

NORTH FORT BEND WATER AUTHORITY
FORT BEND COUNTY, TEXAS
FINANCIAL REPORT
December 31, 2023

Table of Contents

	<u>Schedule</u>	<u>Page</u>
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

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, 2023, 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 North Fort Bend Water Authority, as of December 31, 2023, 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. 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 opinion.

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 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 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 operational, economic or historical context. We have applied certain limited procedures to the required

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

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.

McGuire & Co, PC

Houston, Texas
May 1, 2024

(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, 2023***

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, 2023. 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 operating reserves.

***North Fort Bend Water Authority
Management's Discussion and Analysis
December 31, 2023***

The Authority's net position at December 31, 2023, was \$170,213,640. A comparative summary of the Authority's overall financial position, as of December 31, 2023 and 2022, is summarized as follows, based on information contained in the *Statement of Net Position*:

	<u>2023</u>	<u>2022</u>
Current and other assets	\$ 350,594,276	\$ 385,777,278
Capital assets	<u>1,056,529,746</u>	<u>936,946,808</u>
Total assets	<u>1,407,124,022</u>	<u>1,322,724,086</u>
Total deferred outflows of resources	<u>3,116,904</u>	<u>3,414,459</u>
Current liabilities	25,753,980	22,276,874
Long term liabilities	<u>1,213,839,241</u>	<u>1,173,775,137</u>
Total liabilities	<u>1,239,593,221</u>	<u>1,196,052,011</u>
Net Position		
Net investment in capital assets	6,206,287	(20,034,261)
Restricted	85,613,566	78,620,892
Unrestricted	<u>78,827,852</u>	<u>71,499,903</u>
Total net position	<u>\$ 170,647,705</u>	<u>\$ 130,086,534</u>

The Authority's net operating income for the period ended December 31, 2023, was \$59,763,565 with net non-operating expense of \$19,636,459, resulting in an increase in net position of \$40,127,106. Non-operating revenues consist of investment income from the Authority's investments. Non-operating expenses consist of interest on long term debt, debt issuance costs, 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, 2023 and 2022, is summarized as follows, based on information in the *Statement of Revenues, Expenses and Changes in Net Position*:

	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 85,109,048	\$ 82,008,155
Operating expenses	<u>(24,911,417)</u>	<u>(22,910,431)</u>
Net operating income	60,197,631	59,097,724
Net non-operating revenue (expense)	<u>(19,636,460)</u>	<u>(28,947,745)</u>
Change in net position	40,561,171	30,149,979
Net position, beginning of year	<u>130,086,534</u>	<u>99,936,555</u>
Net position, end of year	<u>\$ 170,647,705</u>	<u>\$ 130,086,534</u>

The Authority's net position increased in both the current and prior year. The current year's change in net position is \$9,977,127 greater than the increase in prior year. While operating revenues and expenses have remained fairly consistent, net non-operating revenue (expense) decreased compared

***North Fort Bend Water Authority
Management's Discussion and Analysis
December 31, 2023***

to the prior year. This decrease is primarily due to the investment income component of non-operating revenue (expense), which increased \$11,792,363. This increase resulted from higher interest rates throughout the entirety of the current fiscal year.

Capital Assets

Capital assets held by the Authority at December 31, 2023 and 2022, are summarized as follows:

	<u>2023</u>	<u>2022</u>
Capital assets not being depreciated		
Land and right of way acquisition	\$ 15,358,434	\$ 14,712,612
Land and right of way acquisition - joint facilities	101,478,088	101,478,088
Construction in progress	6,320,599	4,196,615
Construction in progress - joint facilities	<u>390,924,571</u>	<u>340,180,608</u>
Sub-total capital assets not being depreciated	<u>514,081,692</u>	<u>460,567,923</u>
Capital assets being depreciated or amortized, net		
Water distribution system	107,688,360	108,635,238
Joint facilities	28,199,202	29,197,606
Capital Contributions - City of Houston	<u>406,560,492</u>	<u>338,546,041</u>
Sub-total capital assets being depreciated or amortized, net	<u>542,448,054</u>	<u>476,378,885</u>
Total capital assets, net	<u>\$ 1,056,529,746</u>	<u>\$ 936,946,808</u>

Capital asset additions during the current year include the following:

- 12" Waterline Offset at Old Richmond Road
- Realty costs for the Authority's share of the Surface Water Supply Project
- Smart flow meters

The Authority's construction in progress is for the construction of various joint facilities 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 ("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 TWDB made a commitment of an additional \$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. Subsequent to year end, the Authority requested to delay the 2024 issuance to 2025.

***North Fort Bend Water Authority
Management's Discussion and Analysis
December 31, 2023***

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 December 31, 2023, the Authority has sold \$870,080,000 in bonds to TWDB, of which \$21,130,000 were 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. This program ended on August 11, 2023. See Note 6 for additional information.

Total long-term obligations as of December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Revenue Bonds		
Water System Junior Lien Revenue Bonds, Series 2015	\$ 5,550,000	\$ 5,955,000
Water System Junior Lien Revenue Bonds, Series 2016A	7,330,000	7,690,000
Water System Junior Lien Revenue Bonds, Series 2016B	9,270,000	9,570,000
Water System Junior Lien Revenue Bonds, Series 2017	87,360,000	87,360,000
Water System Junior Lien Revenue Bonds, Series 2018A	1,710,000	1,800,000
Water System Junior Lien Revenue Bonds, Series 2018B	119,040,000	119,540,000
Water System Revenue Bonds, Series 2018C	66,845,000	67,345,000
Water System Revenue and Revenue Refunding Bonds, Series 2019A	168,625,000	168,625,000
Water System Junior Lien Revenue Bonds, Series 2019B	236,110,000	238,110,000
Water System Revenue Bonds, Series 2019C	50,535,000	52,105,000
Water System Junior Lien Revenue Bonds, Series 2020	36,290,000	37,410,000
Water System Revenue Bonds, Series 2020A	131,190,000	135,245,000
Water System Revenue Refunding Bonds, Series 2020B	33,415,000	36,250,000
Water System Revenue and Revenue Refunding Bonds, Series 2021	112,720,000	115,335,000
Water System Junior Lien Revenue Bonds, Series 2021A	19,800,000	20,385,000
Water System Revenue Bonds, Series 2021B	12,325,000	12,690,000
Water System Junior Lien Revenue Bonds, Series 2022	22,635,000	23,110,000
Water System Revenue Bonds, Series 2023	39,980,000	
Water System Revenue Bonds, Series 2023A	21,130,000	
Unamortized premium	41,631,251	43,024,578
Subtotal Revenue Bonds	<u>1,223,491,251</u>	<u>1,181,549,578</u>
Share of Water Infrastructure Fund Bonds, Series 2012	<u>8,133,635</u>	<u>9,092,250</u>
Capital Contributions	<u>1,866,924</u>	<u>1,969,289</u>
Total long term obligations	<u><u>\$ 1,233,491,810</u></u>	<u><u>\$ 1,192,611,117</u></u>

***North Fort Bend Water Authority
Management's Discussion and Analysis
December 31, 2023***

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

The Authority's general revenue bonds (Series 2019A, Series 2020B, Series 2021 and Series 2023) carry underlying ratings of AA- from Standard & Poor's and A+ from Fitch. The Series 2021 and Series 2023 bonds also carry insured ratings of AA from Standard & Poor's based on insurance issued by Build America Mutual Assurance Company. Direct placement bonds sold to TWDB (both parity and junior lien) are unrated.

Requests 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, 2023

Assets

Current assets

Cash	\$ 1,041,519
Investments	63,874,033
Accounts receivable	11,439,907
Other receivables	1,605,323
Accrued interest receivable	385,585
Prepaid expenses	317
Operating reserve - joint facilities	8,585

Total current assets 78,355,269

Noncurrent assets

Restricted cash	1,103,432
Restricted investments	270,001,915
Water conservation credits	1,133,660
Capital assets	
Land, easements and rights-of- way	116,836,522
Construction in progress	397,245,170
Capital assets, net	542,448,054

Total noncurrent assets 1,328,768,753

Total assets 1,407,124,022

Deferred Outflows of Resources

Deferred difference on refunding	<u>3,116,904</u>
----------------------------------	------------------

Liabilities

Current liabilities

Accounts payable	3,107,914
Due to other governments	639,840
Retainage payable from restricted assets	424,807
Accrued interest payable	1,928,850
Capital contributions, due within one year	107,729
Joint facilities WIF bonds share obligation, due within one year	969,840
Bonds payable, due within one year	18,575,000

Total current liabilities 25,753,980

Noncurrent liabilities

Capital contributions, due in more than one year	1,759,195
Joint facilities WIF bonds share obligation, due in more than one year	7,163,795
Bonds payable, due in more than one year	1,204,916,251

Total noncurrent liabilities 1,213,839,241

Total liabilities 1,239,593,221

Net position

Net investment in capital assets	6,206,287
Restricted for debt service	82,240,938
Restricted for water conservation credits	1,133,660
Restricted for operations and maintenance reserve per bond resolutions	2,238,968
Unrestricted	78,827,852

Total net position \$ 170,647,705

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, 2023*

Operating revenues	
Pumpage fees	\$ 53,708,167
Surface water	29,367,322
Other	<u>2,033,559</u>
Total operating revenues	<u>85,109,048</u>
Operating expenses	
Professional fees	2,029,949
Contracted services	1,022,093
Operations and maintenance	3,168,508
Purchased water	5,171,052
Water conservation program	978,476
Depreciation and amortization	11,377,844
Other	<u>1,163,495</u>
Total operating expenses	<u>24,911,417</u>
Net operating income	<u>60,197,631</u>
Non-operating revenues (expenses)	
Investment income	16,413,239
Debt issuance costs	(1,859,431)
Professional fees	(352,006)
Interest expense	(32,309,417)
Luce Bayou debt service contribution	(1,397,625)
Other	<u>(131,220)</u>
Net non-operating expense	<u>(19,636,460)</u>
Change in net position	40,561,171
Beginning net position	<u>130,086,534</u>
Ending net position	<u>\$ 170,647,705</u>

See Notes to Financial Statements.

North Fort Bend Water Authority
Statement of Cash Flows
For the Year Ended December 31, 2023

Cash flows from operating activities

Receipts from participants	\$ 83,363,489
Payments to contractors and vendors	(11,728,961)
Net cash provided by operating activities	<u>71,634,528</u>

Cash flows from capital and related financing activities

Paid for acquisition and construction of capital assets	(130,792,444)
Payment of interest on bonds	(32,815,370)
Payment of bond principal	(17,775,000)
Payment of WIF bond share obligation	(1,076,529)
Net proceeds from sale of bonds	61,168,063
Payments to contractors and vendors	(483,226)
Paid to City of Houston for Luce Bayou debt service	(1,397,625)
Debt issuance costs	(1,859,431)
Net cash used by capital and related financing activities	<u>(125,031,562)</u>

Cash flows from investing activities

Interest received	14,932,096
Purchases of investment securities	(78,767,059)
Receipts from investment maturities and sales	117,448,753
Net cash provided by investing activities	<u>53,613,790</u>

Net increase in cash and cash equivalents 216,756

Cash and cash equivalents - beginning of year 284,711,661
Cash and cash equivalents - end of year \$ 284,928,417

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 60,197,631
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	11,377,844
Non-cash revenue from capital contribution credits	(206,484)
Change in assets and liabilities:	
Increase in accounts receivable	(1,800,476)
Increase in prepaid expense	(317)
Increase in accounts payable	2,066,330
Total adjustments	<u>11,436,897</u>
Net cash provided by operating activities	<u>\$ 71,634,528</u>

Cash and cash equivalents per Statement of Net Position:

Cash	\$ 1,041,519
Cash Equivalents Reported as Investments	63,874,033
Restricted Cash	1,103,432
Cash Equivalents Reported as Restricted Investments	<u>218,909,433</u>
	<u>\$ 284,928,417</u>

See Notes to Financial Statements.

Note 1 – Summary of Significant Accounting Policies

Creation

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 an elected 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.

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 uses a single enterprise fund which 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 \$78,393,787 is \$63,860,359 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, the Authority uses restricted resources first, then unrestricted resources as they are needed.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be 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, 2023, 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 (or amortized in the case of intangible assets) using the straight-line method as follows:

Assets	Useful Life
Water distribution system	20 - 45 years
Joint facilities	20 - 45 years
Capital contributions	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, 2023, all of the Authority’s deposits are insured or fully collateralized.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2023

Note 2 – Deposits and Investments (continued)

Restricted Financial Resources

As of December 31, 2023, restricted financial resources are comprised of the following:

Debt service	\$ 84,169,787
Capital improvements	42,784,081
Held in escrow for:	
Capital improvements	141,912,511
Operations and maintenance reserve (per bond resolutions)	2,238,968
	<u>\$ 271,105,347</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, 2023

Note 2 – Deposits and Investments (continued)

Investments (continued)

As of December 31, 2023, the Authority’s investments and maturities are as follows:

Type	Fair Value	Percentage of Total	Maturities in Years	
			Less than 1	1-5
TexPool*	\$ 66,114,737	20%	\$ 66,114,737	\$ -
TexSTAR*	198,920,097	60%	198,920,097	
Certificates of deposit**	470,000	0%	470,000	
Fidelity Institutional Government MM Fund	17,278,632	5%	17,278,632	
U.S. Treasury Notes and Bills	8,852,737	3%	8,852,737	
Federal Home Loan Bank bonds	36,260,505	11%	36,260,505	
Federal Home Loan Mortgage Corporation (Freddie Mac) bonds	5,979,240	2%		5,979,240
	<u>\$ 333,875,948</u>	<u>100%</u>	<u>\$ 327,896,708</u>	<u>\$ 5,979,240</u>

* Measured at amortized cost

** Measured at cost

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 Authority’s investments that are subject to such ratings are as follows:

<u>Investment</u>	<u>Rating*</u>
TexPool	AAAm
TexSTAR	AAAm
Fidelity Institutional Government MM Fund	AAA
Federal Home Loan Bank bonds	AA+
Federal Home Loan Bank discount notes	N/A
Freddie Mac bonds	AA+
Federal Farm Credit Bank bonds	AA+

* Per Standards & Poor's Rating Services

Note 2 – Deposits and Investments (continued)

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.
- 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 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, 2023, are as follows:

- U.S. Treasury Notes: valued at \$8,852,737 based on quoted market prices (level 1 inputs).
- Federal Home Loan Bank bonds and Freddie Mac bonds: valued at \$42,239,745 based on price, yield or spread basis evaluated throughout the day using observable market data (level 2 inputs).

Note 2 – Deposits and Investments (continued)

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.

As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than fair 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.

TexSTAR uses amortized cost rather than fair value to report net assets to compute share price. Accordingly, investments in TexSTAR are stated at amortized cost which approximates fair value. 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, 2023 is the amount of \$1,163,263, which is due from the City of Houston for true-ups for purchased surface water. See Note 13 for additional information.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2023

Note 4 – Water Conservation Credits

Historically, the Authority participated in the Water Wise Program sponsored by the Fort Bend Subsidence District (“FBSD”). The Authority received 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. 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.

As of December 31, 2023, the Authority has invested \$1,133,660 in water conservation credits.

Note 5 – Capital Assets

A summary of capital asset activity for the year ended December 31, 2023, is as follows:

	Beginning Balance	Additions/ Retirements	Ending Balance
Capital assets not being depreciated			
Land and ROW acquisition	\$ 14,712,612	\$ 645,822	\$ 15,358,434
Land and ROW acquisition - joint facilities	101,478,088		101,478,088
Construction in progress	4,196,615	2,123,984	6,320,599
Construction in progress - joint facilities	340,180,608	50,743,963	390,924,571
Subtotal non-depreciable capital assets	<u>460,567,923</u>	<u>53,513,769</u>	<u>514,081,692</u>
Capital assets being depreciated/amortized			
Water distribution system	131,896,071	2,082,981	133,979,052
Joint facilities	38,290,598		38,290,598
Capital contributions - City of Houston	368,479,289	75,364,032	443,843,321
Subtotal	<u>538,665,958</u>	<u>77,447,013</u>	<u>616,112,971</u>
Less accumulated depreciation/amortization			
Water distribution system	(23,260,833)	(3,029,859)	(26,290,692)
Joint facilities	(9,092,992)	(998,404)	(10,091,396)
Capital contributions - City of Houston	(29,933,248)	(7,349,581)	(37,282,829)
Subtotal	<u>(62,287,073)</u>	<u>(11,377,844)</u>	<u>(73,664,917)</u>
Subtotal depreciable capital assets, net	<u>476,378,885</u>	<u>66,069,169</u>	<u>542,448,054</u>
Total capital assets, net	<u>\$ 936,946,808</u>	<u>\$ 119,582,938</u>	<u>\$ 1,056,529,746</u>

Depreciation and amortization expense for the current year was \$11,377,844.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2023

Note 6 – Revenue Note Purchase Program

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 was 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, as subsequently amended, the Authority entered into a \$50,000,000 Note Purchase Agreement with JP Morgan. As of December 31, 2023, the Authority does not have any balances outstanding related to this purchase agreement and paid \$187,708 in facility fees during the current fiscal year. The Note Purchase Agreement expired on August 11, 2023, ending the note purchase program.

Note 7 – Bonds Payable

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

	General Bonds	Direct Placement Bonds	Total
Bonds payable	\$ 354,740,000	\$ 827,120,000	\$ 1,181,860,000
Unamortized premium	41,631,251		41,631,251
Total	\$ 396,371,251	\$ 827,120,000	\$ 1,223,491,251
Due within one year			
Bonds payable	\$ 5,725,000	\$ 12,850,000	\$ 18,575,000
Amortization of premium	1,393,327		1,393,327
Due after one year	389,252,924	814,270,000	1,203,522,924
	\$ 396,371,251	\$ 827,120,000	\$ 1,223,491,251

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2023

Note 7 – Bonds Payable (continued)

The Authority’s bonds payable as of December 31, 2023, consisted of the following individual issues:

Series	Amounts Outstanding	Original Issue Amount	Interest Rates and Key Dates	
General Bonds				
2019A	\$ 168,625,000	\$ 168,625,000	Interest Principal	3.00% - 4.00% December 15, 2036-2044 2050-2058
			Payments Callable	June 15 & December 15 December 15, 2029*
2020B	33,415,000	41,530,000	Interest Principal	2.00% - 5.00% December 15, 2021-2035
			Payments Callable	June 15 & December 15 December 15, 2030*
2021	112,720,000	115,335,000	Interest Principal	2.65% - 5.00% December 15, 2023-2036, 2045-2060
			Payments Callable	June 15 & December 15 December 15, 2031*
2023	39,980,000	39,980,000	Interest Principal	4.50% - 5.00% December 15, 2032-2053
			Payments Callable	June 15 & December 15 December 15, 2033*
Subtotal	354,740,000	365,470,000		
Direct Placement Bonds				
Junior Lien 2015	5,550,000	8,670,000	Interest Principal	0.19% - 2.41% December 15, 2016-2035
			Payments Callable	June 15 & December 15 December 15, 2025*
Junior Lien 2016A	7,330,000	9,420,000	Interest Principal	0.00% - 1.02% December 15, 2018-2040
			Payments Callable	June 15 & December 15 December 15, 2026*
Junior Lien 2016B	9,270,000	11,025,000	Interest Principal	0.65% - 3.04% December 15, 2018-2046
			Payments Callable	June 15 & December 15 December 15, 2026*
Junior Lien 2017	87,360,000	87,360,000	Interest Principal	1.92% - 3.21% December 15, 2028-2047
			Interest Callable	June 15 & December 15 December 15, 2027*

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2023

Note 7 – Bonds Payable (continued)

Series	Amounts Outstanding	Original Issue Amount	Interest Rates and Key Dates	
Direct Placement Bonds (continued)				
Junior Lien 2018A	\$ 1,710,000	\$ 2,070,000	Interest Principal Interest Callable	0.15% - 1.68% December 15, 2020-2040 June 15 & December 15 December 15, 2028*
Junior Lien 2018B	119,040,000	121,040,000	Interest Principal Interest Callable	1.63% - 3.52% December 15, 2020-2048 June 15 & December 15 December 15, 2028*
Parity 2018C	66,845,000	68,845,000	Interest Principal Interest Callable	1.66% - 3.57% December 15, 2020-2048 June 15 & December 15 December 15, 2028*
Junior Lien 2019B	236,110,000	244,110,000	Interest Principal Interest Callable	1.05% - 2.78% December 15, 2020-2049 June 15 & December 15 December 15, 2029*
Parity 2019C	50,535,000	56,610,000	Interest Principal Interest Callable	1.02% - 2.70% December 15, 2020-2049 June 15 & December 15 December 15, 2029*
Junior Lien 2020	36,290,000	39,590,000	Interest Principal Interest Callable	0.12% - 2.48% December 15, 2021-2050 June 15 & December 15 December 15, 2030*
Parity 2020A	131,190,000	143,125,000	Interest Principal Interest Callable	0.12% - 2.48% December 15, 2021-2050 June 15 & December 15 December 15, 2030*
Junior Lien 2021A	19,800,000	20,940,000	Interest Principal Interest Callable	0.17% - 2.72% December 15, 2022-2051 June 15 & December 15 December 15, 2031*
Parity 2021B	12,325,000	13,035,000	Interest Principal Interest Callable	0.17% - 2.72% December 15, 2022-2051 June 15 & December 15 December 15, 2031*

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2023

Note 7 – Bonds Payable (continued)

Series	Amounts Outstanding	Original Issue Amount	Interest Rates and Key Dates	
Direct Placement Bonds (continued)				
Junior Lien 2022	\$ 22,635,000	\$ 23,110,000	Interest	2.70% - 4.17%
			Principal	December 15, 2023-2052
			Interest	June 15 & December 15
			Callable	December 15, 2032*
Parity 2023A	21,130,000	21,130,000	Interest	3.02% - 4.27%
			Principal	December 15, 2024-2052
			Interest	June 15 & December 15
			Callable	December 15, 2033*
Subtotal	827,120,000	870,080,000		
Total	\$ 1,181,860,000	\$ 1,235,550,000		

* 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. The Series 2023 term bonds maturing December 15, 2048, and December 15, 2053, are subject to mandatory sinking fund redemption beginning December 15, 2044, and December 15, 2049, 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 TWDB 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 16, 2023, the Authority sold \$21,130,000 parity Series 2023A bonds to the TWDB related to this commitment.

On October 26, 2023, the Authority issued its \$39,980,000 Series 2023 Water System Revenue Bonds at a net effective interest rate of 4.833623%. Proceeds of the bonds will be used for water system improvements in future years.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2023

Note 7 – Bonds Payable (continued)

The following is a summary of changes in bonds payable during the year ended December 31, 2023:

	General Bonds	Direct Placement Bonds	Total
Beginning balance	\$ 320,210,000	\$ 818,315,000	\$ 1,138,525,000
Bonds issued	39,980,000	21,130,000	61,110,000
Bonds retired	(5,450,000)	(12,325,000)	(17,775,000)
Ending balance	<u>\$ 354,740,000</u>	<u>\$ 827,120,000</u>	<u>\$ 1,181,860,000</u>
Original bonds issued	<u>\$ 365,470,000</u>	<u>\$ 870,080,000</u>	<u>\$ 1,235,550,000</u>

As of December 31, 2023, 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
2024	\$ 5,725,000	\$ 14,582,958	\$ 12,850,000	\$ 20,902,575	\$ 18,575,000	\$ 35,485,533
2025	6,010,000	13,980,000	12,965,000	20,724,224	18,975,000	34,704,224
2026	6,315,000	13,679,500	13,045,000	20,602,104	19,360,000	34,281,604
2027	6,630,000	13,363,750	13,150,000	20,466,805	19,780,000	33,830,555
2028	6,960,000	13,032,250	16,490,000	20,317,057	23,450,000	33,349,307
2029-2033	30,340,000	61,083,650	146,580,000	95,410,183	176,920,000	156,493,833
2034-2038	51,180,000	53,986,450	169,395,000	77,713,493	220,575,000	131,699,943
2039-2043	64,240,000	42,934,675	188,905,000	54,464,783	253,145,000	97,399,458
2044-2048	35,460,000	31,215,401	208,145,000	25,524,686	243,605,000	56,740,087
2049-2053	62,875,000	23,128,337	45,595,000	2,243,553	108,470,000	25,371,890
2054-2058	68,650,000	9,916,725			68,650,000	9,916,725
2059-2060	10,355,000	600,495			10,355,000	600,495
	<u>\$ 354,740,000</u>	<u>\$ 291,504,191</u>	<u>\$ 827,120,000</u>	<u>\$ 358,369,463</u>	<u>\$ 1,181,860,000</u>	<u>\$ 649,873,654</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.

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 2023A Bonds, the amount of the Coverage Fund Requirement is established and stipulated to be \$17,803,338. As of December 31, 2023, the Coverage Fund cash and investment balance is \$18,213,055.
- 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 2023A Bonds, the Reserve Fund Requirement is established and stipulated to be \$35,305,599, 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 and by a debt service reserve surety policy issued by Build America Municipal Insurance Company. As of December 31, 2023, the Reserve Fund cash and investment balance is \$36,493,319.
- 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 2022 Bonds, the amount of the Junior Lien Reserve Fund Requirement is established and stipulated to be \$26,706,013. The Junior Lien Reserve Fund Requirement was satisfied by cash deposits and interest earnings thereon. As of December 31, 2023, the Junior Lien Reserve Fund cash and investment balance is \$29,260,960.
- 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.

North Fort Bend Water Authority
Notes to Financial Statements
December 31, 2023

Note 9 – Capital Advance and Reimbursement Procedures (continued)

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.

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 \$97,912. The following is a schedule of the credits and interest to be given to Cinco 8 by the Authority.

Year	Principal	Interest	Total
2024	\$ 107,729	\$ 92,549	\$ 200,278
2025	113,376	86,901	200,277
2026	119,319	80,958	200,277
2027	125,577	74,701	200,278
2028	132,164	68,114	200,278
2029-2033	772,437	228,950	1,001,387
2034-2037	496,322	38,090	534,412
Total	\$ 1,866,924	\$ 670,263	\$ 2,537,187
Payable Within One Year	\$ 107,729	\$ 92,549	\$ 200,278
Payable After One Year	1,759,195	577,714	2,336,909
Total	\$ 1,866,924	\$ 670,263	\$ 2,537,187

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

Balance at beginning of year	\$ 1,969,289
Principal reductions	(102,365)
Balance at end of year	\$ 1,866,924

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.

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. As of December 31, 2023, the Authority has recorded \$639,840 in Credits related to the 2021– 2022 permit year, which it plans to distribute to participating districts in the next fiscal year.

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 a water conservation program to assist in meeting a goal of reducing water usage by 15%. Eligible participants are municipal utility districts, cities 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 \$978,476.

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.

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 \$5,605,118 for purchased water, which includes a true-up charge for previous fiscal years of \$168,439. The Authority also recorded capital contributions for rehabilitation costs in the amount of \$1,328,010. As of December 31, 2023, the Authority has recorded a net receivable from the City in the amount of \$1,163,263 for the 2020-2023 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.

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

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

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.

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, 2023, 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. 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.

The Authority made the first payment of \$10,061,724 for existing untreated water facilities during the current fiscal year.

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

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

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 \$1,397,625 for its share of Luce Bayou debt service costs.

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, 2023, the Authority has paid the City \$354,599,845 in cash call withdrawals and has \$26,178,929 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.

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

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, 2023, the Authority has paid the City \$2,077,050 for costs related to the NETL.

Note 14 – Joint Facilities Agreement

The Authority and West Harris County Regional Water Authority (the “West Authority”) entered into the Amended and Restated Joint Facilities Agreement dated July 1, 2023 (the “Agreement”) to jointly design, acquire, construct, finance, operate and maintain (i) certain pump stations and water transmission facilities in the Mission Bend area to receive water from the City for ultimate delivery to the authorities’ respective customers, and (ii) the Surface Water Supply Project described below.

Segments 0 & 1A. The Authority designed and constructed Segments 0 & 1A. The Authority holds 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. The Authority currently has 38 MGD of capacity in Segments 0 and 1A. The West Authority currently has 2.3 MGD of capacity in Segments 0 and 1A, with the option to increase its pro rata share in the downstream portion of Segment 0 by 11.0 MGD and its pro rata share in Segment 1A-1 by 11.0 MGD subject to additional payments to the Authority as detailed in the Agreement.

Bellaire Pump Station. The Authority was responsible for the purchase of the land for the Bellaire Pump Station, as well as the design and construction of Phases 1 and 2. The Authority owns and operates the Bellaire Pump Station for the benefit of both itself and the West Authority. Phase 2 of the Bellaire Pump Station is planned to add capacity to the for the benefit of the West Authority. The Authority will design and construct Phase 2 provided that the West Authority pays all Phase 2 project costs. The Authority will invoice the West Authority for 100% of Phase 2 design and construction costs. Following completion, the West Authority will be entitled to beneficial ownership of the additional 11 MGD of capacity resulting from Phase 2.

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 Purification Plant to the authorities. The Surface Water Supply Project is required to be completed no later than June 30, 2026, in order to meet the Fort Bend Subsidence District 60% alternative water supply requirement which is currently set for 2027. The West Authority will own and operate the Surface Water Supply Project for the benefit of both parties. As further detailed in the Agreement, each Authority will have an equitable interest to the extent of its pro rata share of each segment of the Surface Water Supply Project. As of December 31, 2023, the total estimated cost to complete the project is \$1,486,000,000, the Authority’s share of which is approximately \$668,563,000.

Note 14 – Joint Facilities Agreement (continued)

The West 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. Generally, each authority will pay its pro-rata share of engineer, construction and operating costs based on each authority's usage of the applicable facilities. 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, 2023, the Authority has paid \$97,141,628 to the West Authority for its portion of realty costs and \$390,671,354 for its portion of construction costs.

As required by the Agreement, the West Authority established the Surface Water Supply Project fund to account for project costs associated with the Surface Water Supply Project. The Authority has deposited a total of \$487,812,982 into this account for its portion of the estimated Surface Water Supply Project costs. During the current fiscal year, the Authority also deposited an additional \$50,490,747 for its estimated share of costs.

As provided in the Agreement, a true-up of the actual Surface Water Supply Project costs, which excludes the Bellaire Pump Station, Segment 0 and Segment 1A, for the period October 12, 2012 through December 31, 2021 will be completed by August 29, 2024. Additional annual true-ups will be performed and a final accounting will be conducted within 180 days of the completion and final acceptance of the Surface Water Supply Project.

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 \$7,973,238 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. As of December 31, 2023, the Authority has contributed \$3,579,984, 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, 2023

Note 14 – Joint Facilities Agreement (continued)

Water Infrastructure Fund Bonds. The West Authority is authorized to issue bonds financed through the Water Infrastructure Fund (“WIF”) of the Texas Water Development Board to fund a portion of project costs. In 2012, the West Authority issued its \$41,965,000 Series 2012 Water System Revenue Bonds. The Authority’s pro-rata share of these bonds is \$18,842,285. During the current year, the Authority paid the West Authority \$1,076,529 for its pro-rata share of the annual debt service payment, which consists of a principal reduction of \$958,615 and an interest component of \$117,914. As of December 31, 2023, the outstanding balance of the liability under the Agreement is \$8,133,635 and future requirements are as shown below:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,005,760	88,270	1,094,030
2028	1,019,230	73,686	1,092,916
2029-2031	3,165,450	114,238	3,279,688
	<u>\$ 8,133,635</u>	<u>\$ 615,394</u>	<u>\$ 8,749,029</u>

Pursuant to the Agreement, the West Authority is required to engage an independent auditor to perform a true-up of the allocation of costs which will result in revisions to the amount owed by the Authority as shown in the preceding table.

Operation of Joint Facilities. The responsible authority, which means the Authority for Segment 0, Segment 1A, and the Bellaire Pump Station and the West 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.

The West 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 Authority for its portion of the operating reserve. During the current fiscal year, the Authority paid \$116,245 to the West Authority for its share of operation and maintenance expenses related to the joint facilities.

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 – Lease of Water Rights

The Authority has executed a Lease of Water Rights with the City pursuant to which the Authority will lease up to 5 million gallons per day of its surplus capacity in Phase 1 of the NEWPP project to the City. Pursuant to the lease, the City agrees to pay \$1.40 per thousand gallons of water, which is due as an annual payment. The first annual payment in the amount of \$2,555,000 is due no later than the last day of the month following substantial completion of Phase 1 of the NEWPP project, which is currently expected to be April 2024. Subsequent annual payments will be true-up based on the actual water used by the City. The effective date of the lease is the date countersigned by the City, February 8, 2023. The lease term ends when the City is certified to receive its full allocation under Phase 2 of the NEWPP project, which is anticipated to be in the summer of 2025.

Note 17 – 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 18 – 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, 2024.

Note 19 – Subsequent event

On March 8, 2024, TWDB granted the release of unexpended proceeds, currently in escrow, in the amount of \$3,517,058 from the Authority’s Series 2016A Water System Junior Lien Revenue Bonds to fund future debt service payments of TWDB obligations.