

**NORTH FORT BEND WATER AUTHORITY
FORT BEND COUNTY, TEXAS
FINANCIAL REPORT**

December 31, 2021

Table of Contents

| | Page |
|---|-------------|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 7 |
| BASIC FINANCIAL STATEMENTS | |
| Statement of Net Position | 14 |
| Statement of Revenues, Expenses and Changes in Net Position | 15 |
| Statement of Cash Flows | 16 |
| Notes to Financial Statements | 17 |
| SUPPLEMENTARY INFORMATION | |
| Schedule of Expenditures of Federal Awards | 41 |
| Notes to Schedule of Expenditures of Federal Awards | 42 |
| SINGLE AUDIT SECTION | |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 45 |
| Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance | 47 |
| Schedule of Findings and Questioned Costs | |
| I. Summary of Auditor's Reports | 50 |
| II. Financial Statement Findings | 51 |
| III. Federal Award Findings and Questioned Costs | 51 |

McGRATH & CO., PLLC

Certified Public Accountants

2900 North Loop West, Suite 880

Houston, Texas 77092

Independent Auditor's Report

Board of Directors
North Fort Bend Water Authority
Fort Bend County, Texas

Opinion

We have audited the accompanying financial statements of the business type activities of North Fort Bend Water Authority (the "Authority"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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 December 31, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

**Board of Directors
North Fort Bend Water Authority
Fort Bend County, Texas**

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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

**Board of Directors
North Fort Bend Water Authority
Fort Bend County, Texas**

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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2022, 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 solely 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.

McGrath & Co., PCP

Houston, Texas
May 4, 2022

(This page intentionally left blank)

Management's Discussion and Analysis

(This page intentionally left blank)

North Fort Bend Water Authority
Management's Discussion and Analysis
December 31, 2021

Using this Annual Report

Within this section of the financial report of North Fort Bend Water Authority (the “Authority”), the Authority’s management provides a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2021. This analysis should be read in conjunction with the independent auditor’s report and the basic financial statements that follow this section.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority’s basic financial statements, which are comprised of the following:

The *Statement of Net Position* presents information on all of the Authority’s assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Over time, increases or decreases in net position may serve as a useful indicator of changes in the financial position 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 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, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., accounts receivable).

The *Statement of Cash Flows* presents information on the Authority’s cash inflows and outflows during the year. Cash flows are categorized as operating activities, capital and related financing activities and investing activities. This statement includes a reconciliation of cash provided by the Authority’s operating activities to operating income as reported on the *Statement of Revenues, Expenses and Changes in Net Position*.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the Authority

Net position is the residual of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Accounting standards establish the following three components of net position:

- The net investment in capital assets component represents the Authority’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.
- The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.
- The unrestricted component of net position represents resources not included in the other components. This component includes non-spendable assets, such as prepaid bond insurance.

North Fort Bend Water Authority
Management's Discussion and Analysis
December 31, 2021

The Authority's net position at December 31, 2021, was \$99,936,555. A comparative summary of the Authority's overall financial position, as of December 31, 2021, and December 31, 2020, is summarized as follows, based on information contained in the *Statement of Net Position*:

| | 2021 | 2020 |
|--|----------------------|----------------------|
| Current and other assets | \$ 566,480,882 | \$ 733,658,157 |
| Capital assets | <u>722,396,980</u> | <u>460,134,737</u> |
| Total assets | <u>1,288,877,862</u> | <u>1,193,792,894</u> |
| Total deferred outflows of resources | <u>3,712,014</u> | <u>3,099,439</u> |
| Current liabilities | 21,758,877 | 22,193,847 |
| Long term liabilities | <u>1,170,894,444</u> | <u>1,081,240,824</u> |
| Total liabilities | <u>1,192,653,321</u> | <u>1,103,434,671</u> |
| Net Position | | |
| Net investment in capital assets | (30,624,484) | (40,025,181) |
| Restricted | 78,323,822 | 78,603,378 |
| Unrestricted | <u>52,237,217</u> | <u>54,879,465</u> |
| Total net position | <u>\$ 99,936,555</u> | <u>\$ 93,457,662</u> |

The Authority's net operating income for the period ended December 31, 2021, was \$39,483,058 with net non-operating expense of \$33,004,165, resulting in an increase in net position of \$6,478,893. Nonoperating revenues consist of investment income from the Authority's investments and Build America Bond rebates. Non-operating expenses consist of interest on long term debt, debt issuance costs, the loss on the sale of assets, contributions to Luce Bayou debt service requirements and construction-related administrative costs.

A comparative summary of the Authority's operations for the period ended December 31, 2021, and December 31, 2020, is summarized as follows, based on information in the *Statement of Revenues, Expenses and Changes in Net Position*:

| | 2021 | 2020 |
|---------------------------------|----------------------|----------------------|
| Operating revenues | \$ 59,653,609 | \$ 59,689,984 |
| Operating expenses | <u>(20,170,551)</u> | <u>(17,021,446)</u> |
| Net operating income | <u>39,483,058</u> | <u>42,668,538</u> |
| Net non-operating expense | <u>(33,004,165)</u> | <u>(29,728,619)</u> |
| Change in net position | 6,478,893 | 12,939,919 |
| Net position, beginning of year | 93,457,662 | 80,517,743 |
| Net position, end of year | <u>\$ 99,936,555</u> | <u>\$ 93,457,662</u> |

North Fort Bend Water Authority
Management's Discussion and Analysis
December 31, 2021

Capital Assets

Capital assets held by the District at December 31, 2021 and 2020 are summarized as follows:

| | 2021 | 2020 |
|--|-----------------------|-----------------------|
| Capital assets not being depreciated | | |
| Land and right of way acquisition | \$ 14,245,213 | \$ 13,822,567 |
| Land and right of way acquisition - joint facilities | 101,478,088 | 120,335,803 |
| Construction in progress | 8,484,068 | 9,785,499 |
| Construction in progress - joint facilities | <u>174,777,763</u> | |
| Sub-total capital assets not being depreciated | <u>298,985,132</u> | <u>143,943,869</u> |
| Capital assets being depreciated or amortized, net | | |
| Water distribution system | 101,736,643 | 95,569,861 |
| Joint facilities | 30,196,010 | 30,309,355 |
| Capital Contributions - City of Houston | <u>291,479,195</u> | <u>190,311,652</u> |
| Sub-total capital assets being depreciated or amortized, net | <u>423,411,848</u> | <u>316,190,868</u> |
| Total capital assets, net | <u>\$ 722,396,980</u> | <u>\$ 460,134,737</u> |

Capital asset additions during the current year include the following:

- Water plant no. 3 connection for Fort Bend County Municipal Utility District No. 30
- Grand Lakes wastewater treatment plant re-use facilities
- Installation of micro-grid generator system
- Realty costs for the Authority's share of the Surface Water Supply Project (previously reported as future capital costs for joint facilities)

Construction in progress is for the construction of various re-use projects, the Authority's share of costs associated with the construction of the Surface Water Supply Project and various system wide projects.

Debt Administration

In July 2015, the Texas Water Development Board ("TWDB") made a commitment to provide the Authority with \$555,845,000 in financial assistance from the State Water Implementation Revenue Fund for Texas ("SWIFT"). The TWDB agreed to purchase water system junior lien revenue bonds from the Authority each year from 2015 through 2022. In July 2018, the TWBD made a commitment of an additional \$339,480,000 to provide additional financial assistance from SWIFT. The TWDB agreed to purchase water system revenue bonds from the Authority each year from 2018 through 2024.

The combined proceeds of these bonds are to be used for the Northeast Water Purification Plant Expansion in the amount of \$363,815,000; Surface Water Supply Project in the amount of \$458,535,000 and the Internal Distribution Expansion Project in the amount of \$72,975,000. As of

North Fort Bend Water Authority
Management's Discussion and Analysis
December 31, 2021

December 31, 2021, the Authority has sold \$825,840,000 in bonds to TWDB, of which \$33,975,000 was sold during the current fiscal year.

The Authority has established a short-term note purchase program to address timing differences between the Authority's obligations to the City of Houston (see Note 13), financing approved by the TWDB, and planned open market bond financing. This program permits the Authority to enter into note purchase agreements secured by liens on future bond proceeds or other available funds in an aggregate amount not to exceed \$150,000,000. The notes are issued in increments of \$100,000 with maturity dates of less than 364 days. Interest rates are calculated as 70% of LIBOR plus an additional percentage based on the Authority's underlying credit rating. As of December 31, 2021, the Authority does not have any outstanding revenue notes. See Note 6 for additional information.

Total long-term obligations as of December 31, 2021, and 2020, are as follows:

| | 2021 | 2020 |
|--|-------------------------|-------------------------|
| Revenue Bonds | | |
| Water System Revenue Bonds, Series 2011 | \$ 3,075,000 | \$ 66,425,000 |
| Water System Junior Lien Revenue Bonds, Series 2015 | 6,355,000 | 6,750,000 |
| Water System Junior Lien Revenue Bonds, Series 2016A | 8,045,000 | 8,395,000 |
| Water System Junior Lien Revenue Bonds, Series 2016B | 9,865,000 | 10,160,000 |
| Water System Junior Lien Revenue Bonds, Series 2017 | 87,360,000 | 87,360,000 |
| Water System Junior Lien Revenue Bonds, Series 2018A | 1,890,000 | 1,980,000 |
| Water System Junior Lien Revenue Bonds, Series 2018B | 120,040,000 | 120,540,000 |
| Water System Revenue Bonds, Series 2018C | 67,845,000 | 68,345,000 |
| Water System Revenue and Revenue Refunding Bonds, Series 2019A | 168,625,000 | 168,625,000 |
| Water System Junior Lien Revenue Bonds, Series 2019B | 240,110,000 | 242,110,000 |
| Water System Revenue Bonds, Series 2019C | 53,660,000 | 55,205,000 |
| Water System Junior Lien Revenue Bonds, Series 2020 | 38,530,000 | 39,590,000 |
| Water System Revenue Bonds, Series 2020A | 139,290,000 | 143,125,000 |
| Water System Revenue Refunding Bonds, Series 2020B | 38,950,000 | 41,530,000 |
| Water System Revenue and Revenue Refunding Bonds, Series 2021 | 115,335,000 | |
| Water System Junior Lien Revenue Bonds, Series 2021A | 20,940,000 | |
| Water System Revenue Bonds, Series 2021B | 13,035,000 | |
| Unamortized premium | <u>44,417,905</u> | <u>25,065,135</u> |
| Subtotal Revenue Bonds | <u>1,177,367,905</u> | <u>1,085,205,135</u> |
| Share of Water Infrastructure Fund Bonds, Series 2012 | <u>10,044,130</u> | <u>10,989,275</u> |
| Capital Contributions | <u>2,066,559</u> | <u>2,158,988</u> |
| Total long term obligations | <u>\$ 1,189,478,594</u> | <u>\$ 1,098,353,398</u> |

The Water Infrastructure Fund Bonds, Series 2012 in the preceding table are for the Authority's pro rata share of annual debt service on bonds issued by West Harris County Regional Water Authority

North Fort Bend Water Authority
Management's Discussion and Analysis
December 31, 2021

pursuant to an agreement to jointly design, construct, finance, operate and maintain certain facilities (see Note 14).

The Authority's general parity revenue bonds (Series 2011, Series 2019A, Series 2020B and Series 2021) carry underlying ratings of AA- from Standard & Poor's and A+ from Fitch. The Series 2011 bonds also carry an insured rating of AA based on insurance issued by Assured Guaranty Municipal Corporation. The Series 2021 bonds also carry an insured rating of AA from Standard & Poor's based on insurance issued by Build America Mutual Assurance Company. Bonds sold to TWDB (both parity and junior lien) are unrated.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any information provided in this report or requests for additional information should be addressed to North Fort Bend Water Authority, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

(This page intentionally left blank)

Basic Financial Statements

North Fort Bend Water Authority
Statement of Net Position
December 31, 2021

Assets

Current assets

| | |
|--------------------------------------|-------------------|
| Cash | \$ 1,050,400 |
| Investments | 37,981,348 |
| Accounts receivable | 8,263,564 |
| Other receivables | 1,510,888 |
| Accrued interest receivable | 46,515 |
| Prepaid expenses | 20,500 |
| Operating reserve - joint facilities | 8,585 |
| Total current assets | 48,881,800 |

Noncurrent assets

| | |
|-----------------------------------|----------------------|
| Restricted cash | 1,093,330 |
| Restricted investments | 515,372,092 |
| Water conservation credits | 1,133,660 |
| Capital assets | |
| Land, easements and rights-of-way | 115,723,301 |
| Construction in progress | 183,261,831 |
| Capital assets, net | 423,411,848 |
| Total noncurrent assets | 1,239,996,062 |
| Total assets | 1,288,877,862 |

Deferred Outflows of Resources

| | |
|----------------------------------|-----------|
| Deferred difference on refunding | 3,712,014 |
|----------------------------------|-----------|

Liabilities

Current liabilities

| | |
|--|-------------------|
| Accounts payable | 1,185,460 |
| Retainage payable from restricted assets | 523,758 |
| Accrued interest payable | 1,465,509 |
| Capital contributions, due within one year | 97,270 |
| Joint facilities WIF bonds share obligation, due within one year | 951,880 |
| Bonds payable, due within one year | 17,535,000 |
| Total current liabilities | 21,758,877 |

Noncurrent liabilities

| | |
|--|----------------------|
| Capital contributions, due in more than one year | 1,969,289 |
| Joint facilities WIF bonds share obligation, due in more than one year | 9,092,250 |
| Bonds payable, due in more than one year | 1,159,832,905 |
| Total noncurrent liabilities | 1,170,894,444 |
| Total liabilities | 1,192,653,321 |

Net position

| | |
|--|----------------------|
| Net investment in capital assets | (30,624,484) |
| Restricted for debt service | 75,340,902 |
| Restricted for water conservation credits | 1,133,660 |
| Restricted for operations and maintenance reserve per bond resolutions | 1,849,260 |
| Unrestricted | 52,237,217 |
| Total net position | \$ 99,936,555 |

See Notes to Financial Statements.

North Fort Bend Water Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2021

| | |
|--|----------------------|
| Operating revenues | |
| Pumpage fees | \$ 33,149,315 |
| Surface water | 25,755,547 |
| Other | 748,747 |
| Total operating revenues | 59,653,609 |
| Operating expenses | |
| Professional fees | 1,955,773 |
| Contracted services | 1,171,610 |
| Operations and maintenance | 2,469,367 |
| Purchased water | 3,630,240 |
| Water conservation program | 1,061,483 |
| Depreciation and amortization | 8,816,823 |
| Other | 1,065,255 |
| Total operating expenses | 20,170,551 |
| Net operating income | 39,483,058 |
| Non-operating revenues (expenses) | |
| Investment income | 777,775 |
| Build America Bonds rebate | 2,073 |
| Debt issuance costs | (2,319,847) |
| Professional fees | (488,596) |
| Interest expense | (29,201,597) |
| Luce Bayou debt service contribution | (1,126,150) |
| Other | (647,823) |
| Net non-operating expense | (33,004,165) |
| Change in net position | 6,478,893 |
| Beginning net position | 93,457,662 |
| Ending net position | \$ 99,936,555 |

See Notes to Financial Statements.

North Fort Bend Water Authority
Statement of Cash Flows
For the Year Ended December 31, 2021

| | |
|---|-----------------------|
| Cash flows from operating activities | |
| Receipts from participants | \$ 57,429,067 |
| Payments to contractors and vendors | (9,809,284) |
| Net cash provided by operating activities | <u>47,619,783</u> |
| Cash flows from capital and related financing activities | |
| Paid for acquisition and construction of capital assets | (252,714,018) |
| Payment of interest on bonds | (31,489,676) |
| Payment of bond principal | (16,075,000) |
| Payment of WIF bond share obligation | (1,068,404) |
| Build America Bonds interest rebate | 2,073 |
| Net bond proceeds | 110,653,660 |
| Payments to contractors and vendors | (787,152) |
| Paid to City of Houston for Luce Bayou debt service | (1,126,150) |
| Revenue note payment | (1,000,000) |
| Debt issuance costs | <u>(2,319,847)</u> |
| Net cash used by capital and related financing activities | <u>(195,924,514)</u> |
| Cash flows from investing activities | |
| Interest received | 1,007,179 |
| Purchases of investment securities | (221,839,590) |
| Receipts from investment maturities | <u>231,000,000</u> |
| Net cash provided by investing activities | <u>10,167,589</u> |
| Net decrease in cash and cash equivalents | (138,137,142) |
| Cash and cash equivalents - beginning of year | <u>616,217,804</u> |
| Cash and cash equivalents - end of year | <u>\$ 478,080,662</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 39,483,058 |
| Adjustments to reconcile operating income to net cash used by operating activities: | |
| Depreciation and amortization expense | 8,816,823 |
| Non-cash revenue from capital contribution credits | (200,280) |
| Change in assets and liabilities: | |
| Increase in accounts receivable | (169,984) |
| Increase in prepaid expense | (20,500) |
| Decrease in accounts payable | <u>(289,334)</u> |
| Total adjustments | <u>8,136,725</u> |
| Net cash provided by operating activities | <u>\$ 47,619,783</u> |
| Cash and cash equivalents per Statement of Net Position: | |
| Cash | \$ 1,050,400 |
| Cash Equivalents Reported as Investments | 37,981,348 |
| Restricted Cash | 1,093,330 |
| Cash Equivalents Reported as Restricted Investments | <u>437,955,584</u> |
| | <u>\$ 478,080,662</u> |

Noncash capital and related financing activities

The Authority issued refunding bonds. Payment of \$61,830,920 was remitted to the bond escrow account directly from bond proceeds and related premium.

See Notes to Financial Statements.

North Fort Bend Water Authority

Notes to Financial Statements

December 31, 2021

Note 1 – Summary of Significant Accounting Policies

The North Fort Bend Water Authority (the “Authority”) was created in 2005 under Article 16, Section 59 of the Texas Constitution by Senate Bill 1798, as passed by the Texas Legislature and as amended and codified in Chapter 8813, Texas Special District Laws Code (the “Act”). The Authority began operations in September 2005. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater and for the reduction of groundwater withdrawals.

The Authority charges a fee based on the amount of water pumped from a well or surface water delivered to the owner of wells located in the Authority’s boundaries, unless exempted. The Authority also charges a fee for importation of water into the Authority’s boundaries. The fees established by the Board of Directors should be sufficient to: (1) achieve water conservation, prevent waste of water, serve as a disincentive to pumping groundwater and make available alternative water supplies; and (2) enable the Authority to meet operation and maintenance expenses and pay the principal and interest on any debt issued by the Authority.

The Authority has contracted with various consultants to provide services to operate and administer the affairs of the Authority. The Authority has no employees, related payroll or pension costs.

The accounting policies of the Authority conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Reporting Entity

The Authority is a political subdivision of the State of Texas governed by a seven-member Board of Directors. As required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the Authority’s financial reporting entity. No other entities, organizations or functions have been included in the Authority’s financial reporting entity. Additionally, as the Authority is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the Authority’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the Authority is a part of any other governmental or other type of reporting entity. The overriding elements considered in determining that the Authority’s financial reporting entity status is that of a primary government are: that it has a separate governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additional criteria include (1) considerations pertaining to organizations for which the primary government is financially accountable and (2) considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Basic Financial Statements

The 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 Financial Statements. These statements focus on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from these activities for the fiscal year.

Measurement Focus and Basis of Accounting

The Authority follows proprietary fund accounting and reporting requirements, which utilize the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating 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 Authority's principal operating revenues are charges to participants for pumpage fees and water supply. Operating expenses include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Net position is classified, when applicable, into the following three components:

- Net investment in capital assets – this component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation/amortization and reduced by the outstanding balances of any bonds, notes or other borrowings.
- Restricted – resources that can be spent only for specific purposes because constraints on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed through enabling legislation.
- Unrestricted – amounts that do not meet the definition of the previous two categories. Included in the Authority's unrestricted net position of \$52,237,217 is \$37,986,250 which the Authority has deposited into separate bank/investment accounts and has designated as the improvement fund.

When both restricted and unrestricted resources are available for use, it is generally the Authority's policy to use restricted resources first.

Cash and Cash Equivalents

For the purposes of the *Statement of Cash Flows*, the Authority considers investments in local government investment pools, money market mutual funds and certificates of deposit to be cash equivalents.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by an allowance for amounts considered uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At December 31, 2021, an allowance for uncollectible accounts was not considered necessary.

Capital Assets

The Authority defines capital assets as assets with an initial cost of \$50,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Capital assets, except for land, easements, rights-of-way and construction in progress, are depreciated using the straight-line method as follows:

| Assets | Useful Life |
|---------------------------|----------------|
| Water distribution system | 45 years |
| Joint facilities | 20 - 45 years |
| Capital contribution | 80 years (max) |

Use of 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 and liabilities 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.

Note 2 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash and certificates of deposit) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The Public Funds Collateral Act (Chapter 2257, Texas Government Code) requires that all of the Authority's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The Authority's written investment policy establishes additional requirements for collateralization of deposits. As of December 31, 2021, all of the Authority's deposits are insured or fully collateralized.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2021

Note 2 – Deposits and Investments (continued)

Restricted Financial Resources

As of December 31, 2021, restricted financial resources are comprised of the following:

| | |
|---|-----------------------|
| Debt service | \$ 76,806,412 |
| Capital improvements | 48,075,309 |
| Held in escrow for: | |
| Capital improvements | 389,734,441 |
| Operations and maintenance reserve (per bond resolutions) | 1,849,260 |
| | <hr/> |
| | <u>\$ 516,465,422</u> |

Investments

The Authority is authorized by the Public Funds Investment Act (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The Authority has adopted a written investment policy to establish the principles by which the Authority's investment program should be managed. This policy further restricts the types of investments in which the Authority may invest.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2021

Note 2 – Deposits and Investments (continued)

Investments (continued)

As of December 31, 2021, the Authority's investments and maturities are as follows:

| Type | Carrying Value | Percentage of Total | Maturities in Years | |
|--------------------------------|-----------------------|---------------------|-----------------------|----------------------|
| | | | Less than 1 | 1-5 |
| TexPool | \$ 42,436,528 | 8% | \$ 42,436,528 | \$ - |
| TexSTAR | 413,389,738 | 75% | 413,389,738 | |
| Certificates of deposit | 2,450,000 | 0% | 2,450,000 | |
| Money market mutual funds | 17,660,666 | 3% | 17,660,666 | |
| Treasury bills and bonds | 55,441,875 | 10% | 37,984,395 | 17,457,480 |
| Federal Home Loan Bank notes | 9,999,833 | 2% | 9,999,833 | |
| Federal Farm Credit Bank bonds | 11,974,800 | 2% | 11,974,800 | |
| | \$ 553,353,440 | 100% | \$ 535,895,960 | \$ 17,457,480 |

The Authority considers investments in TexPool, TexSTAR and money market mutual funds to have a maturity of less than one year because the weighted average maturities of these pools/funds are less than one year.

The credit quality ratings of the District's investments that are subject to such ratings are as follows:

| Investment | Rating* |
|--------------------------------|-----------|
| TexPool | AAAm |
| TexSTAR | AAAm |
| Money market mutual fund | Not rated |
| Federal Home Loan Bank bonds | AA+ |
| Federal Farm Credit Bank bonds | AA+ |

* Per Standards & Poor's Rating Services

Investment Risks

The Authority's investments are exposed to the following investment risks:

- Investment credit risk - the risk that the investor may not recover the value of an investment from the issuer. Credit risk is measured by credit quality ratings as described by nationally recognized rating agencies. Investments in obligations of the United States government or obligations explicitly guaranteed by the United States government are not subject to credit risk disclosures.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2021

Note 2 – Deposits and Investments (continued)

Investment Risks (continued)

- Concentration of credit risk – the risk of loss arising from the concentration of investments in a single entity. It is measured by the percentage of investments held for each type of issuer. Investments in mutual funds and local government investment pools are not subject to concentration of credit risk due to the diversification of the underlying pool or fund. Since obligations of the United States government are not subject to credit risk, they are also not subject to concentration of credit risk.
- Interest rate risk - the risk that the value of an investment will be adversely affected by changes in interest rates. Interest rate risk is measured by the time to maturity for the investment, since investments with further maturity dates are subject to greater fluctuations in value.
- Custodial credit risk – the risk that the investor will not be able to recover the value of its investments that are in the possession of an outside party, if the counterparty fails. Investments in local government investment pools and open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities.

The Authority's investment policies do not address these risks beyond the rating and maturity restrictions established by state statutes.

Investment Valuation

The Authority's investments in U.S. treasury and agency securities and TexSTAR are reported at fair value in the *Statement of Net Position*. Governmental accounting standards establish a hierarchy of inputs used to measure fair value as follows: Level 1 inputs are based on quoted prices for identical securities in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs.

Fair value measurements of the Authority's investments as of December 31, 2021 are as follows:

- U.S. Treasury Notes: valued at \$55,441,875 based on quoted market prices (level 1 inputs).
- Federal Home Loan Bank notes and Federal Farm Credit Banks bonds: valued at \$21,974,633 based on price, yield or spread basis evaluated throughout the day using observable market data (level 2 inputs).
- TexSTAR: valued at \$413,389,738 based on published fair value per share (level 1 inputs).

TexPool

The State Comptroller of Public Accounts exercises oversight responsibility over the Texas Local Government Investment Pool (“TexPool”). Such oversight includes (1) the ability to significantly influence operations, (2) designation of management and (3) 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.

North Fort Bend Water Authority

Notes to Financial Statements

December 31, 2021

Note 2 – Deposits and Investments (continued)

TexPool (continued)

As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price and seeks to maintain a constant dollar value per share. Accordingly, the fair value of the Authority's position in TexPool is the same as the value of TexPool shares. Investments in TexPool may be withdrawn on a same day basis, as long as the transaction is executed by 3:30 p.m.

TexSTAR

The Texas Short Term Asset Reserve fund (“TexSTAR”) is managed by Hilltop Securities, and J.P. Morgan Investment Management, Inc. Hilltop Securities provides participant and marketing services while J.P. Morgan provides investment management services. Custodial and depository services are provided by J.P. Morgan Chase Bank N.A. or its subsidiary.

Investments in TexSTAR may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

Note 3 – Other Receivables

Included in other receivables as of December 31, 2021 is the amount of \$1,506,955, which is due from the City of Houston for true-ups for purchased surface water. See Note 13 for additional information.

Note 4 – Water Conservation Credits

Historically, the Authority participated in the Water Wise Program sponsored by the Fort Bend Subsidence District (“FBSD”). This program is an educational program dedicated to teaching local students about the importance of water conservation. The Authority receives a Certificate of Deposit water conservation credit equal to 84,000 gallons of groundwater for each student sponsored. Redemption of the Certificate of Deposit requires the FBSD to increase the redeemer's groundwater allocation by the amount of the water conservation credit, provided however, that the Certificates of Deposit issued beginning with the 2001-2002 school year (Series B) may only be applied to a maximum of 30 percent of the permittee's total water demand. The Authority began purchasing water conservation credits from other municipalities in 2007. The cost paid to the FBSD to sponsor each student and the cost paid to other municipalities to purchase water conservation credits is recorded as an asset and will be expensed in the year in which the credits(s) are redeemed.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2021

Note 4 – Water Conservation Credits (continued)

As of December 31, 2021, the Authority has invested \$1,133,660 in water conservation credits. On April 26, 2018, the Authority determined that obtaining additional credits was no longer necessary for compliance with FBSD conversion requirements and amended the Water Conservation Credit Purchase and Water Wise Program Sponsorship to no longer purchase credits or sponsor students effective at the end of the 2017-2018 school year.

Note 5 – Capital Assets

A summary of capital asset activity for the year ended December 31, 2021, is as follows:

| | Beginning Balance | Additions/ Retirements | Ending Balance |
|---|-----------------------|---------------------------|-----------------------|
| Capital assets not being depreciated | | | |
| Land and ROW acquisition | \$ 13,822,567 | \$ 422,646 | \$ 14,245,213 |
| Land and ROW acquisition - joint facilities | 120,335,803 | (18,857,715) | 101,478,088 |
| Construction in progress | 9,785,499 | (1,301,431) | 8,484,068 |
| Construction in progress - joint facilities | | 174,777,763 | 174,777,763 |
| Subtotal non-depreciable capital assets | <u>143,943,869</u> | <u>155,041,263</u> | <u>298,985,132</u> |
| Capital assets being depreciated/amortized | | | |
| Water distribution system | 113,187,079 | 8,879,371 | 122,066,450 |
| Joint facilities | 37,405,539 | 885,059 | 38,290,598 |
| Capital Contributions - City of Houston | 209,114,965 | 106,273,373 | 315,388,338 |
| Subtotal | <u>359,707,583</u> | <u>116,037,803</u> | <u>475,745,386</u> |
| Less accumulated depreciation/amortization | | | |
| Water distribution system | (17,617,218) | (2,712,589) | (20,329,807) |
| Joint facilities | (7,096,184) | (998,404) | (8,094,588) |
| Capital Contributions - City of Houston | (18,803,313) | (5,105,830) | (23,909,143) |
| Subtotal | <u>(43,516,715)</u> | <u>(8,816,823)</u> | <u>(52,333,538)</u> |
| Subtotal depreciable capital assets, net | <u>316,190,868</u> | <u>107,220,980</u> | <u>423,411,848</u> |
| Total capital assets, net | <u>\$ 460,134,737</u> | <u>\$ 262,262,243</u> | <u>\$ 722,396,980</u> |

Depreciation and amortization expense for the current year was \$8,816,823.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2021

Note 6 – Revenue Notes Payable

On May 3, 2017, the Authority approved a resolution authorizing a short term note purchase program in order to address timing differences between the Authority's obligations to the City of Houston (see Note 13), financing approved by the TWDB (see Note 7) and planned open market bond financing. This program permits the Authority to enter into one or more note purchase agreements, initially with JPMorgan Chase Bank, N.A. ("JPMorgan"), under which it can issue variable rate, short term notes in the aggregate amount not to exceed \$150,000,000. The notes are secured by a lien on gross revenues less operating expenses less amounts needed to pay principal and interest on existing debt and to meet annual Reserve Fund and Coverage Fund requirements. The notes will be issued in increments of \$100,000 and must be issued for less than 364 days. The interest rate on the notes is calculated as 70% of LIBOR plus an additional percentage based on the Authority's underlying credit rating. JPMorgan's initial commitment to participate in the note purchase program was for a two-year term, which has been extended until August 11, 2023.

When it enters into a note purchase agreement, the Authority will be required to pay a facility fee equal to 0.35%. Once a note is issued pursuant to a note purchase agreement, the drawn amount will be charged interest and the undrawn amount will be charged the facility fee. Interest on notes will be due monthly, while principal payments are due on maturity from bond proceeds or proceeds from a replacement note.

On June 1, 2017, and amended on June 26, 2019, the Authority entered into a \$50,000,000 Note Purchase Agreement with JPMorgan. The Authority borrowed against the note in 2018, which was subsequently renewed in 2019 and 2020. During the current fiscal year, the outstanding balance of \$1,000,000 was paid in full.

Note 7 – Bonds Payable

Bonds payable as reported on the *Statement of Net Position* is comprised of the following:

| | Direct Placement | | |
|---------------------------|-----------------------|-----------------------|-------------------------|
| | General Bonds | Bonds | Total |
| Bonds payable | \$ 325,985,000 | \$ 806,965,000 | \$ 1,132,950,000 |
| Unamortized premium | 44,417,905 | | 44,417,905 |
| Total | \$ 370,402,905 | \$ 806,965,000 | \$ 1,177,367,905 |
| | | | |
| Due within one year | | | |
| Bonds payable | \$ 5,775,000 | \$ 11,760,000 | \$ 17,535,000 |
| Amortization of premium | 1,393,327 | | |
| Due after one year | 363,234,578 | 795,205,000 | 1,159,832,905 |
| | \$ 370,402,905 | \$ 806,965,000 | \$ 1,177,367,905 |

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2021

Note 7 – Bonds Payable (continued)

The Authority's bonds payable as of December 31, 2021, consisted of the following individual issues:

| Series General Bonds | Amounts | | Original Issue Amount | Interest Rates and Key Dates | |
|--------------------------------|--------------------|--|--------------------------|------------------------------|-------------------------|
| | Outstanding | | | | |
| 2011 | \$ 3,075,000 | | \$ 81,100,000 | Interest | 2.00% - 5.25% |
| | | | | Principal | December 15, 2014-2036 |
| | | | | Payments | June 15 & December 15 |
| | | | | Callable | December 15, 2021* |
| 2019A | 168,625,000 | | 168,625,000 | Interest | 3.00% - 4.00% |
| | | | | Principal | December 15, 2036-2044 |
| | | | | Payments | 2050-2058 |
| | | | | Callable | June 15 & December 15 |
| | | | | | December 15, 2029* |
| 2020B | 38,950,000 | | 41,530,000 | Interest | 2.00% - 5.00% |
| | | | | Principal | December 15, 2021-2035 |
| | | | | Payments | June 15 & December 15 |
| | | | | Callable | December 15, 2030* |
| 2021 | 115,335,000 | | 115,335,000 | Interest | 2.65% - 5.00% |
| | | | | Principal | December 15, 2023-2036, |
| | | | | Payments | 2045-2060 |
| | | | | Callable | June 15 & December 15 |
| | | | | | December 15, 2031* |
| Subtotal | 325,985,000 | | 406,590,000 | | |
| Direct Placement Bonds | | | | | |
| Junior Lien 2015 | 6,355,000 | | 8,670,000 | Interest | 0.19% - 2.41% |
| | | | | Principal | December 15, 2016-2035 |
| | | | | Payments | June 15 & December 15 |
| | | | | Callable | December 15, 2025* |
| Junior Lien 2016A | 8,045,000 | | 9,420,000 | Interest | 0.00% - 1.02% |
| | | | | Principal | December 15, 2018-2040 |
| | | | | Payments | June 15 & December 15 |
| | | | | Callable | December 15, 2026* |
| Junior Lien 2016B | 9,865,000 | | 11,025,000 | Interest | 0.65% - 3.04% |
| | | | | Principal | December 15, 2018-2046 |
| | | | | Payments | June 15 & December 15 |
| | | | | Callable | December 15, 2026* |
| Junior Lien 2017 | 87,360,000 | | 87,360,000 | Interest | 1.92% - 3.21% |
| | | | | Principal | December 15, 2028-2047 |
| | | | | Interest | June 15 & December 15 |
| | | | | Callable | December 15, 2027* |

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2021

Note 7 – Bonds Payable (continued)

| Series | Amounts | | Original Issue Amount | Interest Rates and Key Dates | |
|---|--------------|--------------|--------------------------|------------------------------|--|
| | Outstanding | | | | |
| Direct Placement Bonds (continued) | | | | | |
| Junior Lien 2018A | \$ 1,890,000 | \$ 2,070,000 | Interest | 0.15% - 1.68% | |
| | | | Principal | December 15, 2020-2040 | |
| | | | Interest | June 15 & December 15 | |
| | | | Callable | December 15, 2028* | |
| Junior Lien 2018B | 120,040,000 | 121,040,000 | Interest | 1.66% - 3.52% | |
| | | | Principal | December 15, 2020-2048 | |
| | | | Interest | June 15 & December 15 | |
| | | | Callable | December 15, 2028* | |
| Parity 2018C | 67,845,000 | 68,845,000 | Interest | 1.66% - 3.57% | |
| | | | Principal | December 15, 2020-2048 | |
| | | | Interest | June 15 & December 15 | |
| | | | Callable | December 15, 2028* | |
| Junior Lien 2019B | 240,110,000 | 244,110,000 | Interest | 1.05% - 2.78% | |
| | | | Principal | December 15, 2020-2049 | |
| | | | Interest | June 15 & December 15 | |
| | | | Callable | December 15, 2029* | |
| Parity 2019C | 53,660,000 | 56,610,000 | Interest | 1.02% - 2.70% | |
| | | | Principal | December 15, 2020-2049 | |
| | | | Interest | June 15 & December 15 | |
| | | | Callable | December 15, 2029* | |
| Junior Lien 2020 | 38,530,000 | 39,590,000 | Interest | 0.12% - 2.48% | |
| | | | Principal | December 15, 2021-2050 | |
| | | | Interest | June 15 & December 15 | |
| | | | Callable | December 15, 2030* | |
| Parity 2020A | 139,290,000 | 143,125,000 | Interest | 0.12% - 2.48% | |
| | | | Principal | December 15, 2021-2050 | |
| | | | Interest | June 15 & December 15 | |
| | | | Callable | December 15, 2030* | |
| Junior Lien 2021A | 20,940,000 | 20,940,000 | Interest | 0.17% - 2.72% | |
| | | | Principal | December 15, 2022-2051 | |
| | | | Interest | June 15 & December 15 | |
| | | | Callable | December 15, 2031* | |

North Fort Bend Water Authority***Notes to Financial Statements******December 31, 2021*****Note 7 – Bonds Payable (continued)**

| Series | Amounts | | Original Issue Amount | Interest Rates and Key Dates | |
|---|-------------------------|-------------------------|--------------------------|------------------------------|--|
| | Outstanding | | | | |
| Direct Placement Bonds (continued) | | | | | |
| Parity | \$ 13,035,000 | \$ 13,035,000 | Interest | 0.17% - 2.72% | |
| 2021B | | | Principal | December 15, 2022-2051 | |
| | | | Interest | June 15 & December 15 | |
| | | | Callable | December 15, 2031* | |
| Subtotal | <u>806,965,000</u> | <u>825,840,000</u> | | | |
| Total | <u>\$ 1,132,950,000</u> | <u>\$ 1,232,430,000</u> | | | |

* Or any date thereafter, callable at par plus unpaid accrued interest in whole or in part at the option of the Authority.

The Series 2019A term bonds maturing December 15, 2044, and December 15, 2058, are subject to mandatory sinking fund redemption beginning December 15, 2042, and December 15, 2050, respectively. The Series 2021 term bonds maturing December 15, 2051, and December 15, 2060, are subject to mandatory sinking fund redemption beginning December 15, 2045, and December 15, 2052, respectively.

In July 2015, the Texas Water Development Board (“TWDB”) made a commitment to provide the Authority with \$555,845,000 in financial assistance from SWIRFT. The TWDB agreed to purchase water system junior lien revenue bonds from the Authority each year from 2015 through 2022. In July 2018, the TWBD made a commitment of \$339,480,000 to provide additional financial assistance from SWIRFT. The TWDB agreed to purchase water system revenue bonds from the Authority each year from 2018 through 2024. The combined proceeds of these bonds are to be used for the Northeast Water Purification Plant Expansion in the amount of \$363,815,000; Surface Water Supply Project in the amount of \$458,535,000 and the Internal Distribution Expansion Project in the amount of \$72,975,000. On November 22, 2021, the Authority sold \$20,940,000 of water system junior lien Series 2021A bonds, and \$13,035,000 parity Series 2021B bonds to the TWBD related to this commitment.

On September 21, 2021, the Authority issued its \$115,335,000 Series 2021 Water System Revenue and Revenue Refunding Bonds to refund \$60,425,000 of its outstanding Series 2011 Water System Revenue Bonds. The Authority refunded the bonds to reduce total debt service payments over future years by approximately \$17,622,179 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$15,527,187. Proceeds of the bonds were placed in an escrow account with an escrow agent and irrevocably pledged to the payment of future debt service payments. The redemption date of the refunded bonds was December 15, 2021, and, as of December 31, 2021, the refunded bonds have all been redeemed and are no longer outstanding.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2021

Note 7 – Bonds Payable (continued)

The following is a summary of changes in bonds payable during the year ended December 31, 2021:

| | Direct | | |
|---------------------------------|-----------------------|-----------------------|-------------------------|
| | General Bonds | Placement Bonds | Total |
| Beginning balance | \$ 276,580,000 | \$ 783,560,000 | \$ 1,060,140,000 |
| Bonds issued | 115,335,000 | 33,975,000 | 149,310,000 |
| Bonds retired | (5,505,000) | (10,570,000) | (16,075,000) |
| Bonds refunded | (60,425,000) | | (60,425,000) |
| Ending balance | <u>\$ 325,985,000</u> | <u>\$ 806,965,000</u> | <u>\$ 1,132,950,000</u> |
| Total original bonds issued | <u>\$ 406,590,000</u> | <u>\$ 825,840,000</u> | <u>\$ 1,232,430,000</u> |

As of December 31, 2021, the debt service requirements on the bonds outstanding were as follows:

| Fiscal Year | General Bonds | | Direct Placement Bonds | | Total | |
|-------------|-----------------------|-----------------------|------------------------|-----------------------|-------------------------|-----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2022 | \$ 5,775,000 | \$ 12,911,875 | \$ 11,760,000 | \$ 19,366,034 | \$ 17,535,000 | \$ 32,277,909 |
| 2023 | 5,450,000 | 12,638,500 | 11,850,000 | 19,253,541 | 17,300,000 | 31,892,041 |
| 2024 | 5,725,000 | 12,366,000 | 11,900,000 | 19,175,847 | 17,625,000 | 31,541,847 |
| 2025 | 6,010,000 | 12,079,750 | 11,945,000 | 19,090,990 | 17,955,000 | 31,170,740 |
| 2026 | 6,315,000 | 11,779,250 | 12,000,000 | 18,999,506 | 18,315,000 | 30,778,756 |
| 2027-2031 | 28,225,000 | 54,239,750 | 107,450,000 | 92,212,385 | 135,675,000 | 146,452,135 |
| 2032-2036 | 38,765,000 | 48,218,350 | 156,530,000 | 78,962,563 | 195,295,000 | 127,180,913 |
| 2037-2041 | 51,765,000 | 40,524,650 | 173,230,000 | 59,020,794 | 224,995,000 | 99,545,444 |
| 2042-2046 | 42,440,000 | 29,700,650 | 194,920,000 | 33,988,446 | 237,360,000 | 63,689,096 |
| 2047-2051 | 32,400,000 | 24,049,800 | 115,380,000 | 6,656,079 | 147,780,000 | 30,705,879 |
| 2052 - 2056 | 63,770,000 | 14,793,170 | - | - | 63,770,000 | 14,793,170 |
| 2057 - 2060 | 39,345,000 | 3,040,500 | - | - | 39,345,000 | 3,040,500 |
| | <u>\$ 325,985,000</u> | <u>\$ 276,342,245</u> | <u>\$ 806,965,000</u> | <u>\$ 366,726,184</u> | <u>\$ 1,132,950,000</u> | <u>\$ 643,068,429</u> |

Note 8 - Indenture of Trust

The Authority entered into an Indenture of Trust dated as of June 1, 2009, upon the issuance of its first series of bonds and as subsequently supplemented and amended with each subsequent bond sale (the “Indenture”) with Regions Bank, in its capacity as Trustee (the “Trustee”) for the purpose of establishing various funds and assigning and pledging the monies held by the Trustee to secure the payment of principal and interest on the bonds and payments of certain obligations. The Trustee is responsible for allocating certain available monies of the Authority in accordance with the terms of the Indenture.

North Fort Bend Water Authority

Notes to Financial Statements

December 31, 2021

Note 8 - Indenture of Trust (continued)

The following are certain requirements and provisions of the Indenture:

- A. The Authority is required to maintain a Coverage Fund. The Authority is required to establish by each fiscal year end a balance of 1) for Parity Bonds, Parity Notes, and Parity Obligations, twenty five percent (25%) of maximum annual debt service requirement, and 2) for Junior Lien Bonds, Junior Lien Notes, and Junior Lien Obligations, twenty-five percent (25%) of maximum annual debt service requirements. Upon issuance of the Series 2021B Bonds, the amount of the Coverage Fund Requirement is established and stipulated to be \$16,421,696. As of December 31, 2021, the Coverage Fund cash balance is \$16,421,909.
- B. The Indenture also calls for the establishment of a Reserve Fund Requirement related to Parity Bonds, Parity Notes and Parity Obligations. Upon issuance of the Series 2021 Bonds, the Reserve Fund Requirement is established and stipulated to be \$31,745,315, which is the lesser of (i) the maximum annual debt service requirement or (ii) 125% of the average annual aggregate debt service requirement. The Reserve Fund Requirement has been satisfied by cash deposits and interest earnings thereon.
- C. The Indenture also calls for the establishment of a Junior Lien Reserve Fund Requirement, which for Junior Lien Bonds and Junior Lien Notes, is the average annual aggregate debt service requirement on the Junior Lien Bonds and Junior Lien Notes, calculated as of the date of issuance of each series. Upon issuance of the Series 2021A Bonds, the amount of the Junior Lien Reserve Fund Requirement is established and stipulated to be \$26,010,373. The Junior Lien Reserve Fund Requirement was satisfied by cash deposits and interest earnings thereon.
- D. The Indenture states that the Authority will provide continuing disclosure of certain financial information and operating data to the Municipal Securities Rulemaking Board's electronic municipal market access system. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year.

Note 9 – Capital Advance and Reimbursement Procedures

Prior to each new bond issue, the Authority may opt to adopt a Resolution Authorizing Capital Advance and Reimbursement Procedure (each a "Resolution") pursuant to Section 8813.104 of the Act to provide each district or municipality within its boundaries information regarding the share of capital costs allocable to such district or municipality, and to provide each district or municipality the opportunity to fund its share of the capital costs and to provide a mechanism for the reimbursement credit thereof.

A contribution was received from Cinco Municipal Utility District No. 8 ("Cinco 8") in February 2010 in the amount of \$1,847,771. With the addition of an issuance cost component, the total principal amount of the reimbursement credit to be received by Cinco 8 is \$1,861,676. The reimbursement credit, which includes interest, will be provided in 310 equal monthly credits to be applied against all fees, rates and charges due to the Authority for groundwater pumpage and/or surface water purchased. The monthly reimbursement credit to Cinco 8 for these capital contributions is \$11,115.

North Fort Bend Water Authority***Notes to Financial Statements******December 31, 2021*****Note 9 – Capital Advance and Reimbursement Procedures (continued)**

In 2012, Cinco 8 made an additional capital contribution in the amount of \$990,496 to the Authority to fund its share of capital costs. With the addition of an issuance cost component, the total principal amount of the reimbursement credit to be received by Cinco 8 is \$998,123. The reimbursement credit, which includes interest, will be provided in 304 equal monthly credits to be applied against all fees, rates and charges due to the Authority for groundwater pumpage and/or surface water purchased. The monthly reimbursement credit to Cinco 8 for this capital contribution is \$5,575.

During the current fiscal year, the interest cost on all contribution credits was \$107,849. The following is a schedule of the credits and interest to be given to Cinco 8 by the Authority.

| Year | Principal | Interest | Total |
|-------------------------|---------------------|-------------------|---------------------|
| 2022 | \$ 97,270 | \$ 103,008 | \$ 200,278 |
| 2023 | 102,365 | 97,912 | 200,277 |
| 2024 | 107,729 | 92,549 | 200,278 |
| 2025 | 113,376 | 86,901 | 200,277 |
| 2026 | 119,319 | 80,958 | 200,277 |
| 2027-2031 | 697,317 | 304,071 | 1,001,388 |
| 2032-2036 | 763,929 | 104,081 | 868,010 |
| 2037 | 65,254 | 1,703 | 66,957 |
| | <u>\$ 2,066,559</u> | <u>\$ 871,183</u> | <u>\$ 2,937,742</u> |
| Payable Within One Year | <u>\$ 97,270</u> | <u>\$ 103,008</u> | <u>\$ 200,278</u> |
| Payable After One Year | <u>\$ 1,969,289</u> | <u>\$ 768,175</u> | <u>\$ 2,737,464</u> |

The change in the Authority's liability for capital contributions during the year is as follows:

| | |
|------------------------------|---------------------|
| Balance at beginning of year | \$ 2,158,988 |
| Principal reductions | (92,429) |
| Balance at end of year | <u>\$ 2,066,559</u> |

Note 10 – Over-Conversion Credit Policy

The FBSD has adopted a policy by which the FBSD issues over-conversion credits (1) achieved through the reuse of wastewater treatment plant effluent ("Effluent") in the amount of 1.5 gallons for each gallon of Effluent over-conversion, and (2) achieved through the use of any metered alternative water supply other than Effluent ("Non-Effluent Alternative Water Supply") in the amount of one gallon for each gallon of metered alternative water supply. On November 21, 2013, the Authority adopted an amended and restated Over-Conversion Credit Policy (the "Policy"), under which the Authority is willing to consider proposals for all Effluent and Non-Effluent Alternative Water Supply projects on a case by case basis. While the Authority reserved the right to consider any proposals that were not directly contemplated by the Policy, the Policy contains the following guidelines.

North Fort Bend Water Authority

Notes to Financial Statements

December 31, 2021

Note 10 – Over-Conversion Credit Policy (continued)

For Effluent and Non-effluent water supply projects, the Authority shall endeavor to enter into written contracts ("Contracts") for the use of Effluent within its boundaries. Such Contracts may include a credit of up to \$0.75 per 1,000 gallons for each 1,000 gallons of metered Effluent or Non Effluent Alternative Water Supply used ("Credits") to be applied against pumpage fees (or any other fees) due the Authority. The credits may be earned for a period equal to the life of the bonds used to finance such projects or such other period as determined by the Authority to allow for reasonable recovery of some or all project costs. FBSD over-conversion credits associated with the Effluent during the life of the reuse system will belong to the Authority for the benefit of the Authority's groundwater reduction plan (the "GRP"). The Contracts will include a provision that Credits shall only be awarded to the extent the Authority receives the over-conversion credit from FBSD.

Note 11 – Groundwater Reduction Plan Participation Agreements

The Authority entered into Groundwater Reduction Plan Participation Agreements with various entities located outside the Authority's boundaries (the "participants"). The Authority agreed to include the participants into the Authority's groundwater reduction plan as non-voting members and the participants agreed to pay the Authority the monthly water well pumpage fee. The term of each agreement is 40 years and shall automatically renew for successive five-year periods, unless the other party gives written notice of its intent to terminate.

Note 12 – Water Conservation Program

In an effort to encourage conservation, the Authority has created the Larry's Toolbox Water Conservation Program (the "Program") to assist in meeting a goal of reducing water usage by 15%. Eligible participants are municipal utility districts and other entities within the Authority's boundaries ("participants"). By adopting various water saving programs, participants earn points towards eligibility for a water conservation rebate payment in the amount of \$0.10 per 1,000 gallons of water on surface water or groundwater on which an Authority fee would otherwise be charged. Rebates are paid in four quarterly payments. Points awarded vary depending upon the water saving program adopted by each participant. In order to receive a rebate, each participant must meet certain program goal requirements. During the current year, the Authority issued rebates totaling \$1,061,483.

Note 13 – Water Supply Contract with the City of Houston

The Authority receives its surface water supply from the City of Houston (the "City"). The Authority entered into a Water Supply Contract (the "Contract") with the City, on July 29, 2008, as subsequently supplemented and amended, for the purchase of capacity in certain of the City's untreated water facilities (i.e, reservoirs, canals, etc.) and treated water facilities, including transmission facilities. The original Contract provided the Authority with 19.5 mgd capacity in both treated and untreated facilities. The City has executed similar contracts with West Harris County Regional Water Authority, the North Harris County Regional Water Authority, and the Central Harris County Regional Water Authority (the "Other Authorities"). The Water Supply Contract and all supplements remain in effect until January 1, 2080.

North Fort Bend Water Authority

Notes to Financial Statements

December 31, 2021

Note 13 – Water Supply Contract with the City of Houston (continued)

The City is responsible for the design, construction, ownership, maintenance and operation of the water facilities that are upstream of the point(s) of delivery to the Authority. The Authority is responsible for the design, construction, ownership, maintenance and operation of its water facilities located downstream of the point(s) of delivery.

Pursuant to the original Contract, the Authority paid the City \$47,087,533 for treated water facilities. The payment consisted of \$26,184,758 for plant facilities, \$17,342,197 for surface water transmission lines, and \$4,842,139 for the Southwest re-pump station, less an interest adjustment of \$1,281,561. The Authority also paid \$13,712,603 in capital costs for untreated water facilities.

Monthly Payments and Annual True-ups: The Authority is required to reimburse the City on a periodic basis for the expenses incurred by the City in producing and treating the water delivered to the Authority. The Authority makes monthly payments to the City based upon its actual usage and the City's estimated costs as budgeted for the fiscal year (as a rate per 1,000 gallons). The payments consist of an operation and maintenance component (i.e., purchased water) and a rehabilitation capital cost component. The City is required to engage an independent auditor to prepare a true-up based on actual costs at the end of each fiscal year.

During the current fiscal year, the Authority recorded an expense of \$3,588,629 for purchased water, which includes true-up credits for previous fiscal years of \$623,669. The Authority also recorded capital contributions for rehabilitation costs in the amount of \$841,054. As of December 31, 2021, the Authority has recorded a receivable from the City in the amount of \$1,506,955 for the 2020-2021 true-ups.

Luce Bayou Interbasin Transfer Project (First Supplement)

In January 2009, the Authority and the City executed the First Supplement (the "First Supplement") to the Water Supply Contract to finance, design, and construct the Luce Bayou Interbasin Transfer Project ("Luce Bayou") that will deliver approximately 400 million gallons per day of untreated surface water from the Trinity River to Lake Houston in order to increase untreated surface water supplies available to the City, the Authority, and Other Authorities receiving surface water from the City. The First Supplement provides that the Coastal Water Authority (the "CWA") will serve as the project manager for the purpose of designing and constructing Luce Bayou and the City will issue (or cause CWA to issue) bonds, notes, or other obligations to finance Luce Bayou.

In 2012, the CWA received financial assistance in the amount of \$28,754,000 from the State of Texas under the State Participation program. The First Supplement was subsequently amended in 2013 by the First Amendment to the First Supplement to Water Supply Contract (the "Amendment") to address the impact of this obligation on the Authority's payments to the City.

North Fort Bend Water Authority

Notes to Financial Statements

December 31, 2021

Note 13 – Water Supply Contract with the City of Houston (continued)

Luce Bayou Interbasin Transfer Project (First Supplement) (continued)

Under the terms of the contract, the Authority will make the following payments to the City:

- Lump Sum Payments for Project Right of Way Costs and Payment of CWA Interest Costs;
- Payments for Existing Untreated Water Supply Facilities; and
- Payments for Phases 1 and 2 Annual New Untreated Water Facilities.

Lump Sum Payments: As of December 31, 2021, the Authority paid the City \$1,418,920 for its pro rata share of the estimated right-of-way costs, net of refunds. The City and the Authority agreed to “true-up” the payments made by the Authority for the right-of-way costs such that if the Authority has underpaid, taking into account interest accrued, it will pay the City for the shortfall within 60 days of receiving the final accounting and the City agrees to refund the Authority any overpayment within 60 days of receiving the final accounting. There were no additional amounts paid or refunded during the current fiscal year.

Payments for Existing Untreated Water Facilities: The Authority seeks to increase its Untreated Water Facilities Demand from 19.5 mgd to 75.3 mgd, which is currently estimated to be the Authority’s surface water demand in the year 2040. Under the terms of the First Supplement, the Authority is required to make four payments to the City for Existing Untreated Water Facilities. Each payment is based on a formula defined in the First Supplement based on the Authority’s water demand needs in 2025, 2030, 2035 and 2040.

The first payment is due within 60 days of receiving notification from the City of the completion of Luce Bayou; the second payment is due the earlier of 60 days after sending notice to the City of the Authority’s water demand needs for 2030 or June 30, 2025; the third payment is due the earlier of 60 days after sending notice to the City of the Authority’s water demand needs for 2035 or June 30, 2030; and the fourth payment is due within the earlier of 60 days after sending notice to the City of the Authority’s water demand needs for 2040 or June 30, 2035.

Payment for Phases 1 and 2 Annual New Untreated Water Facilities: Payments made to the City for Phase 1 and Phase 2 Annual New Untreated Water Facilities are to be used only for the purpose of making debt service payments on obligations issued by either the City or CWA for the construction of Phase 1 and Phase 2 of Luce Bayou. The formulas used to calculate payments are defined in the contract and take into consideration the Authority’s 75.3 mgd untreated water reservation, the total amount of untreated water sold by the City to all customers and the City’s annual debt service requirement. As previously mentioned, the CWA received financial assistance in the amount of \$28,754,000 in the 2013 fiscal year from the State of Texas under the State Participation Program. The Authority’s pro-rata share of debt service payments on this obligation will be repaid over 33 years, beginning in 2018. During the current fiscal year, the Authority paid \$1,126,150 for its share of CWA debt service costs.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2021

Note 13 – Water Supply Contract with the City of Houston (continued)

Northeast Water Purification Plant Expansion Project (Second Supplement)

On February 25, 2015, the Authority and the City executed the Second Supplement to the Water Supply Contract to increase the supply of treated water to the Authority from 19.5 mgd to 88 mgd. In order to provide this additional capacity, the City will expand the Northeast Water Purification Plant in two phases. Phase 1 will provide the Authority with an additional 11.46 mgd capacity no later than January 2023 and Phase 2 will provide an additional 57.04 mgd of capacity no later than June 2025.

On June 26, 2019, the Authority and Houston executed the First Amendment to the Second Supplement to the Water Supply Contract to address the operation and management of the expanded treated water facilities built pursuant to terms of the Second Supplement through the establishment of the Facilities Management Committee (“FMC”). The FMC is comprised of five people, one appointed by each of the parties to the NEWPP expansion project. The FMC will oversee matters related to operations, staffing, use of third party operators, budget, maintenance, and rehabilitation of the Expansion. The FMC will oversee the deposits and expenditures of newly created Capital Renewal and O&M Reserve Funds to achieve those ends. To enforce accountability of involved parties, the First Amendment established an Excess Usage Fee for any party exceeding its capacity interest in the Expansion of \$3.15 per 1,000 gallons. Finally, the First Amendment establishes provisions for allocating increased treated water capacity among the participants as the NEWPP is brought online in phases and allowing for future leasing of participant’s capacity from one participant to another.

The Authority’s estimated share of total costs is approximately \$410 million; however, unanticipated events encountered during construction may result in significant cost increases and schedule delays. The City will issue cash calls as needed to fund the expansion. As of December 31, 2021, the Authority has paid the City \$238,578,426 in cash call withdrawals and has \$47,382,993 remaining in escrowed cash and investments with the City of Houston. The Authority also paid the City \$420,830 for costs incurred for the project prior to December 1, 2014.

Northeast Transmission Line (Third Supplement)

On November 10, 2015, the Authority and the City executed the Third Supplement to the Water Supply Contract to clarify and agree to the terms for the cost sharing, permitting, engineering, surveying, construction, operation and maintenance necessary for the Segment 1 of the Northeast Transmission Line (the “NETL”). The Authority’s Segment 1 reservation is 68.5 mgd. The Authority’s estimated share of the total costs is approximately \$3,281,155. As of December 31, 2021, the Authority has paid the City \$2,077,050 for costs related to the NETL.

Note 14 – Joint Facilities Agreement

On July 1, 2011, as amended March 1, 2012, the Authority and West Harris County Regional Water Authority (the “West Harris Authority”) entered into a Joint Facilities Agreement (the “Agreement”) to jointly design, acquire, construct, finance, operate and maintain certain booster pump stations and water transmission facilities to receive water from the City of Houston for ultimate delivery to the Authorities’ respective customers.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2021

Note 14 – Joint Facilities Agreement (continued)

Segments 0 & 1A and the Bellaire Pump Station. The Authority was responsible for the design and construction of Segments 0 & 1A and the Bellaire Pump Station. The Authority will hold legal title to the facilities for the benefit of both parties. Each authority paid its pro-rata share of the cost to construct the facilities and has an equitable interest to the extent of its pro rata share. Phase 2 of the Bellaire Pump Station is planned to add capacity to the for the benefit of the West Harris Authority. The Authority will design and construct Phase 2 provided that the West Harris Authority pays all Phase 2 project costs. The Authority will invoice the West Harris Authority for 100% of Phase 2 design and construction costs.

Surface Water Supply Project. The Surface Water Supply Project consists of water mains, pump stations, re-pump stations, re-pressurization stations and related appurtenances needed to convey water from Houston's Northeast Water Plant to the authorities. Under the Agreement, the Surface Water Supply Project was initially required to be complete no later than June 30, 2019. On January 9, 2013, the Harris Galveston Subsidence District ("HGSD") delayed the 70% alternate water supply requirement that is required by the year 2020 under HGSD's regulations until 2025. Accordingly, the Agreement provides that the June 30, 2019, date is extended to June 30, 2024. As of December 31, 2021, the total estimated cost to complete the project is \$1,236,000,000, the Authority's share of which is \$556,200,000.

The West Harris Authority will own and operate the Surface Water Supply Project for the benefit of both parties, with each party having an equitable share to the extent of its pro-rata share in each segment. The West Harris Authority invoices the Authority for estimated engineering costs based on its estimated pro-rata share of 70%. No earlier than 12 months after the 70% invoice is sent, the Authority will be billed 100% of construction costs. All deposits are to be deposited into a separate bank account and the bookkeeper will provide monthly reports of the application of each authority's payment for project costs and of related interest earnings. As of December 31, 2021, the Authority has paid \$249,497,122 to the West Authority for its portion of the Surface Water Supply Project realty costs.

On November 10, 2021, the West Authority entered into an Integrated Reliability on Call Master Service Agreement (the "SWSP Agreement") and Ground Leases with Enchanted Rock Solutions, LLC ("Enchanted Rock") for the provision of backup power to the Central Pump Station and Repump Stations (the "Pump Stations"). In accordance with the SWSP Agreement, Enchanted Rock will provide the West Authority's pump stations with utility grade backup power during emergency outages and for non-emergency use. Enchanted Rock is responsible for installing the equipment necessary to construct the power grid on land owned by the West Authority, which is leased to Enchanted Rock for a 15-year period.

The Authority and the West Authority have contributed a total of \$7,844,000 for the backup power services. Since the Pump Stations are jointly owned by the Authority and West Authority, costs have been allocated between the parties. The Authority contributed \$3,579,984 during the current year, which is included in construction in progress – joint facilities on the *Statement of Net Position*.

North Fort Bend Water Authority

Notes to Financial Statements

December 31, 2021

Note 14 – Joint Facilities Agreement (continued)

Water Infrastructure Fund Bonds. The West Harris Authority is authorized to issue bonds financed through the Water Infrastructure Fund (“WIF”) of the Texas Water Development Board to fund a portion of the Surface Water Supply Project costs. Debt service requirements for these bonds will be shared between the West Harris Authority and the Authority on a pro-rata basis. The Authority is required to make two payments to the West Harris Authority each year equal to the Authority’s pro-rata share of the annual debt service on the bonds.

In 2012, the West Harris Authority issued its \$41,965,000 Series 2012 Water System Revenue Bonds related to this Agreement. The Authority’s pro-rata share of these bonds is \$18,842,285, which was initially recorded as an other asset (joint facilities - future capital costs) on the *Statement of Net Position*, but was reclassified to capital assets during the current fiscal year. During the current year, the Authority paid the West Harris Authority \$1,094,216 for its pro-rata share of the annual debt service payment, which consists of a principal reduction of \$945,145 and an interest component of \$149,071. As of December 31, 2021, the outstanding balance of the liability is \$10,044,130.

As of December 31, 2021, the debt service requirements on the WIF obligation outstanding were as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|----------------------|-------------------|----------------------|
| 2022 | \$ 951,880 | \$ 142,455 | \$ 1,094,335 |
| 2023 | 958,615 | 134,364 | 1,092,979 |
| 2024 | 969,840 | 124,395 | 1,094,235 |
| 2025 | 981,065 | 113,338 | 1,094,403 |
| 2026 | 992,290 | 101,467 | 1,093,757 |
| 2027-2031 | 5,190,440 | 276,194 | 5,466,634 |
| | <u>\$ 10,044,130</u> | <u>\$ 892,213</u> | <u>\$ 10,936,343</u> |

Operation of Joint Facilities. The responsible authority, which means the Authority for Segment 0, Segment 1A, and the Bellaire Pump Station and the West Harris Authority for the Surface Water Supply Project, will maintain, repair and operate the joint facilities for which it is responsible. Each party will pay their respective shares of operation and maintenance expenses which will be allocated based on the authorities’ pro-rata share of the applicable joint facility. After the facilities go into service, each authority will pay a fraction of the monthly operation and maintenance expenses based on the amount of water received by each Authority from such facility. Each authority is required to establish a separate joint facilities account. All funds received and any expenses related to the joint facilities shall be accounted for through this account. Each month, the responsible authority will provide a bill for its respective share of the actual expenses made from the joint facilities account. Additionally, an initial deposit of one-fourth of the annual budget prepared for the joint facilities account will be billed. The authorities will establish a capital replacement account for each joint facility, the amount and timing of which will be mutually agreed upon.

North Fort Bend Water Authority

Notes to Financial Statements

December 31, 2021

Note 14 – Joint Facilities Agreement (continued)

The West Harris Authority established the required joint facilities account for costs associated with the Surface Water Supply Project and associated right of way. The Authority has paid \$8,585 to the West Harris Authority for its portion of the operating reserve. During the current fiscal year, the Authority paid \$214,431 for its share of operating and right of way maintenance expenses.

Note 15 – Agreement with Enchanted Rock Solutions, LLC

On May 27, 2020, the Authority entered into an Integrated Reliability on Call Master Service Agreement (the “Power Agreement”) and Ground Lease with Enchanted Rock for the provision of backup power to the Bellaire Pump Station. In accordance with the Power Agreement, Enchanted Rock will provide the Authority’s pump station site with utility grade backup power during emergency outages and for non-emergency use. Enchanted Rock is responsible for installing the equipment necessary to construct the power grid on land owned by the Authority, which is leased to Enchanted Rock for a 15-year period.

Note 16 – Risk Management

The Authority is exposed to various risks related to: theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority’s risk management program encompasses various means of protecting the Authority against loss by obtaining property, casualty and liability coverage through commercial insurance carriers. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage from the current year or the two prior years.

Note 17 - Unused Letter of Credit

In a prior year, the Authority was required to issue an Irrevocable Standby Letter of Credit in the amount of \$1,000,000 for the benefit of CenterPoint Energy Houston Electric, LLC (“CenterPoint”) to satisfy a security deposit requirement associated with a right of entry agreement for construction on property owned by CenterPoint. During the current fiscal year, the Letter of Credit was amended to extend the expiration date to June 4, 2022.

Supplementary Information

(This page intentionally left blank)

North Fort Bend Water Authority
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

| <u>Federal Grantor / Pass Through Grantor / Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass Through Entity Identifying Number</u> | <u>Passed Through to Subrecipients</u> | <u>Total Federal Expenditures</u> |
|--|------------------------------------|---|--|---------------------------------------|
| US Environmental Protection Agency: | | | | |
| Passed through Texas Water Development Board: | | | | |
| CWSRF Cluster: | | | | |
| Capitalization Grant for Clean Water State Revolving Fund | 66.458 | LF1000509/ L1000510 | \$ - | \$ 2,761,664.21 |
| Capitalization Grant for Clean Water State Revolving Fund | 66.458 | LF1000760/ L1000739 | - | 2,424,654.45 |
| Total CFDA 66.458 | | | - | 5,186,318.66 |
| Total for Cluster / Program | | | - | 5,186,318.66 |
| Total US Environmental Protection Agency | | | - | 5,186,318.66 |
| Total Expenditures of Federal Awards | | | <u>\$ -</u> | <u>\$ 5,186,318.66</u> |

See Notes to Schedule of Expenditures of Federal Awards

North Fort Bend Water Authority
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the North Fort Bend Water Authority (the "Authority") under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the full accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Authority has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Single Audit Section

(This page intentionally left blank)

McGRATH & CO., PLLC

Certified Public Accountants

2900 North Loop West, Suite 880

Houston, Texas 77092

Independent Auditor's 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*

Board of Directors
North Fort Bend Water Authority
Fort Bend County, 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 financial statements of the business type activities of North Fort Bend Water Authority (the "Authority"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 4, 2022.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 entity'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 or significant deficiencies may exist that were not identified.

**Board of Directors
North Fort Bend Water Authority**

Report on 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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGraw & Co., PCP

Houston, Texas
May 4, 2022

McGRATH & CO., PLLC

Certified Public Accountants

2900 North Loop West, Suite 880

Houston, Texas 77092

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
North Fort Bend Water Authority
Fort Bend County, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited North Fort Bend Water Authority's (the "Authority") compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2021. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their

**Board of Directors
North Fort Bend Water Authority**

assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

McGraw & Co., P.C.

Houston, Texas
May 4, 2022

North Fort Bend Water Authority
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2021

I. Summary of Auditor's Results

Financial Statements

| | |
|---|---------------|
| Type of auditor's report issued | Unmodified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | None reported |
| Noncompliance material to the financial statements noted? | No |

Federal Awards

| | |
|---|---------------|
| Internal controls over major programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | None reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) | No |

Identification of Major Programs:

| CFDA Number | Name of Federal Cluster/Program |
|--------------------|---|
| 66.458 | CWSRF Cluster/ Capitalization Grants for Clean Water State Revolving Fund |

| | |
|--|-----------|
| Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
|--|-----------|

| | |
|--|-----|
| Auditee qualified as low-risk auditee? | Yes |
|--|-----|

***North Fort Bend Water Authority
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2021***

II. Financial Statement Findings

There are no findings to report.

III. Federal Award Findings and Questioned Costs

There are no findings to report.