



FINANCIAL STATEMENTS

December 31, 2018

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**NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
TABLE OF CONTENTS**

| | <u>Page</u> |
|---|--------------------|
| FINANCIAL SECTION | |
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 7 |
| BASIC FINANCIAL STATEMENTS | |
| Statement of Net Position | 18 |
| Statement of Revenues, Expenses and Changes in Net Position | 19 |
| Statement of Cash Flows | 20 |
| Notes to Financial Statements | 21 |
| SUPPLEMENTARY INFORMATION | |
| Schedule of Expenses | 43 |
| Schedule of Principal Water Users | 45 |
| Historical Rates and Charges | 46 |
| Billing and Collection Experience | 47 |

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McGRATH & CO., PLLC

Certified Public Accountants
2500 Tanglewilde, Suite 340
Houston, Texas 77063

Independent Auditors' Report

Board of Directors
North Harris County Regional Water Authority
Harris County, Texas

We have audited the accompanying financial statements of the business type activities of North Harris County Regional Water Authority (the "Authority"), as of and for the year ended December 31, 2018, which collectively comprise the Authority's basic financial statements and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

***Board of Directors
North Harris County Regional Water Authority
Harris County, Texas***

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of North Harris County Regional Water Authority, as of December 31, 2018, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Our opinion is not modified with respect to this matter.

Other-Matters

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to 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

*Board of Directors
North Harris County Regional Water Authority
Harris County, Texas*

America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGuire & Co, PC

Houston, Texas
August 5, 2019

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Management's Discussion and Analysis

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***North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2018***

Using this Annual Report

Within this section of the financial report of the North Harris County Regional Water Authority (the "Authority"), the Authority's Management provides narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2018. This analysis should be read in conjunction with the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The Authority's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements; and
- Additional supplementary information

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: 1) *Statement of Net Position*, 2) *Statement of Revenues, Expenses and Changes in Net Position*, and the 3) *Statement of Cash Flows*. This report also contains supplementary information in addition to the basic financial statements themselves.

The *Statement of Net Position* presents information on all of the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating.

Accounting standards establish 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.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the Authority's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

The *Statement of Cash Flows* presents information on the Authority's cash inflows and outflows during the fiscal 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*.

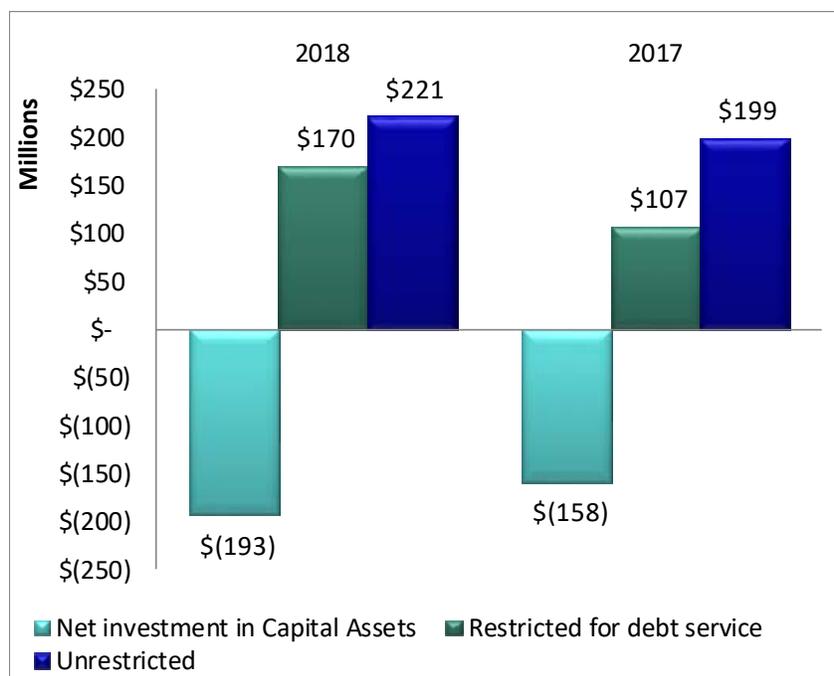
*North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2018*

Financial Analysis of the Authority

The Authority's net position at December 31, 2018, was \$197,390,341. The Authority's overall financial position at December 31, 2018 as compared to the prior year is summarized as follows:

| | 2018 | 2017 |
|----------------------------------|-----------------------|-----------------------|
| Current and other assets | \$ 1,378,875,847 | \$ 976,755,370 |
| Capital assets | 485,729,178 | 392,014,006 |
| Total assets | <u>1,864,605,025</u> | <u>1,368,769,376</u> |
| Deferred difference on refunding | <u>22,585,640</u> | <u>23,756,317</u> |
| Current liabilities | 38,475,107 | 27,673,899 |
| Long term liabilities | <u>1,651,325,217</u> | <u>1,217,515,551</u> |
| Total liabilities | <u>1,689,800,324</u> | <u>1,245,189,450</u> |
| Net Position | | |
| Net investment in capital assets | (193,472,399) | (157,857,999) |
| Restricted for debt service | 170,099,123 | 106,597,702 |
| Unrestricted | <u>220,763,617</u> | <u>198,596,540</u> |
| Total net position | <u>\$ 197,390,341</u> | <u>\$ 147,336,243</u> |

The chart below illustrates the composition of the Authority's net position for the past two years:



***North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2018***

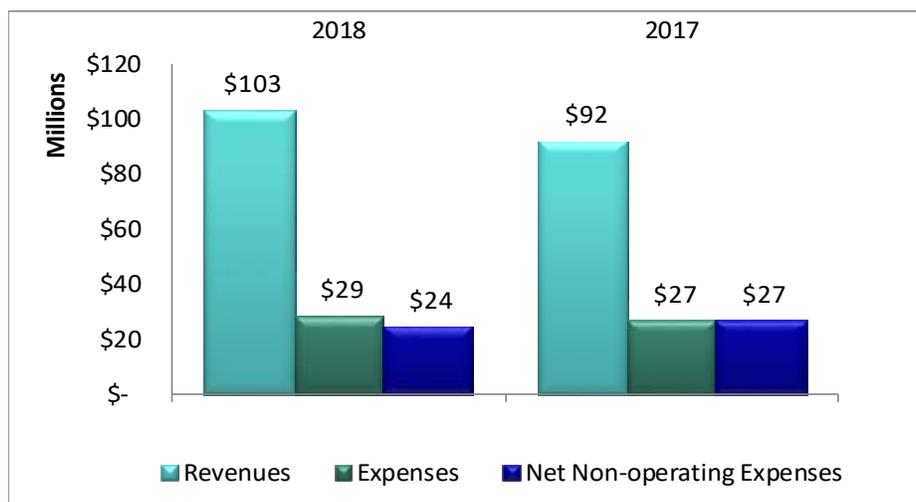
The total net position of the Authority increased during the current fiscal year by \$50,054,098. A comparative summary of the Authority's *Statement of Activities* for the past two years is as follows:

| | 2018 | 2017 |
|-------------------------------------|----------------|----------------|
| Operating revenues | \$ 103,116,787 | \$ 91,869,846 |
| Operating expenses | (28,587,973) | (26,581,233) |
| Net operating income | 74,528,814 | 65,288,613 |
| Net non-operating revenue (expense) | (24,474,716) | (26,601,895) |
| Change in net position | 50,054,098 | 38,686,718 |
| Net position, beginning of year | 147,336,243 | 108,649,525 |
| Net position, end of year | \$ 197,390,341 | \$ 147,336,243 |

Non-operating revenues and non-operating expenses consist of interest income from the Authority's investments, interest expense from the Authority's debt and issuance costs for the Series 2018 Bonds.

The increase in net position for each year was the result of revenues exceeding normal expenses, which is consistent with the Authority's financial planning and budgeting and is used to satisfy bond covenants and debt service requirements.

The chart below illustrates the Authority's operating revenues, operating expenses and net non-operating expenses for the past two years:



**North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2018**

Capital Assets

The Authority's capital assets primarily consist of land, construction in progress, infrastructure and the Authority's interest in City of Houston treated water facilities and water transmission facilities. Capital assets at December 31, 2018, as compared to the previous year are summarized as follows:

| | 2018 | 2017 |
|---|-----------------------|-----------------------|
| Capital assets not being depreciated | | |
| Land and ROW acquisition | \$ 31,124,372 | \$ 30,693,436 |
| Construction in progress | 17,824,069 | 14,447,317 |
| Non-depreciable capital assets | <u>48,948,441</u> | <u>45,140,753</u> |
| Capital assets being depreciated or amortized | | |
| Interest in treated water facilities | 153,490,871 | 93,738,495 |
| Interest in transmission facilities | 87,204,038 | 48,787,920 |
| Infrastructure | 285,555,164 | 284,005,903 |
| Furniture, computers & equipment | 403,468 | 221,526 |
| | <u>526,653,541</u> | <u>426,753,844</u> |
| Less accumulated depreciation and amortization | | |
| Interest in treated water facilities | (24,242,526) | (22,127,497) |
| Interest in transmission facilities | (8,369,250) | (6,833,393) |
| Infrastructure | (57,029,391) | (50,698,172) |
| Furniture, computers & equipment | (231,637) | (221,529) |
| Total accumulated depreciation and amortization | <u>(89,872,804)</u> | <u>(79,880,591)</u> |
| Depreciable capital assets, net | 436,780,737 | 346,873,253 |
| Total capital assets, net | <u>\$ 485,729,178</u> | <u>\$ 392,014,006</u> |

Current year capital additions in the amount of \$103,707,385 primarily consist of the Authority's share of the Northeast Water Purification Plant Expansion project and the Northeast Transmission Line project. Construction in progress is primarily for engineering fees and construction costs of a 54-inch waterline and State Highway 249 Regional Pump Station.

The composition of capital assets as of December 31, 2018 and 2017 is as follows:



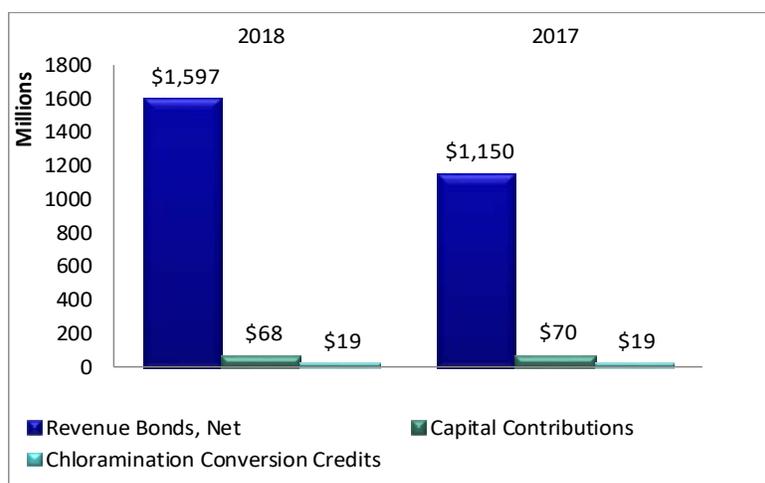
*North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2018*

Long-Term Obligations

During the year, the Authority issued \$469,345,000 in senior lien revenue bonds. The Authority's total long-term obligations as of December 31, 2018, as compared to December 31, 2017 are as follows:

| | 2018 | 2017 |
|---|-------------------------|-------------------------|
| Chloramination conversion credits payable | \$ 18,722,699 | \$ 19,120,552 |
| Capital contributions | | |
| 2003 | 24,544,064 | 25,622,055 |
| 2005 | 11,446,956 | 11,876,719 |
| 2008 | 31,921,724 | 32,802,111 |
| | <u>67,912,744</u> | <u>70,300,885</u> |
| Revenue bonds | | |
| Series 2008 Senior Lien | | 5,815,000 |
| Series 2013 Senior Lien Refunding | 87,310,000 | 91,420,000 |
| Series 2014 Senior Lien Refunding | 63,385,000 | 65,815,000 |
| Series 2015 Senior Lien | 76,360,000 | 78,405,000 |
| Series 2016 Senior Lien and Refunding | 258,125,000 | 258,125,000 |
| Series 2016A Senior Lien | 189,730,000 | 195,050,000 |
| Series 2017 Senior Lien | 391,715,000 | 391,715,000 |
| Series 2018 Senior Lien | 469,345,000 | |
| Unamortized bond premium | 62,284,689 | 65,047,944 |
| Unamortized bond discount | (1,577,123) | (1,641,023) |
| | <u>1,596,677,566</u> | <u>1,149,751,921</u> |
| Accrued compensated absences | 131,240 | 154,952 |
| | <u>\$ 1,683,444,249</u> | <u>\$ 1,239,328,310</u> |

The chart below illustrates the composition of the Authority's long-term obligations as of December 31, 2018 and 2017:



The Authority's bonds are secured by a pledge on the Authority's net revenues (total revenues less operating and maintenance costs). As further discussed in Note 6, the Authority's master resolution

*North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2018*

requires that the Authority maintain balances in the following funds: (1) interest and sinking fund, (2) reserve fund, (3) coverage fund, and (4) operation and maintenance fund. The Authority has continued to comply with all of its bonds covenants and has maintained these funds at required levels.

Economic Factors

The Harris-Galveston Subsidence District (H-GSD) groundwater regulatory plan (the Plan), requirements mandated the construction of infrastructure in order to meet the 2010 conversion target of a thirty percent reduction in groundwater use, along with additional requirements in order to meet higher conversion target thresholds (which will take effect through the year 2035). The Authority's Groundwater Reduction Plan (GRP) was approved in 2003 and it defines how it will comply with H-GSD's requirements. The H-GSD updated its regulatory plan, which includes the extension of the conversion deadlines, in January 2013. As a result of the Plan changes, existing GRP's must incorporate the changes required under the Plan. The Authority submitted the updated GRP to the H-GSD on June 26, 2014 for recertification. The 2019-2020 Capital Improvement Plan (CIP) defines several of the major components of the plan detailed in the Authority's updated GRP needed to facilitate continued compliance with the HGSD's conversion requirements.

Several disincentives were built into the H-GSD Regulatory Plan, including a \$7 per 1,000 gallons (groundwater pumped) "penalty" fee that would be triggered if: (1) the GRP was not submitted and certified according to the timeline; (2) construction had not begun on the surface water delivery infrastructure by 2005; and (3) the mandated groundwater pumpage reductions were not accomplished within the 2010, 2025 and 2035 timelines. Effective January 1, 2019, the disincentive fee is \$9.00 per 1,000 gallons.

The Authority adopts a CIP each year to establish a guide to planning and defining the infrastructure needed to meet the H-GSD targets and determine how the infrastructure improvements will be financed.

The 2019-2020 CIP has been developed using the best, currently available information about the scope of each project along with cost information from a variety of sources, including cost experience from the Authority's projects completed to date. While the Authority's body of empirical cost data is expanding, especially in terms of water lines, the cost base is still evolving in several areas. Accordingly, the following points are offered to help keep the implementation of the 2019-2020 CIP in perspective:

- It is possible that conditions would evolve on a project that could materially impact the cost of the project
- Real estate and construction costs can be and are influenced by variables over which the Authority has no control
- It is common to experience unexpected costs in the implementation of a CIP. Provision of a contingency is the most practical way to attempt to address this issue

*North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2018*

Significant activities addressed in the 2019-2020 CIP Plan are:

- Continue maintenance and enhancements of the Authority's existing Regional Pump Station and Water Plant
- Continue evaluating the need for additional regional water wells and enhancements to the 2010 system to take necessary efforts to optimize use of the system
- Identify and purchase the sites for the third Regional Pump Station and second Regional Water Plant
- Initiate design of the initial phase of State Highway 249 Regional Pump Station
- Initiate design and construction of the 2025 transmission line
- Provide funding for the Authority's share of the cost of major expansion of the Northeast Water Purification Plant (the "NEWPP")
- Provide funding for the Authority's share of the cost of major rehabilitation, reconstruction and upgrading of the existing NEWPP
- Provide funding for the Authority's share of the cost for acquisition of real estate and the design of the proposed joint transmission line from the NEWPP site to the Authority's proposed 2025 transmission line
- Pay the Authority's portion of the initial loan costs for the Luce Bayou Interbasin Diversion Project
- Continue the planning and design and construction of the 2025 distribution system
- Provide funding for the Chloramination Credit
- Provide funding to help encourage and facilitate implementation of reuse systems
- Provide professional services to perform the wide variety of activities required to implement the 2019-2020 CIP

The proceeds from the Authority's Series 2003, 2005, 2008 and 2016 Senior Lien Revenue Bonds, capital contributions and interest earned (collectively called "Revenue Bonds") total approximately \$503 million.

**North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2018**

As illustrated by the table that follows, approximately \$55 million of those Revenue Bonds will be used to implement the 2019-2020 CIP. Additionally, approximately \$747 million of Texas Water Development Board State Water Infrastructure Fund for Texas ("SWIFT") funds are committed to implement the 2019-2020 CIP.

| Category | Authorizations ¹ (Thousands) | | Fiscal Year Planned | | Project Total |
|-----------------------------|---|------------------|----------------------------|-------------------|---------------------|
| | 1/1/03-9/30/18 | 10/1/18-12/31/18 | Authorizations (Thousands) | | |
| | | | 2019 | 2020 | |
| Acquisition | \$ 20,973 | \$ 690 | \$ 6,265 | \$ 10,765 | \$ 38,693 |
| Design | 47,030 | | 20,640 | 8,052 | 75,722 |
| Construction | 72,513 | | 59,914 | 211,883 | 344,310 |
| Equipment | | | 20 | | 20 |
| Other | 197,602 | 80,493 | 355,483 | 155,700 | 789,278 |
| Total Authorizations | \$ 338,118 | \$ 81,183 | \$ 442,322 | \$ 386,400 | \$ 1,248,023 |
| Source of Funds | | | | | |
| Revenue Bonds | \$ 176,534 | \$ 849 | \$ 43,477 | \$ 11,957 | \$ 232,817 |
| SWIFT Funds | 161,584 | 80,334 | 391,140 | 355,361 | 988,419 |
| To be determined | | | 7,705 | 19,082 | 26,787 |
| Total Funds | \$ 338,118 | \$ 81,183 | \$ 442,322 | \$ 386,400 | \$ 1,248,023 |

¹ Authorizations do not typically represent actual expenditures

Next Year's Budget

The Authority's 2019 budget as compared to actual results for 2018 is as follows:

| | 2018 Actual | 2019 Budget |
|--------------------------------------|----------------|----------------|
| Operating revenues | \$ 103,116,787 | \$ 96,087,500 |
| Operating expenses | (28,587,973) | (27,120,979) |
| Net operating income | 74,528,814 | 68,966,521 |
| Non operating revenues (expenses) | | |
| Interest expense | (39,793,197) | (61,755,743) |
| Interest and fees | 16,920,236 | 1,500,000 |
| Bond issuance costs | (922,776) | |
| Luce Bayou debt service contribution | (678,979) | |
| Net non-operating expense | (24,474,716) | (60,255,743) |
| Change in net position | 50,054,098 | 8,710,778 |
| Beginning net position | 147,336,243 | 197,390,341 |
| Ending net position | \$ 197,390,341 | \$ 206,101,119 |

Actual revenues for 2018 are higher than budgeted revenues for 2019 because the Authority takes a conservative approach to budgeting. The budget for 2019 assumes normal rainfall amounts. Expenses fluctuate proportionate with revenues.

*North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2018*

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 the Financial Assistant, North Harris County Regional Water Authority, 3648 Cypress Creek Parkway, Suite 110, Houston, Texas 77068.

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Basic Financial Statements

*North Harris County Regional Water Authority
Statement of Net Position
December 31, 2018*

Assets

Current assets

| | |
|-----------------------------|--------------------|
| Cash and cash equivalents | \$ 115,901,032 |
| Investments | 84,576,342 |
| Accounts receivable | 9,217,842 |
| Accrued interest receivable | 578,704 |
| Other receivables | 10,049 |
| Due from other governments | 8,209,873 |
| Total current assets | <u>218,493,842</u> |

Noncurrent assets

| | |
|--------------------------------------|----------------------|
| Restricted cash and cash equivalents | 169,670,858 |
| Restricted investments | 130,875,371 |
| Cash with escrow agent | 859,109,904 |
| Water conservation credits | 725,872 |
| Capital assets not being depreciated | 48,948,441 |
| Capital assets, net | 436,780,737 |
| Total noncurrent assets | <u>1,646,111,183</u> |

| | |
|---------------------|-----------------------------|
| Total assets | <u><u>1,864,605,025</u></u> |
|---------------------|-----------------------------|

Deferred Outflows of Resources

| | |
|----------------------------------|-------------------|
| Deferred difference on refunding | <u>22,585,640</u> |
|----------------------------------|-------------------|

Liabilities

Current liabilities

| | |
|--|-------------------|
| Accounts payable | 2,186,404 |
| Other payables | 1,394 |
| Interest payable on bonds | 3,399,918 |
| Current portion of long term liabilities | |
| Chloramine conversion credits payable | 421,724 |
| Capital contributions | 2,510,667 |
| Bonds payable | 29,955,000 |
| Total current liabilities | <u>38,475,107</u> |

Noncurrent liabilities

| | |
|--|----------------------|
| Accounts payable from restricted assets | 768,359 |
| Accrued compensated absences | 131,240 |
| Long term liabilities due in more than one year | |
| Chloramine conversion credits payable | 18,300,975 |
| Capital contributions | 65,402,077 |
| Bonds payable (net of unamortized bond premium and discount) | 1,566,722,566 |
| Total noncurrent liabilities | <u>1,651,325,217</u> |

| | |
|--------------------------|-----------------------------|
| Total liabilities | <u><u>1,689,800,324</u></u> |
|--------------------------|-----------------------------|

Net Position

| | |
|----------------------------------|------------------------------|
| Net investment in capital assets | (193,472,399) |
| Restricted for debt service | 170,099,123 |
| Unrestricted | 220,763,617 |
| Total net position | <u><u>\$ 197,390,341</u></u> |

See Notes to Financial Statements

*North Harris County Regional Water Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2018*

Operating revenues

| | |
|--------------------------|--------------------|
| Charges for services | |
| Water fees | \$ 103,116,787 |
| Total operating revenues | <u>103,116,787</u> |

Operating expenses

| | |
|-------------------------------|-------------------|
| Personnel | 1,691,454 |
| Professional fees | 607,372 |
| Purchased water | 12,236,705 |
| Contracted services | 1,836,062 |
| Occupancy and office | 1,121,779 |
| Other | 1,102,387 |
| Depreciation and amortization | 9,992,214 |
| Total operating expenses | <u>28,587,973</u> |

Net operating income 74,528,814

Non-operating revenues (expenses)

| | |
|--|---------------------|
| Interest and fees | (39,793,197) |
| Investment income | 16,920,236 |
| Bond issuance costs | (922,776) |
| Luce Bayou debt service contribution | (678,979) |
| Net non-operating revenues (expenses) | <u>(24,474,716)</u> |

Change in net position 50,054,098

Total net position - beginning 147,336,243

Total net position - ending \$ 197,390,341

See Notes to Financial Statements

*North Harris County Regional Water Authority
Statement of Cash Flow
For the Year Ended December 31, 2018*

| | |
|---|-------------------------|
| Cash flows from operating activities | |
| Receipts from customers | \$ 94,272,049 |
| Payments for personnel costs | (1,715,166) |
| Payments to contractors and vendors | (17,821,917) |
| Net cash provided by operating activities | <u>74,734,966</u> |
| Cash flows from capital and related financing activities | |
| Interest paid | (35,731,924) |
| Acquisition and construction of capital assets | (5,463,785) |
| Paid to City of Houston for water supply and transmission facilities | (98,168,494) |
| Proceeds from sale of bonds, net | 469,345,000 |
| Principal payments | (19,720,000) |
| Bond issuance costs | (922,776) |
| Paid to City of Houston for Luce Bayou debt service | (678,979) |
| Net cash provided by capital and related financing activities | <u>308,659,042</u> |
| Cash flows from investing activities | |
| Interest received | 15,863,565 |
| Payments for investments | (105,455,898) |
| Deposits into money market accounts | (76,446,650) |
| Receipts from investment sales and maturities | 115,181,801 |
| Net cash provided (used) by investing activities | <u>(50,857,182)</u> |
| Net increase in cash and cash equivalents | 332,536,826 |
| Balances - beginning of the year | <u>812,144,968</u> |
| Balances - end of the year | <u>\$ 1,144,681,794</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 74,528,814 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation and amortization expense | 9,992,214 |
| Non-cash revenue from capital contribution credit | (6,018,365) |
| Non-cash revenue from chloramine conversion credit | (1,545,082) |
| Change in current assets and liabilities: | |
| (Increase) decrease in accounts receivable | (1,281,291) |
| (Increase) decrease in due from other governments | (524,943) |
| Increase (decrease) in accounts payable | (392,669) |
| Increase (decrease) in other payable | |
| Increase (decrease) in compensated absences | (23,712) |
| Total adjustments | <u>206,152</u> |
| Net cash provided by operating activities | <u>\$ 74,734,966</u> |
| Cash and cash equivalents per balance sheet: | |
| Cash and cash equivalents | \$ 115,901,032 |
| Restricted cash and cash equivalents | 169,670,858 |
| Cash with escrow agent | 859,109,904 |
| | <u>\$ 1,144,681,794</u> |

See Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The North Harris County Regional Water Authority (the “Authority”) was created in 1999 under Article 16, Section 59 of the Texas Constitution by House Bill 2965, as passed by the 75th Texas Legislature and as amended (the “Act”). The Authority began operations in October 1999. 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 the well, and/or the alternative water provided, to the owner of wells located in the Authority’s boundaries, unless exempted. The fees established by the Board of Directors must 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 accompanying financial statements of the Authority have been prepared in conformity 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 five member board. The GASB has established the criteria for determining whether or not an entity is a primary government, a component unit of a primary government or a related organization. A primary government has a separately elected governing body; is legally separate; and is fiscally independent of other state and local governments. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the Authority is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the Authority’s financial statements as component units.

Basic Financial Statements

The basic financial statements include the *Statements of Net Position*, the *Statements of Revenues, Expenses and Changes in Net Position* and the *Statements of Cash Flows*. 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.

Note 1 – Summary of Significant Accounting Policies (continued)

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 principal operating revenues are charges to customers for water fees. Operating expenses include the cost of services, administrative expenses and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Net position is classified into the following three components:

- Net investment in capital assets – 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.
- Restricted – financial resources are reported as restricted when constraints placed on the use of the financial 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 – net resources not included in the determination of net investment in capital assets or restricted net position.

New Accounting Standard

During the current fiscal year, the Authority early implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which establishes accounting and reporting requirements for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset. The requirements of this statement will be applied prospectively. As a result, no adjustments to prior period were necessary.

Cash and Cash Equivalents

For the purpose of the *Statement of Cash Flows*, the Authority defines cash and cash equivalents as cash on hand, demand deposits, certificates of deposit and investments in local government investment pools (i.e., TexPool, TexPool Prime and TexSTAR).

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, 2018 an allowance for uncollectible accounts was not considered necessary.

Restricted Assets

Proceeds of bonds or other resources set aside for specific purposes are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

Capital Assets

The Authority defines capital assets as assets with an individual cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets, which include land, right of way acquisition costs, infrastructure and interest in infrastructure assets constructed by the City of Houston, are reported at historical cost. Donated assets are recorded at their estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-------------------------|--------------|
| Computer and software | 3 |
| Furniture and equipment | 5-7 |
| Infrastructure | 20-45 |

In previous fiscal years, interest costs were capitalized, net of interest earned on related interest-bearing investments, from the date of borrowing until the assets was completed. Since the Authority has implemented GASB 89, interest costs on assets completed during the current fiscal year were not capitalized.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities on the Authority's *Statement of Net Position*. Bonds payable are reported net of any applicable discount or premium.

Note 1 – Summary of Significant Accounting Policies (continued)

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, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. These estimates include, among others, the collectability of receivables and the useful lives and impairment of capital assets. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Note 2 – Cash and Investments

Restricted Cash and Investments

Cash and investments were restricted for the following purposes at December 31, 2018:

| | |
|------------------------|-------------------------|
| Bond reserves | \$ 173,499,041 |
| Capital improvements | 127,047,188 |
| Cash with escrow agent | 859,109,904 |
| | <u>\$ 1,159,656,133</u> |

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash) 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, 2018, all of the Authority’s deposits are insured or fully collateralized.

Investment Risks

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. Custodial credit risk is 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. The Authority’s investment policies do not address these risks beyond the rating and maturity restrictions established by state statutes.

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2018

Note 2 - Cash and Investments (continued)

Investments

The Authority's 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.

As of December 31, 2018, the Authority's investments and maturities are as follows:

| Investment Type | Fair Value | Percentage of Total | Maturities in Years | |
|--|-----------------------|---------------------|-----------------------|----------------------|
| | | | Less Than 1 | 1-5 |
| Federal National Mortgage Association | \$ 1,466,426 | 0.4% | \$ 1,312,960 | \$ 153,466 |
| Federal Home Loan Mortgage Corporation | 5,329,723 | 1.3% | 1,335,843 | 3,993,880 |
| Federal Home Loan Bank | 13,935,169 | 3.5% | 5,909,609 | 8,025,560 |
| Federal Farm Credit Bank | 18,831,110 | 4.8% | 3,525,363 | 15,305,747 |
| U.S. Treasury Notes/Bonds | 91,940,533 | 23.3% | 43,980,499 | 47,960,034 |
| TexPool and TexPool Prime | 190,179,409 | 48.1% | 190,179,409 | |
| TexSTAR | 73,360,031 | 18.6% | 73,360,031 | |
| | <u>\$ 395,042,401</u> | <u>100.0%</u> | <u>\$ 319,603,714</u> | <u>\$ 75,438,687</u> |

The Authority considers the investments in TexPool, TexPool Prime and TexSTAR to have a maturity of less than one year because the weighted average maturities of these pools are 21 days, 30 days and 35 days, respectively. The Authority's investments are rated Aaa by Moody's and AAA by Standard & Poor's. As previously noted, the investment pools are reported as cash equivalents on the *Statement of Net Position*.

Note 2 - Cash and Investments (continued)

Investment Valuation

The Authority's investments in U.S. treasuries, U.S. agency and instrumentality securities and TexSTAR are reported at fair value in the *Statement of Net Position*. Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices 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, 2018 are as follows:

- U.S. Treasury Notes and Bonds: valued at \$91,940,533 based on quoted market prices (level 1 inputs).
- U.S. Government Agency and Instrumentality Securities: valued at \$39,562,428 based on matrix pricing for similar securities (level 2 inputs).
- TexSTAR: valued at \$73,360,031 based on published fair value per share (level 1 inputs).

TexPool and TexPool Prime

The Authority participates in two investment pools offered by the Texas Local Government Investment Pool, TexPool and TexPool Prime. The State Comptroller of Public Accounts exercises oversight responsibility of the Texas Local Government Investment Pool which 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 participants in TexPool/Texpool Prime and other persons who do not have a business relationship with Texas Local Government Investment Pool. The Advisory Board members review the investment policy and management fee structure.

As permitted by GAAP, TexPool and TexPool Prime use amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price and seek to maintain a constant dollar value per share. Accordingly, the fair value of the Authority's position in each pool is the same as the value of TexPool/TexPool Prime shares.

Investments in TexPool may be withdrawn on a same day basis, as long as the transaction is initiated by 3:30 p.m. Investments in TexPool Prime may be withdrawn via wire transfer on a same day basis, as long as the transaction is initiated by 2 p.m. ACH withdrawals made by 2 p.m. will settle on the business day following the date the transaction was initiated.

TexSTAR

The Authority participates in Texas Short Term Asset Reserve fund (TexSTAR) which is managed by Hilltop Securities, Inc., 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.

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2018

Note 2 - Cash and Investments (continued)

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 – Capital Assets

A summary of changes in capital assets during the year ended December 31, 2018, follows:

| | Beginning Balance | Additions/ Retirements | Ending Balance |
|--|-----------------------|---------------------------|-----------------------|
| Capital assets not being depreciated | | | |
| Land and ROW acquisition | \$ 30,693,436 | \$ 430,936 | \$ 31,124,372 |
| Construction in progress | 14,447,317 | 3,376,752 | 17,824,069 |
| Non-depreciable capital assets | <u>45,140,753</u> | <u>3,807,688</u> | <u>48,948,441</u> |
| Capital assets being depreciated/amortized | | | |
| Interest in water facilities | 93,738,495 | 59,752,376 | 153,490,871 |
| Interest in transmission facilities | 48,787,920 | 38,416,118 | 87,204,038 |
| Infrastructure | 284,005,903 | 1,549,261 | 285,555,164 |
| Furniture, computers & equipment | 221,526 | 181,942 | 403,468 |
| Subtotal | <u>426,753,844</u> | <u>99,899,697</u> | <u>526,653,541</u> |
| Less accumulated depreciation/amortization | | | |
| Interest in water facilities | (22,127,497) | (2,115,029) | (24,242,526) |
| Interest in transmission facilities | (6,833,393) | (1,535,857) | (8,369,250) |
| Infrastructure | (50,698,172) | (6,331,219) | (57,029,391) |
| Furniture, computers & equipment | (221,529) | (10,108) | (231,637) |
| Subtotal | <u>(79,880,591)</u> | <u>(9,992,213)</u> | <u>(89,872,804)</u> |
| Depreciable capital assets, net | <u>346,873,253</u> | <u>89,907,484</u> | <u>436,780,737</u> |
| Total capital assets, net | <u>\$ 392,014,006</u> | <u>\$ 93,715,172</u> | <u>\$ 485,729,178</u> |

Depreciation and amortization expense for the current year was \$9,992,213.

Note 4 – Leases

In 2000, the Authority entered into a lease agreement for office space, which was amended November 2005, February 2011, July 2014, and October 2016. Under the current amendment, the lease will terminate March 31, 2022. The Authority may terminate the lease any time after October 31, 2019, by giving six months written notice and by paying a lease termination penalty of \$10,000 to \$15,000 depending on when the lease is cancelled. The Authority has also entered into various leases for office equipment.

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2018

Note 4 – Leases (continued)

The Authority paid \$135,311 under these leases during the current year. Future annual commitments for leases are as follows:

| <u>Year Ending</u> | <u>Amount</u> |
|--------------------|-------------------|
| 2019 | \$ 117,308 |
| 2020 | 121,187 |
| 2021 | 131,658 |
| 2022 | 32,915 |
| | <u>\$ 403,068</u> |

Note 5 – Compensated Absences

The change in the Authority’s liability for compensated absences for current year is as follows:

| | |
|----------------------------------|-------------------|
| Balance at beginning of year | \$ 154,952 |
| Increase/(decrease) in liability | <u>(23,712)</u> |
| Balance at end of year | <u>\$ 131,240</u> |

Note 6 – Senior Lien Revenue Bonds

The Authority issues Senior Lien Revenue Bonds (Senior Bonds) primarily to finance the design, acquisition and construction of regional water production, transmission, pumping, storage and distribution systems. The principal and interest on the Authority’s bonds will be repaid from net revenues.

Bonds payable, as reported on the financial statements consists of the following:

| | |
|-----------------------|-------------------------|
| Bonds payable | \$ 1,535,970,000 |
| Unamortized premiums | 62,284,689 |
| Unamortized discounts | <u>(1,577,123)</u> |
| Total | <u>\$ 1,596,677,566</u> |
| Due within one year | <u>\$ 29,955,000</u> |

*North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2018*

Note 6 – Senior Lien Revenue Bonds (continued)

The Authority's outstanding bonds payable at December 31, 2018 are comprised of the following individual issues:

| Series | Amounts Outstanding | Original Issue Amount | Interest Rates and Key Dates | |
|-----------------------|-------------------------|--------------------------|------------------------------|------------------------|
| 2013 Refunding | \$ 87,310,000 | \$ 106,320,000 | Interest Rates | 2.00% - 5.00% |
| | | | Principal Payments | December 15, 2014/2033 |
| | | | Interest Payments | June 15 & December 15 |
| | | | Callable | December 15, 2022 |
| 2014 Refunding | 63,385,000 | 72,510,000 | Interest Rates | 2.00% - 5.00% |
| | | | Principal Payments | December 15, 2015/2035 |
| | | | Interest Payments | June 15 & December 15 |
| | | | Callable | December 15, 2024 |
| 2015 | 76,360,000 | 80,435,000 | Interest Rates | 0.45% - 3.21% |
| | | | Principal Payments | December 15, 2017/2045 |
| | | | Interest Payments | June 15 & December 15 |
| | | | Callable | December 15, 2025 |
| 2016 and Refunding | 258,125,000 | 258,125,000 | Interest Rates | 5.00% |
| | | | Principal Payments | December 15, 2019/2046 |
| | | | Interest Payments | June 15 & December 15 |
| | | | Callable | December 15, 2026 |
| 2016A | 189,730,000 | 195,050,000 | Interest Rates | 0.65% - 3.07% |
| | | | Principal Payments | December 15, 2018/2046 |
| | | | Interest Payments | June 15 & December 15 |
| | | | Callable | December 15, 2026 |
| 2017 | 391,715,000 | 391,715,000 | Interest Rates | 0.76% - 3.02% |
| | | | Principal Payments | December 15, 2019/2047 |
| | | | Interest Payments | June 15 & December 15 |
| | | | Callable | December 15, 2027 |
| 2018 | 469,345,000 | 469,345,000 | Interest Rates | 1.63% - 3.51% |
| | | | Principal Payments | December 15, 2020/2048 |
| | | | Interest Payments | June 15 & December 15 |
| | | | Callable | December 15, 2028 |
| | <u>\$ 1,535,970,000</u> | <u>\$ 1,573,500,000</u> | | |

*North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2018*

Note 6 – Senior Lien Revenue Bonds (continued)

As of December 31, 2018, the Texas Water Development Board has approved a total of \$2,075,995,000 in multi-year commitments in SWIRFT bonds to the Authority. The Authority intends to issue SWIRFT bonds for each fiscal year from 2015 through 2021 to fund the Authority’s costs for the Northeast Water Purification Plant Expansion, the Northeast Transmission Line Phase I and II and the 2025 Distribution System.

On November 15, 2018 the Authority issued its fourth series of SWIRFT bonds, the \$469,345,000 Series 2018 Senior Lien Revenue Bonds. As of December 31, 2018, the remaining SWIRFT bond commitment is as follows:

| | |
|----------------------------|------------------------|
| Total commitment from TWDB | \$ 2,075,995,000 |
| SWIRFT bonds issued | <u>(1,136,545,000)</u> |
| Remaining commitment | <u>\$ 939,450,000</u> |

The TWDB’s obligation to purchase the Authority’s bonds is contingent upon (1) the TWDB receiving all legally required approvals for issuance of the bonds from the Legislative Budget Board, the Bond Review Board and the Texas Attorney General and (2) the purchase and delivery of bond proceeds by underwriters pursuant to a bond purchase agreement.

The change in the Authority’s long-term debt during the last year is as follows:

| | |
|----------------------------------|-------------------------|
| Bonds payable, beginning of year | \$ 1,086,345,000 |
| Bonds issued | 469,345,000 |
| Bonds retired | <u>(19,720,000)</u> |
| Payable, end of year | <u>\$ 1,535,970,000</u> |

The Senior Bonds are secured by a lien on and pledge out the net revenues of the Authority. As additional security, the bond resolutions required the establishment of an Interest and Sinking Fund, a Reserve Fund and a Coverage Fund. A description of each fund follows:

- Interest and Sinking Fund – Used to accumulate the funds required to make the scheduled payments of debt service on the Senior Bonds. Money in the Interest and Sinking Fund shall be used solely for the purpose of paying principal, interest and any bank charges and other costs associated with payments of debt service on the Senior Bonds. As of December 31, 2018, the Authority had cash equivalents in the amount of \$45,746,930 in the Interest and Sinking Fund.
- The Reserve Fund – Used (to the extent that amounts on deposit in the Interest and Sinking Fund and the Coverage Fund are insufficient) to secure and provide for the payment of principal and interest on the Senior Bonds as they become payable. As of December 31, 2018, the Authority had cash equivalents and investments in the amount of \$99,694,084 in the Reserve Fund.

*North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2018*

Note 6 – Senior Lien Revenue Bonds (continued)

- The Coverage Fund – Used to accumulate funds equal to 25% of the maximum annual debt service requirements for outstanding debt in any fiscal year. The Coverage Fund requirement as of December 31, 2018, was \$24,295,045. The Authority has cash equivalents and investments in the amount of \$29,354,126 in this fund, of which \$5,059,081 has been classified as unrestricted for reporting purposes.
- Operation and Maintenance Reserve Fund – Funds from gross revenues of the Authority will be deposited on or before the last business day of the month into this account. The Operation and Maintenance requirement, as of December 31, 2018 was \$3,762,983. The Authority has cash equivalents and investments in the amount of \$3,846,000 in this fund, of which \$83,017 has been classified as unrestricted for reporting purposes.

Historical Debt Service Coverage

The Authority maintains certain financial ratios as required by its bond resolutions. The following table summarizes the key ratios:

| | 2018 | 2017 |
|---|-----------------------|-----------------------|
| Net operating income per financial statements | \$ 74,528,814 | \$ 65,288,613 |
| Add back depreciation and amortization | 9,992,214 | 8,405,517 |
| Net revenues for debt service | 84,521,028 | 73,694,130 |
| Add: | | |
| Coverage fund | 29,354,126 | 28,854,613 |
| Improvement fund | 134,864,982 | 132,483,844 |
| Adjusted net revenues | <u>\$ 248,740,136</u> | <u>\$ 235,032,587</u> |
| Debt Service Requirements | <u>\$ 80,342,867</u> | <u>\$ 55,451,921</u> |
| Debt service coverage | 1.05 | 1.33 |
| Adjusted debt service coverage | 3.10 | 4.24 |

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2018

Note 6 – Senior Lien Revenue Bonds (continued)

Debt Service Requirements

Principal and interest payments on the Senior Bonds will be provided through the payment of water fees by utility districts and non-exempt well owners. As of December 31, 2018, the debt service requirements on the Senior Bonds outstanding are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------|-------------------------|-----------------------|-------------------------|
| 2019 | \$ 29,955,000 | \$ 50,387,867 | \$ 80,342,867 |
| 2020 | 31,705,000 | 48,419,026 | 80,124,026 |
| 2021 | 32,455,000 | 47,676,484 | 80,131,484 |
| 2022 | 34,745,000 | 46,809,806 | 81,554,806 |
| 2023 | 35,715,000 | 45,845,582 | 81,560,582 |
| 2024 | 36,770,000 | 44,820,126 | 81,590,126 |
| 2025 | 37,805,000 | 43,819,528 | 81,624,528 |
| 2026 | 39,045,000 | 42,617,000 | 81,662,000 |
| 2027 | 40,325,000 | 41,341,968 | 81,666,968 |
| 2028 | 56,860,000 | 40,106,274 | 96,966,274 |
| 2029 | 58,590,000 | 38,430,466 | 97,020,466 |
| 2030 | 60,485,000 | 36,585,967 | 97,070,967 |
| 2031 | 62,580,000 | 34,530,062 | 97,110,062 |
| 2032 | 64,780,000 | 32,372,500 | 97,152,500 |
| 2033 | 67,100,000 | 30,080,181 | 97,180,181 |
| 2034 | 61,465,000 | 27,703,078 | 89,168,078 |
| 2035 | 63,670,000 | 25,539,698 | 89,209,698 |
| 2036 | 60,265,000 | 23,430,211 | 83,695,211 |
| 2037 | 62,100,000 | 21,660,758 | 83,760,758 |
| 2038 | 64,170,000 | 19,646,336 | 83,816,336 |
| 2039 | 51,365,000 | 17,532,614 | 68,897,614 |
| 2040 | 53,005,000 | 15,933,632 | 68,938,632 |
| 2041 | 54,735,000 | 14,281,694 | 69,016,694 |
| 2042 | 56,510,000 | 12,572,664 | 69,082,664 |
| 2043 | 58,410,000 | 10,745,008 | 69,155,008 |
| 2044 | 60,375,000 | 8,840,501 | 69,215,501 |
| 2045 | 62,415,000 | 6,800,689 | 69,215,689 |
| 2046 | 60,375,000 | 4,692,719 | 65,067,719 |
| 2047 | 48,530,000 | 2,647,405 | 51,177,405 |
| 2048 | 29,665,000 | 1,041,242 | 30,706,242 |
| | <u>\$ 1,535,970,000</u> | <u>\$ 836,911,086</u> | <u>\$ 2,372,881,086</u> |

Note 7 – Capital Contributions

In 2003, the Authority entered into contracts with twenty-four Municipal Utility Districts (MUDs) to provide funds to pay capital expenses of the Authority's system. Each MUD has paid a Capital Contribution based on a percentage of its pro-rata share of the total groundwater production for all water utilities during the calendar year 2002. Capital contributions of \$32,573,177 were made to the Authority in the 2003 fiscal year. The participating MUDs began receiving contribution credits against their individual water fees distributed over the life of the Series 2003 Senior Bonds beginning with the 2003 third quarter pumpage fees. Any amounts remaining plus accrued interest at the end of the capital contribution expiration date will be credited against any amounts owed to the Authority by the MUDs or paid to the MUDs by the Authority.

In 2005, the Authority entered into agreements with nineteen MUDs. Capital contributions of \$14,675,978 were made to the Authority in the 2005 fiscal year. The participating MUDs began receiving contribution credits against their individual water fees distributed over the life of the Series 2005 Senior Bonds beginning with the 2005 third quarter pumpage fees. As with the 2003 contribution credits, any amounts remaining plus accrued interest at the end of the capital contribution date will be credited against any amounts owed to the Authority by the MUDs or paid to the MUDs by the Authority.

In 2008, the Authority entered into contracts with twenty MUDs to provide funds to pay capital expenses of the Authority's system. Each MUD has paid a Capital Contribution based on a percentage of its pro-rata share of the total groundwater production for all water utilities during the calendar year 2009. Capital contributions of \$30,936,787 and \$4,960,093 were made to the Authority in the 2008 and 2009 fiscal years, respectively, for total 2008 contributions of \$35,896,880. The participating MUDs began receiving contribution credits against their individual water fees distributed over the life of the Series 2008 Senior Bonds beginning with the 2009 first quarter pumpage fees. Any amounts remaining plus accrued interest at the end of the capital contribution expiration date will be credited against any amounts owed to the Authority by the MUDs or paid to the MUDs by the Authority.

*North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2018*

Note 7 – Capital Contributions (continued)

Future contribution credits including interest, principal and remaining balance, at the effective interest rate of the Senior Bonds for all capital contributions as of December 31, 2018 are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Remaining Balance</u> |
|-------------|----------------------|----------------------|-----------------------|------------------------------|
| 2019 | \$ 2,510,667 | \$ 3,507,718 | \$ 6,018,385 | \$ 65,402,077 |
| 2020 | 2,639,473 | 3,378,912 | 6,018,385 | 62,762,604 |
| 2021 | 2,774,899 | 3,243,486 | 6,018,385 | 59,987,705 |
| 2022 | 2,917,283 | 3,101,102 | 6,018,385 | 57,070,422 |
| 2023 | 3,066,987 | 2,951,398 | 6,018,385 | 54,003,435 |
| 2024 | 3,224,386 | 2,793,999 | 6,018,385 | 50,779,049 |
| 2025 | 3,389,875 | 2,628,510 | 6,018,385 | 47,389,174 |
| 2026 | 3,563,870 | 2,454,515 | 6,018,385 | 43,825,304 |
| 2027 | 3,746,813 | 2,271,572 | 6,018,385 | 40,078,491 |
| 2028 | 3,939,162 | 2,079,223 | 6,018,385 | 36,139,329 |
| 2029 | 4,141,400 | 1,876,985 | 6,018,385 | 31,997,929 |
| 2030 | 4,354,039 | 1,664,346 | 6,018,385 | 27,643,890 |
| 2031 | 4,577,614 | 1,440,771 | 6,018,385 | 23,066,276 |
| 2032 | 4,812,688 | 1,205,697 | 6,018,385 | 18,253,588 |
| 2033 | 5,059,605 | 958,533 | 6,018,138 | 13,193,983 |
| 2034 | 2,945,878 | 698,665 | 3,644,543 | 10,248,105 |
| 2035 | 3,099,088 | 545,474 | 3,644,562 | 7,149,017 |
| 2036 | 2,259,369 | 384,295 | 2,643,664 | 4,889,648 |
| 2037 | 2,380,821 | 262,843 | 2,643,664 | 2,508,827 |
| 2038 | 2,508,827 | 134,862 | 2,643,689 | |
| | <u>\$ 67,912,744</u> | <u>\$ 37,582,906</u> | <u>\$ 105,495,650</u> | |

Changes in capital contributions for the current year are as follows:

| | |
|--|----------------------|
| Capital contributions, beginning balance | \$ 70,300,885 |
| Principal repayments | (2,388,141) |
| Capital contributions, ending balance | <u>\$ 67,912,744</u> |

Note 8 – Chloramination Conversion Credits

Entities designated to receive surface water from the Authority were required to install chloramine disinfection systems at their facilities. The Authority has established a program to reimburse entities for the cost of constructing these systems. The reimbursement is in the form of a credit against pumpage and/or surface water fees. The credit is calculated by amortizing the cost of the chloramines system at six percent interest over a thirty year period, which will begin the year that the facilities are placed in service. The annual credit will be divided by twelve and the resulting amount will be credited monthly toward the fees payable to the Authority for water used. As of December 31, 2018, approximately fifty entities have provided the required documentation to the Authority and are receiving the monthly chloramination credit.

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2018

Note 8 – Chloramination Conversion Credits (continued)

During the current fiscal year, the Authority reimbursed \$397,853 in principal and \$1,147,229 in interest to districts for chloramination conversion facilities.

Changes to the Authority’s liability for chloramination credits for the current and prior year are as follows:

| | |
|---|-----------------------------|
| Chloramine credits payable, beginning of year | \$ 19,120,552 |
| Principal repayments | <u>(397,853)</u> |
| Chloramine credits payable, end of year | <u><u>\$ 18,722,699</u></u> |

As of December 31, 2018, the annual chloramination credits, including principal, interest and remaining balance are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Remaining Balance</u> |
|-------------|----------------------|----------------------|----------------------|------------------------------|
| 2019 | \$ 421,724 | \$ 1,123,358 | \$ 1,545,082 | \$ 18,300,975 |
| 2020 | 447,028 | 1,098,055 | 1,545,083 | 17,853,947 |
| 2021 | 473,850 | 1,071,233 | 1,545,083 | 17,380,097 |
| 2022 | 502,281 | 1,042,802 | 1,545,083 | 16,877,816 |
| 2023 | 532,417 | 1,012,665 | 1,545,082 | 16,345,399 |
| 2024 | 564,362 | 980,720 | 1,545,082 | 15,781,037 |
| 2025 | 598,224 | 946,858 | 1,545,082 | 15,182,813 |
| 2026 | 634,118 | 910,965 | 1,545,083 | 14,548,695 |
| 2027 | 672,165 | 872,918 | 1,545,083 | 13,876,530 |
| 2028 | 712,495 | 832,588 | 1,545,083 | 13,164,035 |
| 2029 | 755,244 | 789,838 | 1,545,082 | 12,408,791 |
| 2030 | 800,559 | 744,524 | 1,545,083 | 11,608,232 |
| 2031 | 848,592 | 696,490 | 1,545,082 | 10,759,640 |
| 2032 | 899,508 | 645,575 | 1,545,083 | 9,860,132 |
| 2033 | 953,478 | 591,604 | 1,545,082 | 8,906,654 |
| 2034 | 1,010,687 | 534,395 | 1,545,082 | 7,895,967 |
| 2035 | 1,071,328 | 473,754 | 1,545,082 | 6,824,639 |
| 2036 | 1,135,608 | 409,475 | 1,545,083 | 5,689,031 |
| 2037 | 1,203,744 | 341,338 | 1,545,082 | 4,485,287 |
| 2038 | 1,275,969 | 269,113 | 1,545,082 | 3,209,318 |
| 2039 | 1,352,527 | 192,555 | 1,545,082 | 1,856,791 |
| 2040 | 1,363,300 | 111,404 | 1,474,704 | 493,491 |
| 2041 | 456,167 | 21,112 | 477,279 | 37,324 |
| 2042 | 37,324 | 1,131 | 38,455 | |
| | <u>\$ 18,722,699</u> | <u>\$ 15,714,470</u> | <u>\$ 34,437,169</u> | |

Note 9 – Unrestricted Net Position

Included in the Authority's unrestricted net position (i.e., the residual of assets plus deferred outflows less liabilities) of \$220,763,617, is \$134,864,982 in cash and investments, which the Authority has designated as additional bond reserves and has deposited in the Improvement Fund.

Note 10 – Deferred Compensation Plans

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan is available and permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan is administered by the International City Management Association - Retirement Corporation (ICMA-RC).

Note 11 – Defined Contribution Plan

The Authority has established the North Harris County Regional Water Authority Qualified Pension Plan 401(a) (the "Plan"). The Plan covers all employees. Under the terms of the Plan, active participants become 100% vested on the fifth anniversary of employment. Participants are eligible for payment of benefits upon reaching age 70½, becoming disabled or separating from service for any other reason. Benefits are distributed in accordance with the instructions of the participants. The Board of Directors appointed ICMA-RC to serve as Plan administrator and trustee. The Plan provides for a minimum Authority contribution of 7% of total current covered payroll. At December 31, 2018, all of the Authority's employees were members of the Plan. Non-vested contributions are immaterial to total contributions at December 31, 2018. Vested contributions are solely the possession of participating employees. Total covered payroll was \$1,298,072 for the year ended December 31, 2018. Employer contributions to the Plan were \$113,484.

In 2003, the Authority established an additional 401(a) plan for management employees only. It is identical to the above Plan with the following exceptions: 1) management employees are fully vested on the second anniversary of employment and 2) the Plan provides for a minimum Authority contribution of 25% for the current year annual covered payroll of the General Manager. The total payroll and employer contributions for this plan are included in the totals above.

Note 12 – Water Supply Contracts

In December 2002, the Authority entered into a forty year contract with the City of Houston (Houston) for the purchase of capacity in certain untreated water facilities and treated water facilities, including transmission facilities, of Houston. Under the terms of the contract, Houston will provide surface water to the Authority at a point of delivery to be located near Highway 59 and Beltway 8.

Note 12 – Water Supply Contracts (continued)

The contract stipulates that the Authority will purchase capacity, in phases, in Houston’s surface water system. Houston will be responsible for the design, construction, ownership, maintenance and operation of both treated and untreated water facilities prior to a mutually agreeable delivery point(s). The Authority will be responsible for the design, construction, ownership, maintenance and operation of all facilities located beyond the point of delivery.

During 2003, the Authority made its first payment of \$51,492,844 to Houston for the purchase of capacity in Houston’s treated water facilities and transmission facilities constructed prior to the effective date of the contract. In 2009, the Authority made additional payments for the total amount of \$21,799,523 for the Existing Untreated Water Facilities Initial Untreated Water Demand Allocation of 31 million gallons per day (“MGD”).

The Authority will pay Houston, on a monthly basis, its pro-rata share of operating and maintenance costs of the treated and untreated water facilities and transmission lines based on an annual operating budget. Such monthly payments will include an amount adequate to establish an operating reserve. The contract also provides the Authority with the option to purchase additional capacity in the future. The Authority paid Houston for purchased surface water during the current year. Pursuant to the contract, Houston engages an independent auditor to calculate the true-up of operating costs on an annual basis. As of December 31, 2018, the net amount owed to the Authority by the City of Houston for the true-up for Houston’s fiscal year ended June 30, 2018 is \$8,209,873, which has been recorded as Due from other governments in the *Statement of Net Position*.

Luce Bayou Interbasin Transfer Project

In January 2009, the Authority and Houston executed the First Supplement (the “Supplement”) to the Water Supply Contract to increase the supply of untreated surface water available to the Authority, Houston and the other entities through the construction of the Luce Bayou Interbasin Transfer Project (“Luce Bayou”). When completed, Luce Bayou will convey approximately 400 MGD of untreated surface water from the Trinity River to Lake Houston. The Supplement addresses the allocation of capacity in Luce Bayou and how the costs of the project will be shared by the Authority, the other entities and Houston. The Supplement and Water Supply Contract remain in effect until 2080.

The Coastal Water Authority (CWA) has been designated as the project manager and, working with Houston, is responsible for all decisions and actions relating to the design, development, procurement and construction of all aspects of Luce Bayou. Houston will issue (or cause CWA to issue) bonds, notes or other obligations to pay for all of the costs of the project, except for the right-of-way costs and CWA interest amount (\$360,836 as calculated in the Supplement). In addition to the other terms of the Supplement, neither party was obligated to pay any funds for the project unless Houston or CWA obtained \$28,000,000 in funding from the Texas Water Development Board’s Water Infrastructure Fund that provides for: (i) the accrual of zero interest on such funds for up to 10 years or until the project is completed, whichever occurs first; and (ii) no interest or principal payments on such funds during the 10 year period. This funding was received by CWA in the 2013 fiscal year.

Note 12 – Water Supply Contracts (continued)

Houston agrees to cause the construction of the project so that it is substantially complete by June 30, 2019. The project will be completed in two stages as follows: (1) Phase I will be the permitting, engineering, surveying, right-of-way and site acquisition, which is currently estimated at a cost of \$43,000,000 and (2) Phase II of the project will be the construction and related costs, which is currently estimated at a cost of \$214,000,000.

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

- 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, 2018, the Authority has paid Houston \$2,999,038 for its pro-rata share of estimated right of way costs, net of refunds.

Payments for Existing Untreated Water Facilities. The Authority seeks to increase its Untreated Water Facilities Demand from 31 MGD to 159 MGD, which is currently estimated to be the Authority's surface water demand in the year 2040. Under the terms of the Supplement, the Authority is required to make four payments to Houston for Existing Untreated Water Facilities. Each payment is based on a formula defined in the 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 Houston of the completion of Luce Bayou; the second payment is due the earlier of 60 days after sending notice to Houston 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 Houston of the Authority's water demand needs for 2035 or June 30, 2030; and the fourth payment is due the earlier of 60 days after sending notice to Houston 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 Houston for Phase 1 and 2 Annual New Untreated Water Facilities are to be used only for the purpose of making debt service payments on obligations issued by either Houston 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 159 MGD untreated water reservation, the total amount of untreated water sold by Houston to all customers and Houston's annual debt service requirement. The Authority's pro-rata share of CWA's debt service payments on the \$28,754,000 financial assistance CWA received from the State of Texas under the State Participation Program will be repaid over 33 years. During the current fiscal year, the Authority paid Houston \$678,979 for its portion of the annual debt service requirement.

Note 12 – Water Supply Contracts (continued)

Northeast Water Purification Plant Expansion Project

On February 25, 2015, the Authority and Houston executed the Second Supplement to the Water Supply Contract to increase the supply of treated water to the Authority from 31 MGD to 144 MGD. In order to provide this additional capacity, Houston will expand the Northeast Water Purification Plant in 2 phases. Phase 1 will provide the Authority with an additional 51.05 MGD capacity no later than August 31, 2021 and Phase 2 will provide an additional 61.95 MGD of capacity no later than June 30, 2024.

The Authority's estimated share of total costs is approximately \$469 million; however, these cost assumptions are currently under review by the parties participating in the project and it is anticipated that, upon completion the review, the cost estimate will increase, the phasing may be adjusted and the delivery dates may be delayed. These revisions could substantially increase the cost of the project and delay completion of the project.

Houston will issue cash calls as needed to fund the expansion. These funds will be held in escrow by Houston in the Authority's name until such time that Houston requests withdrawals from the escrow account to pay for ongoing project costs. As of December 31, 2018, the Authority has paid Houston \$76,238,032 in cash call withdrawals from the escrow account and has \$100,484,812 remaining in escrow.

Northeast Transmission Line

On November 10, 2015, the Authority and Houston 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 Authority's estimated share of the total costs is approximately \$3,604,970. Houston will invoice the Authority prior to engaging a design engineer and prior to awarding the construction contract. In prior years, the Authority incurred costs of \$506,530 for its pro-rata share of project costs incurred through the effective date of the Third Supplement.

Also on November 10, 2015, the Authority and Houston executed the Fourth 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 2 of the Northeast Transmission Line. The Authority's estimated share of the total costs is approximately \$238,040,085. Houston will invoice the Authority prior to engaging a design engineer and prior to awarding the construction contract. In prior years, the Authority incurred costs of \$25,244,320 for its pro-rata share of project costs incurred through the effective date of the Fourth Supplement. During the current fiscal year, the Authority paid Houston \$38,416,118 for design costs for Segment 2.

Note 13 – Risk Management

The Authority is exposed to various risks related to torts: 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. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Supplementary Information

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*North Harris County Regional Water Authority
Schedule of Expenses
Last Five Fiscal Years*

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--------------------------------|-------------------|-------------------|------------------|-------------------|-------------------|
| Personnel | | | | | |
| Employee salaries | \$ 1,322,972 | \$ 1,346,367 | \$ 1,143,146 | \$ 955,192 | \$ 925,728 |
| Employee retirement | 113,484 | 117,303 | 104,607 | 88,977 | 85,641 |
| Group insurance | 169,776 | 152,197 | 113,838 | 104,225 | 98,521 |
| Medicare/ Social security | 83,764 | 84,594 | 73,522 | 59,232 | 58,178 |
| Unemployment compensation | 1,458 | 1,499 | 1,540 | 62 | 1,656 |
| | <u>1,691,454</u> | <u>1,701,960</u> | <u>1,436,653</u> | <u>1,207,688</u> | <u>1,169,724</u> |
| Professional fees | | | | | |
| Legal | 258,640 | 213,773 | 269,269 | 150,616 | 298,558 |
| Engineering | 77,060 | 143,259 | 554,388 | 1,702,550 | 2,361,412 |
| Financial services | 2,700 | 2,970 | 3,510 | 4,860 | 5,805 |
| Legislative consultant | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 |
| Investment management services | 94,472 | 98,297 | 102,891 | 142,930 | 148,317 |
| Redistricting/ mapping | 9,000 | | 6,960 | | 2,300 |
| Audit | 35,500 | 30,500 | 28,050 | 27,500 | 27,750 |
| | <u>607,372</u> | <u>618,799</u> | <u>1,095,068</u> | <u>2,158,456</u> | <u>2,974,142</u> |
| Purchased Services | | | | | |
| Bulk water purchases | <u>12,236,705</u> | <u>11,313,413</u> | <u>9,519,465</u> | <u>13,725,609</u> | <u>15,395,630</u> |
| Contracted services | | | | | |
| Operations and maintenance | 1,826,317 | 2,392,895 | 2,172,966 | 1,983,564 | 1,765,057 |
| Temporary services | 9,745 | 12,375 | 11,850 | 4,960 | 16,564 |
| | <u>1,836,062</u> | <u>2,405,270</u> | <u>2,184,816</u> | <u>1,988,524</u> | <u>1,781,621</u> |
| Occupancy and office | | | | | |
| Office lease | 120,267 | 124,305 | 120,913 | 110,017 | 107,319 |
| Safe deposit box | | 75 | | | |
| Bank charges | 15,192 | 16,229 | 6,227 | 4,202 | 3,325 |
| Printing and office | 90,587 | 57,734 | 184,943 | 102,404 | 42,798 |
| Postage and delivery | 39,031 | 3,514 | 73,384 | 38,807 | 4,563 |
| Telephone | 51,919 | 50,863 | 50,494 | 47,906 | 47,017 |
| Utilities | 673,432 | 644,197 | 578,632 | 715,751 | 784,545 |
| Equipment leases | 15,044 | 14,797 | 15,673 | 14,810 | 14,709 |
| Internet service | 40,155 | 42,560 | 45,450 | 38,376 | 41,935 |
| Communication services | 76,152 | 75,000 | 72,000 | 72,000 | 79,129 |
| | <u>1,121,779</u> | <u>1,029,274</u> | <u>1,147,716</u> | <u>1,144,273</u> | <u>1,125,340</u> |

See Accompanying Auditors' Report

*North Harris County Regional Water Authority
Schedule of Expenses
Last Five Fiscal Years*

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Other | | | | | |
| Director fees | \$ 24,900 | \$ 21,600 | \$ 23,700 | \$ 25,650 | \$ 24,450 |
| Election expense | | | | 31,956 | 48,785 |
| Technology transfer projects | 52,404 | 56,082 | 41,888 | 34,788 | 34,863 |
| Insurance | 80,527 | 80,504 | 78,404 | 80,917 | 83,871 |
| Travel | 53,329 | 56,479 | 43,301 | 37,065 | 32,224 |
| Legal notices | | | | | 25,841 |
| Membership/Subscription fees | 12,367 | 19,632 | 15,238 | 13,035 | 11,887 |
| Computer services | 13,157 | 38,466 | 7,172 | 11,295 | 14,264 |
| Computer software and equipment | 19,378 | 18,737 | 12,844 | 9,200 | 1,845 |
| Maintenance and repairs | 14,325 | 25,474 | 15,191 | 5,864 | 16,502 |
| Office furniture | 1,271 | 2,794 | 3,240 | 1,300 | |
| Public education | | | | | 7,981 |
| Water conservation | 52,126 | 48,859 | 43,739 | 48,845 | 42,499 |
| Mileage reimbursement | 8,238 | 8,269 | 6,196 | 6,788 | 5,506 |
| Permit fees | 672,875 | 573,095 | 508,025 | 506,700 | 507,110 |
| Seminars/training | 10,930 | 13,112 | 13,660 | 9,950 | 8,443 |
| Security | 5,489 | 5,909 | 936 | 830 | 1,088 |
| Miscellaneous | 81,071 | 137,988 | 145,227 | 21,621 | |
| | <u>1,102,387</u> | <u>1,107,000</u> | <u>958,761</u> | <u>845,804</u> | <u>867,159</u> |
| Expenses Before Depreciation and Amortization | <u>18,595,759</u> | <u>18,175,716</u> | <u>16,342,479</u> | <u>21,070,354</u> | <u>23,313,616</u> |
| Depreciation and Amortization | <u>9,992,214</u> | <u>8,405,517</u> | <u>7,979,761</u> | <u>7,637,169</u> | <u>8,509,077</u> |
| Total Expenses | <u>\$ 28,587,973</u> | <u>\$ 26,581,233</u> | <u>\$ 24,322,240</u> | <u>\$ 28,707,523</u> | <u>\$ 31,822,693</u> |

See Accompanying Auditors' Report

*North Harris County Regional Water Authority
Schedule of Principal Water Users
December 31, 2018*

| Name | Total Gallons | Fees Paid | Share (%) |
|-----------------------------|----------------|---------------|-----------|
| Harris Co. M.U.D. 358 | \$ 965,968,059 | \$ 3,284,291 | 3.2246% |
| Harris Co. M.U.D. 387 | 857,128,353 | 2,914,236 | 2.8612% |
| Tomball, City of | 767,911,529 | 2,610,899 | 2.5634% |
| Harris Co. F.W.S.D. 61 | 749,612,324 | 2,548,682 | 2.5023% |
| Bridgestone M.U.D. | 721,427,092 | 2,484,890 | 2.4083% |
| Harris Co. M.U.D. 367 & 383 | 637,091,936 | 2,355,698 | 2.1267% |
| NW Harris Co. M.U.D. 5 | 610,086,625 | 2,103,620 | 2.0366% |
| Timber Lane U.D. | 536,467,265 | 1,823,989 | 1.7908% |
| Aqua Texas, Inc. | 523,392,445 | 1,812,603 | 1.7472% |
| Harris Co. M.U.D. 24 | 489,403,492 | 1,749,922 | 1.6337% |
| Subtotal | 6,858,489,120 | 23,688,831 | 22.8949% |
| All other retail utilities | 22,349,410,152 | 69,852,364 | 74.6063% |
| All private well owners | 748,564,513 | 2,476,847 | 2.4988% |
| Total | 29,956,463,785 | \$ 96,018,042 | 100.0000% |

See Accompanying Auditors' Report

***North Harris County Regional Water Authority
Historical Rates and Charges
December 31, 2018***

| Effective Date | Fee Schedule (Rate Per 1,000 Gallons of Water) |
|-----------------|---|
| January 1, 2000 | \$ 0.12 |
| April 1, 2000 | 0.25 |
| October 1, 2003 | 0.34 |
| April 1, 2005 | 0.59 |
| October 1, 2006 | 0.84 |
| October 1, 2007 | 0.99 |
| October 1, 2008 | 0.99 |
| January 1, 2009 | 1.50 |
| January 1, 2010 | Groundwater 1.75 Surface Water 2.20 |
| January 1, 2011 | Groundwater 1.75 Surface Water 2.20 |
| January 1, 2012 | Groundwater 1.75 Surface Water 2.20 |
| April 1, 2014 | Groundwater 2.00 Surface Water 2.45 |
| April 1, 2016 | Groundwater 2.40 Surface Water 2.85 |
| April 1, 2017 | Groundwater 2.90 Surface Water 3.35 |
| April 1, 2018 | Groundwater 3.40 Surface Water 3.85 |
| April 1, 2019 | Groundwater 3.85 Surface Water 4.30 |

See Accompanying Auditors' Report

***North Harris County Regional Water Authority
Billing and Collection Experience
December 31, 2018***

| <u>Calendar Year Ending</u> | <u>Volume Reported to Subsidence District (gallons)</u> | <u>Volume Reported to Authority (gallons)</u> | <u>Percentage</u> |
|---------------------------------|---|---|-------------------|
| 2002 | 23,385,003,226 | 23,304,243,101 | 99.65% |
| 2003 | 23,922,957,131 | 23,919,899,118 | 99.99% |
| 2004 | 23,055,346,850 | 23,002,955,882 | 99.77% |
| 2005 | 28,356,373,609 | 28,351,195,157 | 99.98% |
| 2006 | 26,834,935,391 | 26,822,777,163 | 99.95% |
| 2007 | 24,218,161,044 | 24,199,057,244 | 99.92% |
| 2008 | 28,302,980,773 | 28,274,930,225 | 99.90% |
| 2009 | 31,526,248,907 | 31,449,510,733 | 99.76% |
| 2010 | 29,420,861,157 | 29,371,543,844 | 99.83% |
| 2011 | 37,728,453,603 | 37,713,940,912 | 99.96% |
| 2012 | 30,901,831,428 | 30,871,013,986 | 99.90% |
| 2013 | 32,260,208,375 | 32,204,714,683 | 99.83% |
| 2014 | 30,122,900,716 | 30,080,759,406 | 99.86% |
| 2015 | 30,100,833,135 | 30,054,229,914 | 99.85% |
| 2016 | 30,697,514,276 | 30,632,783,562 | 99.79% |
| 2017 | 31,429,861,292 | 31,387,086,947 | 99.86% |
| 2018 | 30,029,654,433 | 29,956,463,785 | 99.76% |

See Accompanying Auditors' Report