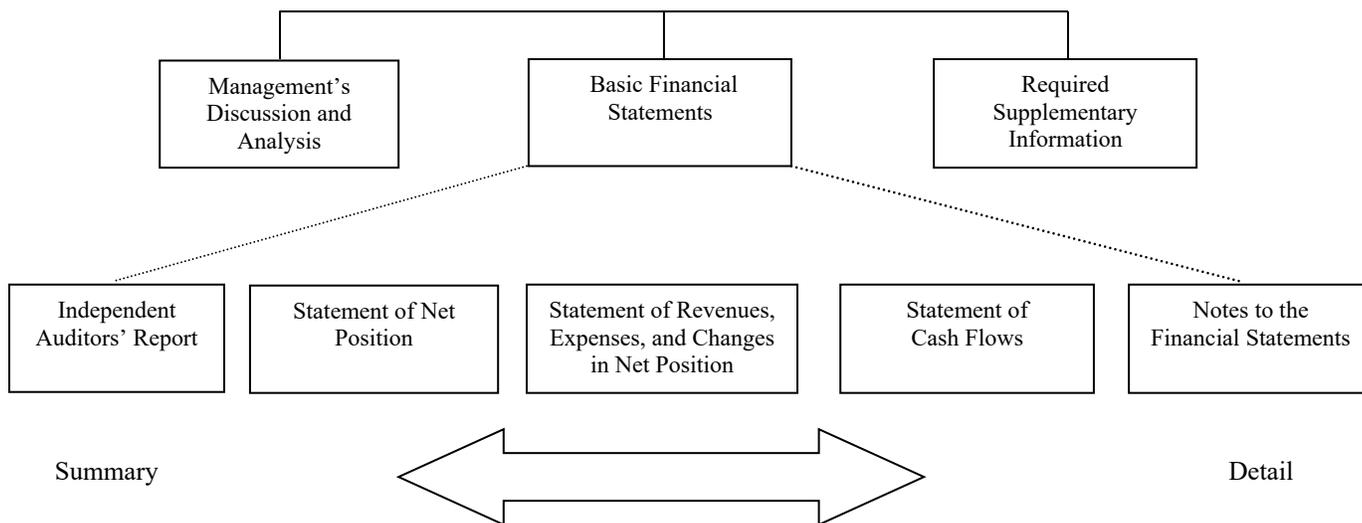
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2019

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the Baytown Area Water Authority's (the "Authority") financial activities for the year. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the Authority's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the Authority's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



The Authority's basic financial statements include the statement of net position; statement of revenues, expenses, and changes in net position; statement of cash flows; and notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Basic Financial Statements

The basic financial statements report information for the Authority as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the Authority as an economic entity. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position, which appear first in the Authority's financial statements, report information on the Authority's activities that enable the reader to understand the financial condition of the Authority. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

BAYTOWN AREA WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2019

The Statement of Net Position presents information on all of the Authority's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Other nonfinancial factors, such as the Authority's customer base and the condition of the Authority's infrastructure, need to be considered to assess the overall health of the Authority.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's net position changed during the most recent 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 related cash flows – the accrual method.

The Statement of Cash Flows presents information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The basic financial statements can be found after the MD&A within this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI) concerning the Authority's budgetary comparison schedule. RSI can be found after the notes to the basic financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. The Authority's total net position increased from \$55,102,074 to \$59,820,289 (8.6 percent).

Key elements of this increase are as follows:

- Nonoperating revenues increased \$367,367 or 64.0 percent primarily due to an increase in investment interest.
- Capital assets, net of accumulated depreciation, increased \$26,762,449 or 50.5 percent primarily due to a construction in progress addition of \$28,127,362.

Unrestricted net position increased by \$1,629,879 from a balance of \$14,010,215 to \$15,640,094 (11.6 percent) at the end of this year. Unrestricted net position can be used to finance day-to-day operations without constraints established by debt covenants and enabling legislation.

BAYTOWN AREA WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2019

Condensed Statement of Net Position:

	<u>2019</u>	<u>2018</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Current and other assets	\$ 18,096,421	\$ 17,229,552	\$ 866,869	5.0%
Restricted assets	18,292,075	23,318,901	(5,026,826)	(21.6%)
Capital assets, net	79,796,037	53,033,588	26,762,449	50.5%
Total Assets	<u>116,184,533</u>	<u>93,582,041</u>	<u>22,602,492</u>	<u>24.2%</u>
Deferred charge on refunding	5,613	11,226	(5,613)	(50.0%)
Total Deferred Outflows of Resources	<u>5,613</u>	<u>11,226</u>	<u>(5,613)</u>	<u>(50.0%)</u>
Current liabilities	2,456,327	3,219,337	(763,010)	(23.7%)
Current liabilities - restricted	6,517,034	4,028,381	2,488,653	61.8%
Noncurrent liabilities	47,396,496	31,243,475	16,153,021	51.7%
Total Liabilities	<u>56,369,857</u>	<u>38,491,193</u>	<u>17,878,664</u>	<u>46.4%</u>
Net investment in capital assets	42,587,073	38,403,540	4,183,533	10.9%
Restricted for:				
Debt service	1,593,122	2,688,319	(1,095,197)	(40.7%)
Unrestricted	15,640,094	14,010,215	1,629,879	11.6%
Total Net Position	<u>\$ 59,820,289</u>	<u>\$ 55,102,074</u>	<u>\$ 4,718,215</u>	<u>8.6%</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Position:

	<u>2019</u>	<u>2018</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues	\$ 13,562,934	\$ 13,742,281	\$ (179,347)	(1.3%)
Nonoperating revenues	940,952	573,585	367,367	64.0%
Total Revenues	<u>14,503,886</u>	<u>14,315,866</u>	<u>188,020</u>	<u>1.3%</u>
Depreciation expense	1,470,598	1,341,946	128,652	9.6%
Operating expenses	6,801,326	7,094,523	(293,197)	(4.1%)
Nonoperating expenses	1,513,747	881,227	632,520	71.8%
Total Expenses	<u>9,785,671</u>	<u>9,317,696</u>	<u>467,975</u>	<u>5.0%</u>
Change in Net Position	4,718,215	4,998,170	(279,955)	(5.6%)
Beginning net position	55,102,074	50,103,904	4,998,170	10.0%
Ending Net Position	<u>\$ 59,820,289</u>	<u>\$ 55,102,074</u>	<u>\$ 4,718,215</u>	<u>8.6%</u>

BUDGETARY HIGHLIGHTS

- Operating revenues were \$253,962 under the budget estimate due to less than expected water sales.
- Operating expenses were \$340,195 under budget due primarily to lower than anticipated raw water purchases and service expenses.

BAYTOWN AREA WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2019

- Nonoperating expenses were \$95,266 under budget due primarily to less than anticipated other expense as a result of unused contingency funds.

CAPITAL ASSETS

The Authority's plant operates at an average of 12.3 million gallons per day (MGD). The average capacity of the plant is 22.2 MGD and the peak capacity is 26.0 MGD. During the past 30 years, there has not been an interruption in service. The Authority is in compliance with all rules and regulations of the Environmental Protection Agency, Texas Commission on Environmental Quality, and Texas Department of State Health Services applicable to surface water treatment, analysis, and operations.

At year end, the Authority had invested \$79,796,037 in capital assets, net of accumulated depreciation. More detailed information about the Authority's capital assets is presented in Note 5 to the financial statements.

LONG-TERM DEBT

The Authority has sufficient reserves established for debt service requirements. The Authority's revenue bonds carry the rating of "Aa3" with Moody's Investors Service and "AA-" with Standard & Poor's. At year end, the Authority had \$46,095,000 in revenue bonds outstanding versus \$30,945,000 last year. More detailed information about the Authority's long-term liabilities is presented in Note 6 to the financial statements.

ECONOMIC FACTORS

The 2018-2019 budget projected sales of \$13,816,896 for 13.5 MGD based upon an average annual rainfall. Fluctuations in rainfall can significantly impact system water sales. The rate structure was increased from \$2.74 per 1,000 gallons for the City of Baytown and \$2.78 per 1,000 gallons for customers outside the City of Baytown to \$2.82 and \$2.86 respectively, effective October 1, 2018. New rates were to cover the increased cost of operations, including debt service, the purchase of raw water, and provide funds for future capital projects. The City of Houston adjusts its rates by any increase in the Producers Price Index over the prior year. Rate changes are effective April 1 of each year. A schedule of the City of Houston rate increases over the years follows:

City of Houston Purchased Water:

Effective April 1

<u>Year</u>	<u>Rate</u>	<u>%</u>
2011	\$ 0.57540	1.90%
2012	\$ 0.59439	3.30%
2013	\$ 0.61580	3.60%
2014	\$ 0.62320	1.20%
2015	\$ 0.65060	4.40%
2016	\$ 0.65970	1.40%
2017	\$ 0.68210	3.40%
2018	\$ 0.70120	2.80%

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Baytown Finance Department, 2401 Market Street, Baytown, Texas 77522. A copy of the budget is available to the public at the Sterling Municipal Library and at the City of Baytown's City Clerk office.

BASIC FINANCIAL STATEMENTS

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BAYTOWN AREA WATER AUTHORITY
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2019

	Business-Type Activities	
	Enterprise Fund	
	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 15,053,423	\$ 7,575,858
Investments	2,826,075	9,473,149
Receivables	216,923	180,545
Total Current Assets	18,096,421	17,229,552
Restricted Assets		
Cash and cash equivalents - debt service	2,294,416	3,101,462
Cash and cash equivalents - capital improvements	12,300,224	10,670,736
Investments - capital improvements	3,697,435	9,546,703
Total Restricted Assets	18,292,075	23,318,901
Noncurrent Assets		
Nondepreciable capital assets:		
Land	2,877,960	2,877,960
Construction in progress	44,572,167	16,585,320
Depreciable capital assets:		
Plant and equipment	55,596,554	55,350,354
Less accumulated depreciation	(23,250,644)	(21,780,046)
Total Noncurrent Assets	79,796,037	53,033,588
Total Assets	116,184,533	93,582,041
Deferred Outflows of Resources		
Deferred charge on refunding	5,613	11,226
Liabilities		
Current Liabilities Payable from Unrestricted Assets		
Accounts payable	949,209	646,615
Retainage payable	277,029	219,951
Due to primary government	1,230,089	2,352,771
Total Current Liabilities Payable From Unrestricted Assets	2,456,327	3,219,337
Current Liabilities Payable from Restricted Assets		
Accrued interest payable	701,294	413,143
Accounts payable - restricted	2,353,347	1,171,239
Retainage payable	1,532,393	278,999
Bonds payable due within one year	1,930,000	2,165,000
Total Current Liabilities Payable From Restricted Assets	6,517,034	4,028,381
Total Current Liabilities	8,973,361	7,247,718
Noncurrent Liabilities		
Bonds payable due in more than one year	47,396,496	31,243,475
Total Liabilities	56,369,857	38,491,193
Net Position		
Net investment in capital assets	42,587,073	38,403,540
Restricted for:		
Debt service	1,593,122	2,688,319
Unrestricted	15,640,094	14,010,215
Total Net Position	\$ 59,820,289	\$ 55,102,074

See Notes to Financial Statements.

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BAYTOWN AREA WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND

For the Year Ended September 30, 2019

	Business-Type Activities	
	Enterprise Fund	
	2019	2018
<u>Operating Revenues</u>		
Sale of treated water:		
City of Baytown	\$ 11,923,502	\$ 12,119,269
Municipal utility districts	1,639,432	1,623,012
Total Operating Revenues	13,562,934	13,742,281
<u>Operating Expenses</u>		
Raw water purchases and other supplies	4,172,186	4,265,243
Contract personnel costs	1,381,420	1,417,603
Maintenance	290,002	417,687
Services	957,718	993,990
Depreciation	1,470,598	1,341,946
Total Operating Expenses	8,271,924	8,436,469
Operating Income	5,291,010	5,305,812
<u>Nonoperating Revenues (Expenses)</u>		
Interest income	827,203	463,609
Intergovernmental	112,970	106,618
Interest expense and fiscal agent fees	(1,513,747)	(881,227)
Miscellaneous	779	3,358
Total Nonoperating (Expenses)	(572,795)	(307,642)
Change in Net Position	4,718,215	4,998,170
Beginning net position	55,102,074	50,103,904
Ending Net Position	\$ 59,820,289	\$ 55,102,074

See Notes to Financial Statements.

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BAYTOWN AREA WATER AUTHORITY

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2019

	Business-Type Activities	
	Enterprise Fund	
	2019	2018
<u>Cash Flows from Operating Activities</u>		
Cash received from customers for sale of treated water	\$ 12,403,874	\$ 13,805,479
Cash payments to suppliers for goods and services	(2,336,581)	(3,959,823)
Cash payments to contract personnel for services	(1,381,420)	(1,417,603)
Net Cash Provided by Operating Activities	8,685,873	8,428,053
<u>Cash Flows from Noncapital Financing Activities</u>		
Intergovernmental revenues received	112,970	106,618
Miscellaneous revenues received	779	3,358
Net Cash Provided by Noncapital Financing Activities	113,749	109,976
<u>Cash Flows from Capital and Related Financing Activities</u>		
Construction of capital assets	(28,233,047)	(12,722,632)
Principal paid on capital debt	(2,165,000)	(2,090,000)
Proceeds from issuance of capital debt	17,315,000	22,040,000
Interest and fiscal agent fees paid, net	(1,676,620)	(983,860)
Bond premium from debt issuance	936,507	2,551,553
Net Cash Provided (Used) by Capital and Related Financing Activities	(13,823,160)	8,795,061
<u>Cash Flows from Investing Activities</u>		
Proceeds from sales and maturities of investments	33,851,515	17,944,140
Purchase of investments	(21,355,173)	(29,589,135)
Interest received	827,203	463,609
Net Cash Provided (Used) from Investing Activities	13,323,545	(11,181,386)
Net Increase in Cash and Cash Equivalents	8,300,007	6,151,704
Beginning cash and cash equivalents	21,348,056	15,196,352
Ending Cash and Cash Equivalents	\$ 29,648,063	\$ 21,348,056
Unrestricted cash and cash equivalents	\$ 15,053,423	\$ 7,575,858
Restricted cash and cash equivalents	14,594,640	13,772,198
Ending Cash and Cash Equivalents	\$ 29,648,063	\$ 21,348,056
Reconciliation of Operating Income (Loss) to Net Cash		
Provided (Used) by Operating Activities		
Operating income	\$ 5,291,010	\$ 5,305,812
Depreciation	1,470,598	1,341,946
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Current Assets:		
Receivables, net	(36,378)	(10,376)
Increase (Decrease) in Current Liabilities:		
Accounts payable	302,594	(172,694)
Restricted payables	2,723,653	1,725,389
Retainage payable	57,078	164,402
Due to primary government	(1,122,682)	73,574
Net Cash Provided by Operating Activities	\$ 8,685,873	\$ 8,428,053

See Notes to Financial Statements.

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BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

NOTE 1 – CREATION OF AUTHORITY

The Baytown Area Water Authority (the “Authority”) was created by House Bill No. 967 of the Texas Legislature on June 15, 1973. The Authority was created to purchase and distribute surface and/or underground water supplies to persons, corporations, municipal corporations, political subdivisions, and others. The boundaries of the Authority include all of the City of Baytown, Texas (the “City”) and most of Baytown’s extra-territorial jurisdiction in East Harris County, Texas. Presently, the Authority provides water to eight municipal entities which in turn service a total population area of 81,000 people. Administration of the Authority is vested in the Board of Directors (the “Board”), which held its first meeting on September 20, 1973. The Board is appointed by the City Council. The first Authority bonds were sold in May 1977. The water treatment plant and a portion of the water transmission lines were completed in 1981 and actual operations and sale of treated water began in April 1981.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements and accounting policies of the Authority are prepared in conformity with generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority’s significant accounting policies are described below.

A. Reporting Entity

The City exercises significant influence over the operations of the Authority and, as a result, the Authority is a discretely presented component unit of the City. The Authority’s financial statements are included as a discrete component unit in the government-wide financial statements of the City. The Authority has no component units and is presented on a stand-alone basis. The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental entities and are presented as a proprietary fund type.

The Authority has no employees. Personnel employed by the City are responsible for the physical operation and maintenance of the water treatment plant. The City’s personnel perform the purchasing and accounting functions of the Authority. The Authority reimburses the City for payroll costs and related fringe benefits of personnel assigned to the water treatment plant operations and for goods and services purchased on its behalf.

B. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the Authority’s funds. Separate statements for each fund category, proprietary, are presented. The emphasis of fund financial statements is on major enterprise funds, each displayed in a separate column.

The Authority reports the following enterprise fund:

The *enterprise fund* is used to account for water operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The enterprise fund is considered a major fund for reporting purposes.

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

D. Budget

The general manager for the Authority formulates a budget for the Authority's fiscal year beginning on October 1 and ending on September 30. Both the Authority's Board and the City Council approve the annual budget.

E. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

Investments, except for certain investment pools and commercial paper, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Commercial paper that has a remaining maturity of one year or less upon acquisition, is reported at amortized cost.

The Authority has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the Authority is authorized to invest in the following:

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit
- Fully collateralized repurchase agreements
- Bankers' acceptances that meet certain criteria
- Commercial paper that meet certain criteria
- Mutual funds of specific type
- Collateralized guaranteed investment contract
- Statewide investment pools

F. Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the Authority's financial position and operations.

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

G. Receivables and Payables

All receivables are shown at full value and are expected to be 100 percent collected. The Authority reports payables as obligations that are expected to be financed with current, available financial resources.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water lines), have been recorded at cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the Authority are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings	25 to 50 years
Improvements other than buildings	10 to 50 years
Machinery and equipment	5 to 30 years

I. Deferred Outflows/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. 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 that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- A deferred charge on refunding 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.

J. Long-Term Obligations

The Authority reports long-term debt as a liability on the Statement of Net Position. Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

K. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

L. 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, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

M. Proprietary Fund Operating and Nonoperating Revenues

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund 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.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The Authority's deposits were fully insured or collateralized as required by the state statutes at year end. The City consolidates cash to maximize investment earnings and streamline operations. The City's deposits were fully insured or collateralized as required by state statutes at year end.

The Authority held the following investments as of September 30, 2019:

Investment Type	Value	Weighted Average Maturity (Days)	Credit Rating
Government pool (TexPool)	\$ 15,048,423	0.00	AAA-m
Government pool (TexStar)	13,290,954	0.00	AAA-m
Commercial paper	3,697,435	0.03	A-1+/P-1/F1
Municipal bonds	2,427,081	0.59	A+/Aa3/AA-/AA/Aa1/AA+
U.S. agency/GSE securities	398,994	0.59	AA+/Aaa/AAA
Total	\$ 34,862,887		

Portfolio Weighted Average Maturity 0.05

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application*, provides a framework for measuring fair value establishing a three-level fair value hierarchy that describes the inputs used to measure assets and liabilities:

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

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

Fair value is measured in a manner consistent with one of the three approaches: market approach, cost approach, and the income approach. The valuation methodology used is based upon whichever technique is the most appropriate and provides the best representation of fair value for that particular asset or liability. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or groups of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts, such as cash flows, to a single current (discounted) amount.

As of September 30, 2019, the Authority had the following recurring fair value measurements:

	September 30, 2019	<u>Fair Value Measurements Using</u>	
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Investments by Fair Value Level			
Municipal Bonds	\$ 2,427,081	\$ -	\$ 2,427,081
U.S. Agency/GSE Securities	398,994	398,994	-
Total	<u>\$ 2,826,075</u>	<u>\$ 398,994</u>	<u>\$ 2,427,081</u>

U.S. agency/GSE securities are classified in Level 1 and municipal bonds are classified in Level 2 of the fair value hierarchy and are valued using the market approach.

Interest Rate Risk – In compliance with the Authority’s investment policy and as of year end, the Authority minimized the interest rate risk related to the decline in market value of securities due to rising interest rates in the portfolio by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities matured to meet cash requirements for

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity; monitoring credit ratings of portfolio positions to ensure compliance with rating requirements imposed by the Public Funds Investment Act; and investing operating funds primarily in shorter term securities or similar government investment pools.

Credit Risk – As of year end and in compliance with the Authority’s investment policy, the Authority minimized credit risk losses due to default of a security issuer or backer by limiting investments to the safest types of securities; prequalifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the Authority will do business; and diversifying the investment portfolio so that potential losses on individual securities were minimized.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rates TexPool ‘AAAm’. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool’s liquidity.

TexSTAR

The Texas-Short Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexSTAR is measured at amortized cost. TexSTAR’s strategy is to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. The City has no unfunded commitments related to TexSTAR. TexSTAR has a redemption notice period of one day and may redeem daily. TexSTAR may only impose restrictions on

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national or state emergency that affects TexSTAR's liquidity.

NOTE 4 – RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents include proceeds from the sale of bonds issued for construction and reserves held to satisfy the debt service reserve requirements of the Authority's bond ordinances.

The restricted cash and cash equivalents at year end are as follows:

Bond construction funds	\$ 12,300,224
Bond reserve funds	<u>2,294,416</u>
	<u>\$ 14,594,640</u>

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2019 is as follows:

	Beginning Balance	Increases	(Decreases)	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,877,960	\$ -	\$ -	\$ 2,877,960
Construction in progress	<u>16,585,320</u>	<u>28,127,362</u>	<u>(140,515)</u>	<u>44,572,167</u>
Total Capital Assets, Not Being Depreciated	<u>19,463,280</u>	<u>28,127,362</u>	<u>(140,515)</u>	<u>47,450,127</u>
Capital assets, being depreciated:				
Buildings	1,021,268	-	-	1,021,268
Improvements other than buildings	47,751,938	29,734	-	47,781,672
Machinery and equipment	<u>6,577,148</u>	<u>216,466</u>	<u>-</u>	<u>6,793,614</u>
Total Capital Assets, Being Depreciated	<u>55,350,354</u>	<u>246,200</u>	<u>-</u>	<u>55,596,554</u>
Total Capital Assets	<u>74,813,634</u>	<u>28,373,562</u>	<u>(140,515)</u>	<u>103,046,681</u>
Less accumulated depreciation for:				
Buildings	(710,134)	(21,821)	-	(731,955)
Improvements other than buildings	(17,919,313)	(1,028,106)	-	(18,947,419)
Machinery and equipment	<u>(3,150,599)</u>	<u>(420,671)</u>	<u>-</u>	<u>(3,571,270)</u>
Total Accumulated Depreciation	<u>(21,780,046)</u>	<u>(1,470,598)</u>	<u>-</u>	<u>(23,250,644)</u>
Total Capital Assets Being Depreciated, Net	<u>33,570,308</u>	<u>(1,224,398)</u>	<u>-</u>	<u>32,345,910</u>
Total Business-Type Activities Capital Assets, Net	<u>\$ 53,033,588</u>	<u>\$ 26,902,964</u>	<u>\$ (140,515)</u>	<u>79,796,037</u>
			Less associated debt	(49,326,496)
			Less deferred charge on refunding	5,613
			Add unspent bond proceeds	<u>12,111,919</u>
			Net Investment in Capital Assets	<u>\$ 42,587,073</u>

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

NOTE 6 – REVENUE BONDS PAYABLE

Outstanding bonds are payable using revenues generated from the sale of treated water to the City and other entities. The City also guarantees payment of bonds and such bonds may be redeemed prior to their scheduled maturity. The Authority is in compliance with all bond resolutions. The resolutions provide that reserves are sufficient to pay the current portion of the principal and interest payments.

Redemption Provisions

2006 Series Baytown Area Water Authority Water Supply Contract Revenue Bonds issued for \$13,290,000. The Authority reserves the right, at its option, to redeem bonds having stated maturities on or after May 1, 2017, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof; on May 1, 2016, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

2012 Series Baytown Area Water Authority Water Supply Contract Revenue and Refunding Bonds issued for \$8,315,000. The Authority reserves the right, at its option, to redeem bonds having stated maturities on or after May 1, 2023, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof; on May 1, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

2018 Series Baytown Area Water Authority Water Supply Contract Revenue Bonds issued for \$22,040,000. The Authority reserves the right, at its option, to redeem bonds having stated maturities on or after May 1, 2028, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof; on May 1, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

2019 Series Baytown Area Water Authority Water Supply Contract Revenue Bonds issued for \$17,315,000. The Authority reserves the right, at its option, to redeem bonds having stated maturities on or after May 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof; on May 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

The following is a summary of changes in bonds payable for the year ended September 30, 2019:

Series	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2006	2.25 - 2.95%	\$ 2,830,000	\$ -	\$ (695,000)	\$ 2,135,000	\$ 710,000
2007	4.00 - 4.25%	900,000	-	(900,000)	-	-
2012	2.00 - 3.50%	5,175,000	-	(570,000)	4,605,000	580,000
2018	4.00 - 5.00%	22,040,000	-	-	22,040,000	-
2019	3.00 - 4.00%	-	17,315,000	-	17,315,000	640,000
Total Bonds		<u>30,945,000</u>	<u>17,315,000</u>	<u>(2,165,000)</u>	<u>46,095,000</u>	<u>1,930,000</u>
Less net (discount) and premium		<u>2,463,475</u>	<u>936,507</u>	<u>(168,486)</u>	<u>3,231,496</u>	<u>-</u>
Total Business-Type Activities		<u>\$ 33,408,475</u>	<u>\$ 18,251,507</u>	<u>\$ (2,333,486)</u>	<u>\$ 49,326,496</u>	<u>\$ 1,930,000</u>
				Long-term debt payable in more than one year	<u>\$ 47,396,496</u>	
				Long-term debt related to capital assets	<u>\$ 49,326,496</u>	

As of year end, the debt service requirements on bonds outstanding for the next five years and thereafter are as follows:

Year	Principal	Interest	Total
2020	\$ 1,930,000	\$ 1,745,515	\$ 3,675,515
2021	1,780,000	1,735,370	3,515,370
2022	1,835,000	1,676,706	3,511,706
2023	1,970,000	1,613,294	3,583,294
2024	2,005,000	1,528,994	3,533,994
2025-2029	10,650,000	6,312,145	16,962,145
2030-2034	12,720,000	3,918,363	16,638,363
2035-2039	13,205,000	1,290,800	14,495,800
Total	<u>\$ 46,095,000</u>	<u>\$ 19,821,187</u>	<u>\$ 65,916,187</u>

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

NOTE 7 – NET POSITION

The Authority's net position has been reported net of related outstanding debt. The three components of net position (net investment in capital assets, restricted net position for debt service, and unrestricted net position) are detailed below:

	<u>2019</u>	<u>2018</u>
Net Investment in Capital Assets:		
Capital assets, net of accumulated depreciation	\$ 79,796,037	\$ 53,033,588
Outstanding debt that applies to capital assets	<u>(37,208,964)</u>	<u>(14,630,048)</u>
Net Investment in Capital Assets	<u>42,587,073</u>	<u>38,403,540</u>
Restricted for Debt Service:		
Debt service restricted assets	2,294,416	3,101,462
Accrued interest	<u>(701,294)</u>	<u>(413,143)</u>
Restricted Net Position for Debt Service	<u>1,593,122</u>	<u>2,688,319</u>
Unrestricted Net Position:		
Current assets	18,096,421	17,229,552
Current liabilities	<u>(2,456,327)</u>	<u>(3,219,337)</u>
Unrestricted Net Position	<u>15,640,094</u>	<u>14,010,215</u>
Total Net Position	<u>\$ 59,820,289</u>	<u>\$ 55,102,074</u>

NOTE 8 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Authority cooperatively purchases commercial insurance and participates in a public entity risk pool with the City. The Authority and the City participate along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The Authority has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The Authority has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

NOTE 9 – CONTINGENT LIABILITIES

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the Authority could result. The Authority periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

On October 24, 1994, the Authority entered into a 26-year agreement with the City of Houston (the "Agreement") to purchase raw water for treatment. The Agreement was amended in January 2005 to increase the maximum obligation of the City of Houston to provide water from 11.9 MGD to 15.8

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

MGD and to extend the termination date to December 31, 2040. A second amendment was approved in February 2007 to increase the maximum obligation of the City of Houston to provide water from 15.8 MGD to 20.0 MGD. A third amendment was approved in December 2015 to increase the maximum obligation of the City of Houston to provide water from 20.0 MGD to 26.0 MGD. The Authority may reserve additional monthly quantities of untreated water by giving 30 days' notice to the City of Houston. Should the consumption exceed the contract quantity by ten percent, a five percent surcharge shall be charged against that portion of the consumption that exceeds the contract quantity.

The Authority is contractually obligated to provide treated water to the City. As with the City of Houston Agreement, the Authority increased the maximum obligation to provide treated water to the City from 10.71 MGD to 14.22 MGD and extended the term of the contract through calendar year 2040. The Authority is also obligated to provide 1.58 MGD to other municipal entities, making the total obligation 15.8 MGD.

NOTE 11 – RELATED PARTIES, CONCENTRATIONS, AND ECONOMIC DEPENDENCY

The Authority is a discretely presented component unit of the City. In addition, approximately 88 percent of the Authority's operating revenues are attributable to the sale of treated water to the City.

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REQUIRED SUPPLEMENTARY INFORMATION

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BAYTOWN AREA WATER AUTHORITY

BUDGET TO ACTUAL (BUDGET BASIS) COMPARISON

For the Year Ended September 30, 2019

	Original Budget	Final Budget	2019 (Budget Basis)	Variance Positive (Negative)
<u>Operating Revenues</u>				
Sale of treated water:				
City of Baytown	\$ 12,205,257	\$ 12,205,257	\$ 11,923,502	\$ (281,755)
Municipal utility districts	1,611,639	1,611,639	1,639,432	27,793
Total Operating Revenues	13,816,896	13,816,896	13,562,934	(253,962)
<u>Operating Expenses</u>				
Raw water purchase and other supplies	4,288,773	4,288,773	4,172,186	116,587
Contract personnel costs	1,477,296	1,477,296	1,381,420	95,876
Maintenance	239,500	239,500	290,002	(50,502)
Services	1,135,952	1,135,952	957,718	178,234
Total Operating Expenses	7,141,521	7,141,521	6,801,326	340,195
<u>Nonoperating Revenue (Expenses)</u>				
Interest income	48,991	48,991	125,214 *	76,223
Intergovernmental	112,970	112,970	112,970	-
Other expenses	(8,379,677)	(8,379,677)	(8,284,411)	95,266
Miscellaneous income	-	-	779	779
Total Nonoperating (Expenses)	(8,217,716)	(8,217,716)	(8,045,448)	172,268
Changes in Net Position - Budgetary Basis	\$ (1,542,341)	\$ (1,542,341)	(1,283,840)	\$ 258,501
Reconciliation of Budget Basis to GAAP				
Depreciation			(1,470,598)	
Interest expense and fiscal agent fees			(1,513,747)	
Interest income from restricted bonds			701,989	
Capital purchases			64,734	
Adjustment to remove net effect of combined funds			8,219,677	
Change in Net Position			\$ 4,718,215	

* Interest income does not include restricted interest income on bond funds.

Notes to Required Supplementary Information

- The annual budget is adopted on a basis consistent with generally accepted accounting principles (GAAP), with the exception of reconciling items noted above.

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TEXAS SUPPLEMENTARY INFORMATION

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BAYTOWN AREA WATER AUTHORITY

TSI-1 SERVICES AND RATES

For the Year Ended September 30, 2019

1. **Services Provided by the Authority:** Wholesale Water

2. a. **Retail Rates Based on 5/8" Meter:** Retail Rates Not Applicable

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons over Minimum</u>	<u>Usage Levels</u>
WATER:					
City of Baytown	\$2.82 per 1000 gallons	N/A	N	N/A	N/A
Other districts	\$2.86 per 1000 gallons	N/A	N	N/A	N/A

SURCHARGE:

City of Baytown 5 percent on that portion that exceeds contract quantity
 Other districts Surcharge varies per municipal entity

b. **Retail Service Providers:** Number of wholesale water connections within the Authority as of the fiscal year end. Provide actual numbers and single family equivalents (ESFC) as noted:

	<u>Active Connections</u>	<u>Active ESFC</u>	<u>Inactive Connections (ESFC)</u>
<u>Wholesale</u>			
Cities and MUD's	8	-	-
Total	<u>8</u>	<u>-</u>	<u>-</u>

3. **Total Water Consumption During the Fiscal Year:**

Gallons pumped into system:	4,851,769,009	Water Accountability Ratio:
Gallons billed to customers:	4,802,569,009	0.990

4. **Standby Fees: Does the Authority assess standby fees?** No

5. **Location of Authority:**

Counties in which the Authority is located: Harris and Chambers Counties
 Is the Authority located entirely within one county? No
 Is the Authority located within a city? Partially
 City in which Authority is located: Baytown
 Is the Authority located within a city's extra territorial jurisdiction (ETJ)? Partially
 ETJs in which the Authority is located: Baytown
 Is the general membership of the Board appointed by an office outside the Authority? Yes
 If Yes, by whom? City of Baytown City Council

BAYTOWN AREA WATER AUTHORITY

TSI-2 SCHEDULE OF OPERATING EXPENSES

For the Year Ended September 30, 2019

Professional Fees	\$	16,352
Other Services		509,114
Purchases of Raw Water		3,297,885
Contracted Personnel Services		1,381,420
Utilities		432,252
Repairs and Maintenance		290,002
Chemicals		826,149
Administrative Expenses		48,152
Depreciation		1,470,598
Total Expenses	\$	<u>8,271,924</u>

The Authority has no employees; however, 18 full-time City of Baytown employees are contracted to the Authority.

BAYTOWN AREA WATER AUTHORITY

TSI-3 SCHEDULE OF TEMPORARY INVESTMENTS

For the Year Ended September 30, 2019

	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
JPMorgan Chase	Checking Acct	N/A	N/A	\$ 5,000	\$ -
TexPool	N/A	2.14%	N/A	15,048,423	\$ -
TexStar	N/A	2.11%	N/A	13,290,954	\$ -
Commercial paper	N/A	2.30%	N/A	3,697,435	\$ 45,792
U.S. Agency/GSE securities	3137EADR7	1.81%	5/1/2020	398,994	\$ -
Municipal bonds	N/A	2.40%	5/1/2020	2,427,081	\$ -
Total Cash and Investments				<u>\$ 34,867,887</u>	

BAYTOWN AREA WATER AUTHORITY
TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
(ALL BONDED DEBT SERVICES)
For the Year Ended September 30, 2019

Due During Fiscal Year Ending	Annual Requirements for All Series			
	Principal Due 5/01	Interest Due 5/01	Interest Due 11/01	Total
2020	\$ 1,930,000	\$ 848,935	\$ 896,580	\$ 3,675,515
2021	1,780,000	867,685	867,685	3,515,370
2022	1,835,000	838,353	838,353	3,511,706
2023	1,970,000	806,647	806,647	3,583,294
2024	2,005,000	764,497	764,497	3,533,994
2025	2,040,000	721,335	721,335	3,482,669
2026	2,080,000	677,110	677,110	3,434,219
2027	2,120,000	632,135	632,135	3,384,269
2028	2,160,000	586,200	586,200	3,332,400
2029	2,250,000	539,294	539,294	3,328,588
2030	2,345,000	490,444	490,444	3,325,888
2031	2,440,000	443,625	443,625	3,327,250
2032	2,540,000	394,613	394,613	3,329,225
2033	2,640,000	343,425	343,425	3,326,850
2034	2,755,000	287,075	287,075	3,329,150
2035	2,855,000	236,950	236,950	3,328,900
2036	2,960,000	184,975	184,975	3,329,950
2037	3,065,000	131,050	131,050	3,327,100
2038	3,175,000	75,175	75,175	3,325,350
2039	1,150,000	17,250	17,250	1,184,500
	<u>\$ 46,095,000</u>	<u>\$ 9,886,771</u>	<u>\$ 9,934,416</u>	<u>\$ 65,916,187</u>

Due During Fiscal Year Ending	Series 2006			
	Principal Due 5/01	Interest Due 5/01	Interest Due 11/01	Total
2020	\$ 710,000	\$ 31,130	\$ 31,130	\$ 772,260
2021	735,000	20,835	20,835	776,670
2022	690,000	10,178	10,178	710,356
	<u>\$ 2,135,000</u>	<u>\$ 62,143</u>	<u>\$ 62,143</u>	<u>\$ 2,259,286</u>

BAYTOWN AREA WATER AUTHORITY
TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
(ALL BONDED DEBT SERVICES) (Continued)
For the Year Ended September 30, 2019

Series 2012

Due During Fiscal Year Ending	Principal Due 5/01	Interest Due 5/01	Interest Due 11/01	Total
2020	\$ 580,000	\$ 66,400	\$ 66,400	\$ 712,800
2021	290,000	60,600	60,600	411,200
2022	295,000	57,700	57,700	410,400
2023	300,000	54,197	54,197	408,394
2024	310,000	50,447	50,447	410,894
2025	315,000	46,185	46,185	407,369
2026	325,000	41,460	41,460	407,919
2027	335,000	36,585	36,585	408,169
2028	345,000	31,350	31,350	407,700
2029	360,000	25,744	25,744	411,488
2030	370,000	19,894	19,894	409,788
2031	385,000	13,650	13,650	412,300
2032	395,000	6,913	6,913	408,825
	<u>\$ 4,605,000</u>	<u>\$ 511,123</u>	<u>\$ 511,123</u>	<u>\$ 5,627,246</u>

Series 2018

Due During Fiscal Year Ending	Principal Due 5/01	Interest Due 5/01	Interest Due 11/01	Total
2020	\$ -	\$ 503,325	\$ 503,325	\$ 1,006,650
2021	135,000	503,325	503,325	1,141,650
2022	205,000	499,950	499,950	1,204,900
2023	1,000,000	494,825	494,825	1,989,650
2024	1,000,000	469,825	469,825	1,939,650
2025	1,000,000	444,825	444,825	1,889,650
2026	1,000,000	419,825	419,825	1,839,650
2027	1,000,000	394,825	394,825	1,789,650
2028	1,000,000	369,825	369,825	1,739,650
2029	1,040,000	344,825	344,825	1,729,650
2030	1,095,000	318,825	318,825	1,732,650
2031	1,145,000	291,450	291,450	1,727,900
2032	1,210,000	262,825	262,825	1,735,650
2033	1,675,000	232,575	232,575	2,140,150
2034	1,760,000	190,700	190,700	2,141,400
2035	1,830,000	155,500	155,500	2,141,000
2036	1,905,000	118,900	118,900	2,142,800
2037	1,980,000	80,800	80,800	2,141,600
2038	2,060,000	41,200	41,200	2,142,400
	<u>\$ 22,040,000</u>	<u>\$ 6,138,150</u>	<u>\$ 6,138,150</u>	<u>\$ 34,316,300</u>

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BAYTOWN AREA WATER AUTHORITY
TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
(ALL BONDED DEBT SERVICES) (Continued)
For the Year Ended September 30, 2019

Series 2019

Due During Fiscal Year Ending	Principal Due 5/01	Interest Due 5/01	Interest Due 11/01	Total
2020	\$ 640,000	\$ 248,080	\$ 295,725	\$ 1,183,805
2021	620,000	282,925	282,925	1,185,850
2022	645,000	270,525	270,525	1,186,050
2023	670,000	257,625	257,625	1,185,250
2024	695,000	244,225	244,225	1,183,450
2025	725,000	230,325	230,325	1,185,650
2026	755,000	215,825	215,825	1,186,650
2027	785,000	200,725	200,725	1,186,450
2028	815,000	185,025	185,025	1,185,050
2029	850,000	168,725	168,725	1,187,450
2030	880,000	151,725	151,725	1,183,450
2031	910,000	138,525	138,525	1,187,050
2032	935,000	124,875	124,875	1,184,750
2033	965,000	110,850	110,850	1,186,700
2034	995,000	96,375	96,375	1,187,750
2035	1,025,000	81,450	81,450	1,187,900
2036	1,055,000	66,075	66,075	1,187,150
2037	1,085,000	50,250	50,250	1,185,500
2038	1,115,000	33,975	33,975	1,182,950
2039	1,150,000	17,250	17,250	1,184,500
	<u>\$ 17,315,000</u>	<u>\$ 3,175,355</u>	<u>\$ 3,223,000</u>	<u>\$ 23,713,355</u>

BAYTOWN AREA WATER AUTHORITY

TSI-6 CHANGES IN LONG-TERM BONDED DEBT

For the Year Ended September 30, 2019

Revenue Bonds	Interest Rate	Amount of Issue	Bonds Outstanding October 2018	Requirements Fiscal Year 2018-2019	
				Principal Due 05/01	Interest Due 05/01
Series 2006	2.25 - 2.95%	\$ 13,290,000	\$ 2,830,000	\$ 695,000	\$ 41,034
Series 2007	4.00 - 4.25%	\$ 6,505,000	900,000	900,000	19,125
Series 2012	2.00 - 3.50%	\$ 8,315,000	5,175,000	570,000	72,100
Series 2018	4.00 - 5.00%	\$ 22,040,000	22,040,000	-	503,325
Series 2019	3.00 - 4.00%	\$ 17,315,000	-	-	-
			<u>\$ 30,945,000</u>	<u>\$ 2,165,000</u>	<u>\$ 635,584</u>

Paying Agent's Name & City:

Series 2006 Bank of New York Mellon Trust Company, Dallas, Texas
 Series 2007 Bank of New York Mellon Trust Company, Dallas, Texas
 Series 2012 Bank of New York Mellon Trust Company, Dallas, Texas
 Series 2018 Bank of New York Mellon Trust Company, Dallas, Texas
 Series 2019 Bank of New York Mellon Trust Company, Dallas, Texas

Debt service cash and investment balances as of September 30, 2019 \$ 2,294,416

Average annual debt service payment (principal and interest) for remaining term of all debt \$ 3,295,809

Requirements		Bonds
Fiscal Year 2018-2019		Outstanding
Interest Due	Total	September 2019
11/01		
\$ 41,034	\$ 777,068	\$ 2,135,000
19,125	938,250	-
72,100	714,200	4,605,000
363,513	866,838	22,040,000
-	-	17,315,000
<u>\$ 495,772</u>	<u>\$ 3,296,356</u>	<u>\$ 46,095,000</u>

BAYTOWN AREA WATER AUTHORITY
TSI-7 COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
For the Year Ended September 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues:					
Sale of treated water:					
City of Baytown	\$ 11,923,502	\$ 12,119,269	\$ 11,610,037	\$ 11,539,149	\$ 10,621,625
Municipal utility districts	1,639,432	1,623,012	1,545,034	1,522,109	1,510,602
Total Operating Revenues	<u>13,562,934</u>	<u>13,742,281</u>	<u>13,155,071</u>	<u>13,061,258</u>	<u>12,132,227</u>
Operating Expenses:					
Raw water purchases and other supplies	4,172,186	4,265,243	4,345,566	3,837,499	3,879,912
Contract personnel costs	1,381,420	1,417,603	1,282,663	1,143,645	925,531
Maintenance	290,002	417,687	307,278	306,978	313,689
Services	957,718	993,990	1,098,345	968,376	1,060,816
Depreciation	1,470,598	1,341,946	1,215,453	1,174,355	1,193,343
Total Operating Expenses	<u>8,271,924</u>	<u>8,436,469</u>	<u>8,249,305</u>	<u>7,430,853</u>	<u>7,373,291</u>
Nonoperating Revenues (Expenses):					
Interest income	827,203	463,609	156,162	61,925	8,968
Intergovernmental	112,970	106,618	100,104	67,463	63,700
Interest expense and fiscal agent fees	(1,513,747)	(881,227)	(391,886)	(456,612)	(511,821)
Miscellaneous	779	3,358	50	1,519	599
Total Nonoperating (Expenses)	<u>(572,795)</u>	<u>(307,642)</u>	<u>(135,570)</u>	<u>(325,705)</u>	<u>(438,554)</u>
Change in Net Position	<u>\$ 4,718,215</u>	<u>\$ 4,998,170</u>	<u>\$ 4,770,196</u>	<u>\$ 5,304,700</u>	<u>\$ 4,320,382</u>
Total Active Wholesale Water Connections	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>

<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
87.9%	88.2%	88.3%	88.3%	87.5%
12.1	11.8	11.7	11.7	12.5
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
30.8	31.0	33.0	29.4	32.0
10.2	10.3	9.8	8.8	7.6
2.1	3.0	2.3	2.4	2.6
7.1	7.2	8.3	7.4	8.7
10.8	9.8	9.2	9.0	9.8
<u>61.0</u>	<u>61.4</u>	<u>62.7</u>	<u>56.9</u>	<u>60.8</u>
6.1	3.4	1.2	0.5	0.1
0.8	0.8	0.8	0.5	0.5
(11.2)	(6.4)	(3.0)	(3.5)	(4.2)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(4.2)	(2.2)	(1.0)	(2.5)	(3.6)
<u>34.8%</u>	<u>36.4%</u>	<u>36.3%</u>	<u>40.6%</u>	<u>35.6%</u>

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BAYTOWN AREA WATER AUTHORITY
TSI-8 BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
For the Year Ended September 30, 2019

Complete Authority Mailing Address:	<u>2401 Market Street, Baytown, Texas, 77522</u>
Authority Business Telephone Number:	<u>(281) 426-3517</u>
Submission Date of the Most Recent Authority Registration Form (TWC Sections 36.054 and 49.054):	<u>Not Applicable</u>
Limit on Fees of Office that a Director May Receive During a Year:	<u>Not Applicable</u>

	<u>Term of Office or Date Hired</u>	<u>Elected/ Appointed</u>	<u>Fees of Office Paid 09/30/19</u>	<u>Expenses Reimbursed 09/30/19</u>	<u>Title at Year End</u>
Board Members:					
Brenda Bradley-Smith	9/1/18-8/31/20	Appointed	N/A	N/A	President
Mike Wilson	9/1/19-8/31/21	Appointed	N/A	N/A	Vice President
Frank McKay III	9/1/19-8/31/21	Appointed	N/A	N/A	Secretary
Brandon Benoit	9/1/18-8/31/20	Appointed	N/A	N/A	Director
Harland Forrest, Jr.	9/1/19-8/31/21	Appointed	N/A	N/A	Director

Note: No Board member is disqualified from serving on this Board under the Texas Water Code. The Board members do not receive any form of compensation for their services.

Key Administration (contracted through the City of Baytown):

Rick Davis	06/30/15	N/A	N/A	\$ -	General Manager
Frank Simoneaux	11/05/15	N/A	N/A	\$ -	Plant Manager
Ignacio Ramirez, Sr.	05/24/91	N/A	N/A	\$ -	City Attorney
Wade Nickerson	02/22/16	N/A	N/A	\$ -	Finance Director

Consultants:

Belt Harris Pechacek, LLLP	10/01/04	N/A	\$ 16,352	\$ -	Auditor
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OTHER SUPPLEMENTARY INFORMATION

BAYTOWN AREA WATER AUTHORITY
ANALYSIS OF CHANGES IN PROPERTY, PLANT, AND EQUIPMENT
For the Year Ended September 30, 2019

	Beginning Balances	Additions	Deletions and Reclassifications	Ending Balances
Physical Facilities:				
Land	\$ 2,877,960	\$ -	\$ -	\$ 2,877,960
Building	1,021,268	-	-	1,021,268
Basins	3,585,111	29,734	-	3,614,845
Pump station	1,866,987	-	-	1,866,987
Mixing chamber	1,084,986	-	-	1,084,986
Distribution system	38,624,537	-	-	38,624,537
Office furniture and equipment	602,809	-	-	602,809
Machinery and implements	5,798,291	216,466	-	6,014,757
Motor vehicles	174,118	-	-	174,118
Radio and testing equipment	1,930	-	-	1,930
Other	966,172	-	-	966,172
Total Physical Facilities	<u>56,604,169</u>	<u>246,200</u>	<u>-</u>	<u>56,850,369</u>
Capitalized interest	1,624,145	-	-	1,624,145
Construction in progress	16,585,320	28,127,362	(140,515)	44,572,167
Total Property, Plant, and Equipment	<u>\$ 74,813,634</u>	<u>\$ 28,373,562</u>	<u>\$ (140,515)</u>	<u>\$ 103,046,681</u>
Amounts Provided By:				
Revenue bond proceeds	\$ 63,756,882	\$ 25,064,211	\$ (140,515)	\$ 88,680,578
Revenues	11,026,352	3,309,351	-	14,335,703
Grants	30,400	-	-	30,400
Total Amounts Provided	<u>\$ 74,813,634</u>	<u>\$ 28,373,562</u>	<u>\$ (140,515)</u>	<u>\$ 103,046,681</u>

BAYTOWN AREA WATER AUTHORITY

REVENUE BOND COVERAGE

For the Last Ten Years

<u>Fiscal Year</u>	<u>Gross Revenues</u>	<u>Operating Expenses (1)</u>	<u>Available for Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage</u>
2010	\$ 7,414,833	\$ 4,831,717	\$ 2,583,116	\$ 1,375,000	\$ 678,930	\$ 2,053,930	1.26
2011	\$ 10,116,577	\$ 5,408,095	\$ 4,708,482	\$ 1,425,000	\$ 631,364	\$ 2,056,364	2.29
2012	\$ 10,809,568	\$ 5,881,318	\$ 4,928,250	\$ 1,490,000	\$ 676,126	\$ 2,166,126	2.28
2013	\$ 11,239,917	\$ 5,649,987	\$ 5,589,930	\$ 1,790,000	\$ 639,732	\$ 2,429,732	2.30
2014	\$ 11,780,550	\$ 5,570,297	\$ 6,210,253	\$ 1,860,000	\$ 567,132	\$ 2,427,132	2.56
2015	\$ 12,205,494	\$ 6,179,948	\$ 6,025,546	\$ 1,915,000	\$ 511,402	\$ 2,426,402	2.48
2016	\$ 13,192,165	\$ 6,256,498	\$ 6,935,667	\$ 1,980,000	\$ 453,572	\$ 2,433,572	2.85
2017	\$ 13,411,387	\$ 7,033,852	\$ 6,377,535	\$ 2,030,000	\$ 393,392	\$ 2,423,392	2.63
2018	\$ 14,315,866	\$ 7,094,523	\$ 7,221,343	\$ 2,090,000	\$ 694,694	\$ 2,784,694	2.59
2019	\$ 14,503,886	\$ 6,801,326	\$ 7,702,560	\$ 2,165,000	\$ 1,131,356	\$ 3,296,356	2.34

(1) Total operating expenses do not include depreciation expense.

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