

FINANCIAL STATEMENTS

December 31, 2019

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**NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
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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, 2019, 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, 2019, 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.

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

McGrath & Co, LLC

Houston, Texas
May 4, 2020

Management's Discussion and Analysis

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***North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2019***

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 a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2019. 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*.

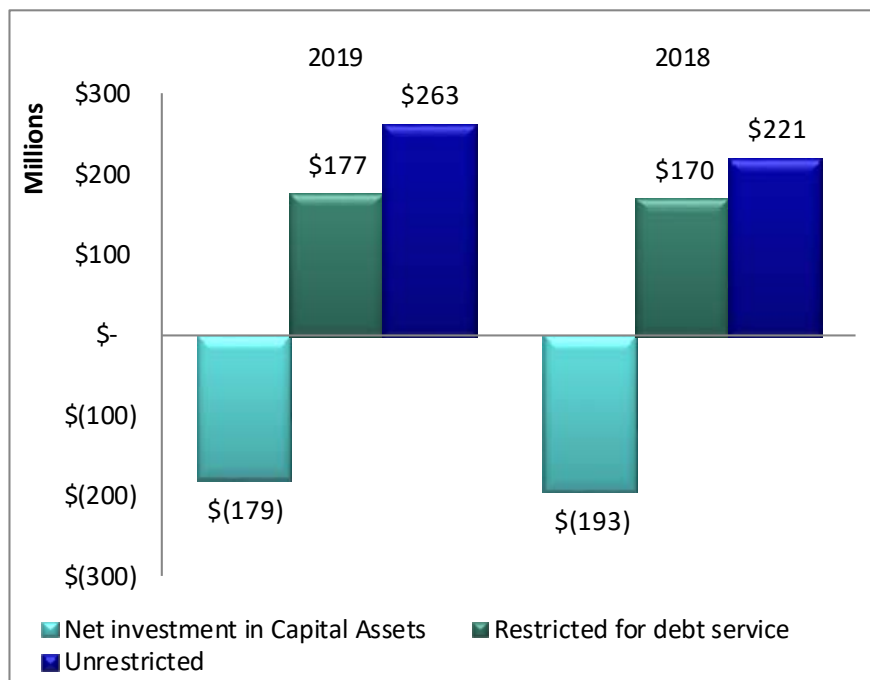
*North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2019*

Financial Analysis of the Authority

The Authority's net position at December 31, 2019, was \$260,641,568. The Authority's overall financial position at December 31, 2019 as compared to the prior year is summarized as follows:

	2019	2018
Current and other assets	\$ 1,504,824,348	\$ 1,378,875,847
Capital assets	620,470,686	485,729,178
Total assets	<u>2,125,295,034</u>	<u>1,864,605,025</u>
Deferred difference on refunding	<u>21,414,963</u>	<u>22,585,640</u>
Current liabilities	40,013,549	38,475,107
Long term liabilities	<u>1,846,054,880</u>	<u>1,651,325,217</u>
Total liabilities	<u>1,886,068,429</u>	<u>1,689,800,324</u>
Net Position		
Net investment in capital assets	(179,425,257)	(193,472,399)
Restricted for debt service	176,585,988	170,099,123
Unrestricted	<u>263,480,837</u>	<u>220,763,617</u>
Total net position	<u>\$ 260,641,568</u>	<u>\$ 197,390,341</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, 2019***

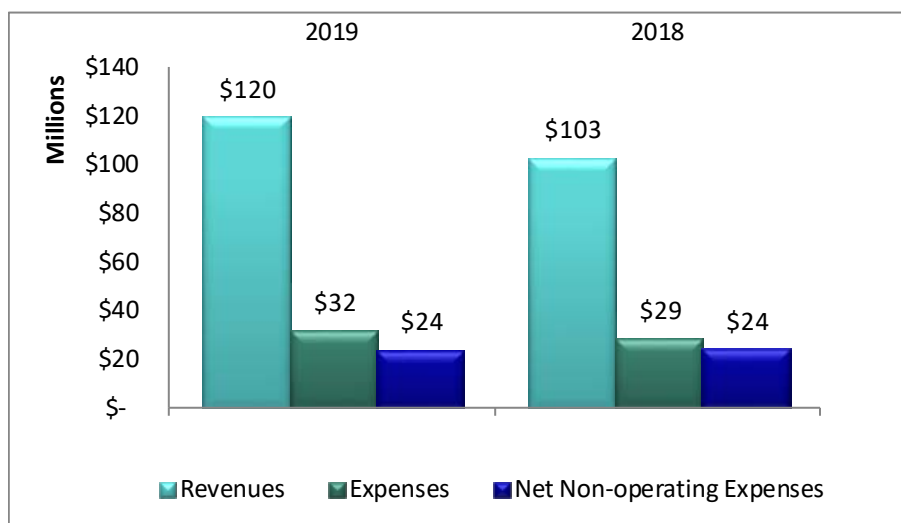
The total net position of the Authority increased during the current fiscal year by \$63,251,227. A comparative summary of the Authority's *Statement of Activities* for the past two years is as follows:

	2019	2018
Operating revenues	\$ 119,748,206	\$ 103,116,787
Operating expenses	<u>(32,112,739)</u>	<u>(28,587,973)</u>
Net operating income	87,635,467	74,528,814
Net non-operating revenue (expense)	<u>(24,384,240)</u>	<u>(24,474,716)</u>
Change in net position	63,251,227	50,054,098
Net position, beginning of year	<u>197,390,341</u>	<u>147,336,243</u>
Net position, end of year	<u><u>\$ 260,641,568</u></u>	<u><u>\$ 197,390,341</u></u>

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 2019 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, 2019***

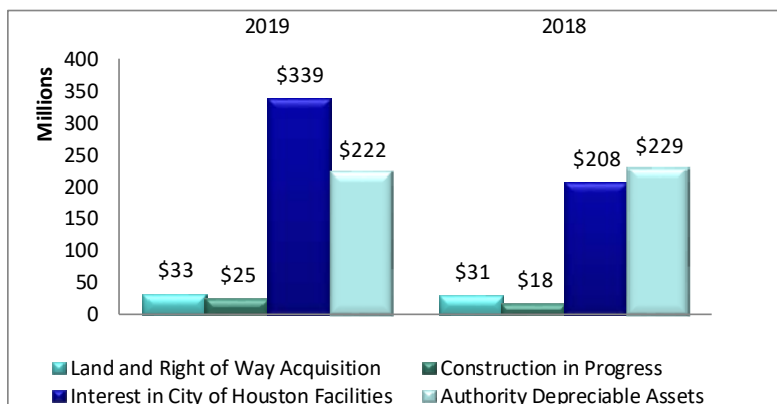
Capital Assets

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, 2019, as compared to the previous year are summarized as follows:

	2019	2018
Capital assets not being depreciated		
Land and ROW acquisition	\$ 33,405,940	\$ 31,124,372
Construction in progress	25,365,705	17,824,069
Non-depreciable capital assets	<u>58,771,645</u>	<u>48,948,441</u>
Capital assets being depreciated or amortized		
Interest in treated water facilities	225,943,327	153,490,871
Interest in transmission facilities	151,958,757	87,204,038
Infrastructure	285,555,164	285,555,164
Furniture, fixtures & equipment	370,149	403,468
	<u>663,827,397</u>	<u>526,653,541</u>
Less accumulated depreciation and amortization		
Interest in treated water facilities	(27,558,903)	(24,242,526)
Interest in transmission facilities	(10,960,307)	(8,369,250)
Infrastructure	(63,366,965)	(57,029,391)
Furniture, fixtures & equipment	(242,181)	(231,637)
Total accumulated depreciation and amortization	<u>(102,128,356)</u>	<u>(89,872,804)</u>
Depreciable capital assets, net	561,699,041	436,780,737
Total capital assets, net	<u>\$ 620,470,686</u>	<u>\$ 485,729,178</u>

Current year capital additions in the amount of \$147,049,603 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 various waterlines and State Highway 249 Regional Pump Station.

The composition of capital assets as of December 31, 2019 and 2018 is as follows:



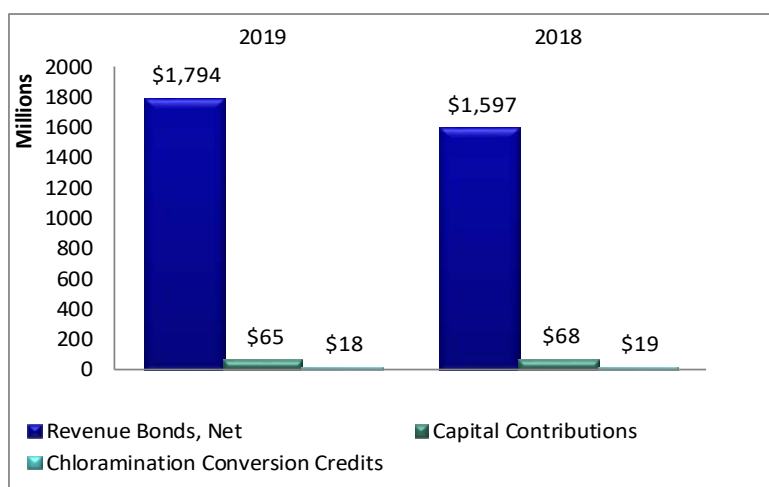
**North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2019**

Long-Term Obligations

During the year, the Authority issued \$230,200,000 in senior lien revenue bonds. The Authority's total long-term obligations as of December 31, 2019, as compared to December 31, 2018, are as follows:

	2019	2018
Chloramination conversion credits payable	\$ 18,300,975	\$ 18,722,699
Capital contributions		
2003	23,411,538	24,544,064
2005	10,996,541	11,446,956
2008	30,994,012	31,921,724
	<u>65,402,091</u>	<u>67,912,744</u>
Revenue bonds		
Series 2013 Senior Lien Refunding	83,040,000	87,310,000
Series 2014 Senior Lien Refunding	60,855,000	63,385,000
Series 2015 Senior Lien	74,295,000	76,360,000
Series 2016 Senior Lien and Refunding	252,155,000	258,125,000
Series 2016A Senior Lien	184,380,000	189,730,000
Series 2017 Senior Lien	381,945,000	391,715,000
Series 2018 Senior Lien	469,345,000	469,345,000
Series 2019 Senior Lien	230,200,000	
Unamortized bond premium	59,521,433	62,284,689
Unamortized bond discount	(1,513,222)	(1,577,123)
	<u>1,794,223,211</u>	<u>1,596,677,566</u>
Accrued compensated absences	87,431	131,240
	<u>\$ 1,878,013,708</u>	<u>\$ 1,683,444,249</u>

The chart below illustrates the composition of the Authority's long-term obligations as of December 31, 2019 and 2018:



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, 2019***

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 2020-2021 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 2020-2021 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 2020-2021 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, 2019*

Significant activities addressed in the 2020-2021 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
- Final design and construction of the initial phase of State Highway 249 Regional Pump Station
- Final 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 for acquisition of real estate, design and construction of the proposed joint transmission line from the NEWPP site to the Authority's take-point and proposed 2025 transmission line
- Pay the Authority's portion of the initial loan costs for the Luce Bayou Interbasin Transfer 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 2020-2021 CIP

The Authority has applied for, and was granted, financing through the Texas Water Development Board ("TWDB") via the State Water Implementation Fund for Texas ("SWIFT") program. During SWIFT program years 2015-2018 the TWDB has committed \$2.076 billion of financial support to the Authority.

North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2019

As illustrated by the table that follows, approximately \$49 million of those Revenue Bonds will be used to implement the 2020-2021 CIP. Additionally, approximately \$572 million of Texas Water Development Board State Water Infrastructure Fund for Texas ("SWIFT) funds are committed to implement the 2020-2021 CIP. The remaining \$31 million will be funded from sources yet to be determined.

Category	Fiscal Year Planned		Project Total
	Authorizations (Thousands)		
	2020	2021	
Acquisition	\$ 3,569	\$ 12,760	\$ 16,329
Design	20,752	8,653	29,405
Construction	103,292	202,460	305,752
Equipment	20		20
Other	154,321	147,059	301,380
Total Authorizations	<u>\$ 281,954</u>	<u>\$ 370,932</u>	<u>\$ 652,886</u>
Source of Funds			
Revenue Bonds	\$ 22,500	\$ 26,507	\$ 49,007
SWIFT Funds	259,094	313,128	572,222
To be determined	360	31,297	31,657
Total Funds	<u>\$ 281,954</u>	<u>\$ 370,932</u>	<u>\$ 652,886</u>

Next Year's Budget

The Authority's 2020 budget as compared to actual results for 2019 is as follows:

	2019 Actual	2020 Budget
Operating revenues	\$ 119,748,206	\$ 106,091,667
Operating expenses	(32,112,739)	(28,216,229)
Net operating income	<u>87,635,467</u>	<u>77,875,438</u>
Non operating revenues (expenses)		
Interest expense	(52,952,947)	(72,585,585)
Interest and fees	30,586,850	5,000,000
Bond issuance costs	(583,439)	
Luce Bayou debt service contribution	(1,584,704)	
Capital contribution	150,000	
Net non-operating expense	<u>(24,384,240)</u>	<u>(67,585,585)</u>
Change in net position	63,251,227	10,289,853
Beginning net position	197,390,341	260,641,568
Ending net position	<u>\$ 260,641,568</u>	<u>\$ 270,931,421</u>

Actual revenues for 2019 are higher than budgeted revenues for 2020 because the Authority takes a conservative approach to budgeting. The budget for 2020 assumes normal rainfall amounts. Expenses fluctuate proportionate with revenues.

*North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2019*

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, 2019*

Assets

Current assets

Cash and cash equivalents	\$ 159,134,187
Investments	87,155,880
Accounts receivable	11,274,320
Accrued interest receivable	1,069,882
Other receivables	10,049
Due from other governments	3,443,537
Total current assets	<u>262,087,855</u>

Noncurrent assets

Restricted cash and cash equivalents	165,857,931
Restricted investments	134,337,264
Cash with escrow agent	941,815,426
Water conservation credits	725,872
Capital assets not being depreciated	58,771,645
Capital assets, net	561,699,041
Total noncurrent assets	<u>1,863,207,179</u>

Total assets	<u>2,125,295,034</u>
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Deferred Outflows of Resources

Deferred difference on refunding	<u>21,414,963</u>
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Liabilities

Current liabilities

Accounts payable	2,356,720
Other payables	2,727
Interest payable on bonds	2,862,602
Current portion of long term liabilities	
Chloramine conversion credits payable	447,028
Capital contributions	2,639,472
Bonds payable	31,705,000
Total current liabilities	<u>40,013,549</u>

Noncurrent liabilities

Accounts payable from restricted assets	2,832,672
Accrued compensated absences	87,431
Long term liabilities due in more than one year	
Chloramine conversion credits payable	17,853,947
Capital contributions	62,762,619
Bonds payable (net of unamortized bond premium and discount)	1,762,518,211
Total noncurrent liabilities	<u>1,846,054,880</u>

Total liabilities	<u>1,886,068,429</u>
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Net Position

Net investment in capital assets	(179,425,257)
Restricted for debt service	176,585,988
Unrestricted	263,480,837
Total net position	<u>\$ 260,641,568</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, 2019*

Operating revenues	
Charges for services	
Water fees	\$ 119,748,206
Total operating revenues	<u>119,748,206</u>
Operating expenses	
Personnel	1,775,479
Professional fees	1,651,951
Purchased water	12,091,279
Contracted services	2,213,035
Occupancy and office	1,106,207
Other	966,693
Depreciation and amortization	12,308,095
Total operating expenses	<u>32,112,739</u>
Net operating income	87,635,467
Non-operating revenues (expenses)	
Interest and fees	(52,952,947)
Investment income	30,586,850
Bond issuance costs	(583,439)
Luce Bayou debt service contribution	(1,584,704)
Capital contribution	150,000
Net non-operating revenues (expenses)	<u>(24,384,240)</u>
Change in net position	63,251,227
Total net position - beginning	197,390,341
Total net position - ending	<u>\$ 260,641,568</u>

See Notes to Financial Statements

North Harris County Regional Water Authority
Statement of Cash Flow
For the Year Ended December 31, 2019

Cash flows from operating activities	
Receipts from customers	\$ 110,128,280
Payments for personnel costs	(1,819,288)
Payments to contractors and vendors	(13,091,180)
Net cash provided by operating activities	<u>95,217,812</u>
Cash flows from capital and related financing activities	
Interest paid	(50,387,870)
Acquisition and construction of capital assets	(7,778,115)
Paid to City of Houston for water supply and transmission facilities	(137,207,175)
Proceeds from sale of bonds, net	230,200,000
Principal payments	(29,955,000)
Bond issuance costs	(583,439)
Paid to City of Houston for Luce Bayou debt service	(1,584,704)
Capital contribution from Harris County	150,000
Net cash provided by capital and related financing activities	<u>2,853,697</u>
Cash flows from investing activities	
Interest received	27,879,938
Payments for investments	(172,073,174)
Deposits into money market accounts	81,658,611
Receipts from investment sales and maturities	86,588,867
Net cash provided (used) by investing activities	<u>24,054,241</u>
Net increase in cash and cash equivalents	122,125,750
Balances - beginning of the year	<u>1,144,681,794</u>
Balances - end of the year	<u><u>\$ 1,266,807,544</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 87,635,467
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	12,308,095
Non-cash revenue from capital contribution credit	(6,018,366)
Non-cash revenue from chloramine conversion credit	(1,545,082)
Change in current assets and liabilities:	
(Increase) decrease in accounts receivable	(2,056,478)
(Increase) decrease in due from other governments	4,766,336
Increase (decrease) in accounts payable	170,316
Increase (decrease) in other payable	1,333
Increase (decrease) in compensated absences	(43,809)
Total adjustments	<u>7,582,345</u>
Net cash provided by operating activities	<u><u>\$ 95,217,812</u></u>
Cash and cash equivalents per balance sheet:	
Cash and cash equivalents	\$ 159,134,187
Restricted cash and cash equivalents	165,857,931
Cash with escrow agent	941,815,426
	<u><u>\$ 1,266,807,544</u></u>

See Notes to Financial Statements

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2019

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.

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).

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, 2019 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.

Note 1 – Summary of Significant Accounting Policies (continued)

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 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 assets or materially extend asset lives are not capitalized.

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

Assets	Years
Interest in facilities	Life of contract
Infrastructure	20-45
Furniture, fixtures, and equipment	5-7

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.

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.

Implementation of New Accounting Standard

During the current fiscal year, the Authority implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which provides guidance on which liabilities should be classified as debt and establishes additional disclosure requirements to improve the usefulness of disclosures related to debt for financial statement users. This statement has minimal impact on the Authority, requiring that information related to direct placements of debt be reported separately from other debt.

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2019

Note 2 – Cash and Investments

Restricted Cash and Investments

Cash and investments were restricted for the following purposes at December 31, 2019:

Bond reserves	\$	179,448,590
Capital improvements		120,746,605
Cash with escrow agent		941,815,426
	\$	<u>1,242,010,621</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, 2019, 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, 2019

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, 2019, 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	\$ 3,718,331	0.7%		\$ 3,718,331
Federal Home Loan Mortgage Corporation	6,320,733	1.2%	4,010,665	2,310,068
Federal Home Loan Bank	36,191,648	6.8%	19,091,047	17,100,601
Federal Farm Credit Bank	17,487,130	3.3%	5,224,869	12,262,261
U.S. Treasury Notes/Bonds	155,485,159	29.2%	73,680,503	81,804,656
TexPool and TexPool Prime	162,077,330	30.5%	162,077,330	
TexSTAR	150,546,553	28.3%	150,546,553	
	<u>\$ 531,826,884</u>	<u>100.0%</u>	<u>\$ 414,630,967</u>	<u>\$ 117,195,917</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 35 days, 36 days and 38 days, respectively. The Authority's investments are rated AAAM 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, 2019 are as follows:

- U.S. Treasury Notes and Bonds: valued at \$155,485,159 based on quoted market prices (level 1 inputs).
- U.S. Government Agency and Instrumentality Securities: valued at \$63,717,842 based on matrix pricing for similar securities (level 2 inputs).
- TexSTAR: valued at \$150,546,553 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, 2019

Note 2 - Cash and Investments (continued)

TexSTAR (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, 2019, follows:

	<u>Beginning Balance</u>	<u>Additions/ Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated			
Land and ROW acquisition	\$ 31,124,372	\$ 2,281,568	\$ 33,405,940
Construction in progress	<u>17,824,069</u>	<u>7,541,636</u>	<u>25,365,705</u>
Non-depreciable capital assets	<u>48,948,441</u>	<u>9,823,204</u>	<u>\$ 58,771,645</u>
Capital assets being depreciated/amortized			
Interest in water facilities	153,490,871	72,452,456	225,943,327
Interest in transmission facilities	87,204,038	64,754,719	151,958,757
Infrastructure	285,555,164		285,555,164
Furniture, fixtures & equipment	<u>350,925</u>	<u>19,224</u>	<u>370,149</u>
Subtotal	<u>526,600,998</u>	<u>137,226,399</u>	<u>\$ 663,827,397</u>
Less accumulated depreciation/amortization			
Interest in water facilities	(24,242,526)	(3,316,377)	(27,558,903)
Interest in transmission facilities	(8,362,898)	(2,597,409)	(10,960,307)
Infrastructure	(57,035,746)	(6,331,219)	(63,366,965)
Furniture, fixtures & equipment	<u>(179,091)</u>	<u>(63,090)</u>	<u>(242,181)</u>
Subtotal	<u>(89,820,261)</u>	<u>(12,308,095)</u>	<u>(102,128,356)</u>
Depreciable capital assets, net	<u>436,780,737</u>	<u>124,918,304</u>	<u>561,699,041</u>
Total capital assets, net	<u>\$ 485,729,178</u>	<u>\$ 134,741,508</u>	<u>\$ 620,470,686</u>

Depreciation and amortization expense for the current year was \$12,308,095.

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. The fifth amendment of the lease was executed in July 2019 and will terminate March 31, 2023. The Authority has also entered into various leases for office equipment.

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2019

Note 4 – Leases (continued)

The Authority paid \$138,762 under these leases during the current year. Future annual commitments for leases are as follows:

<u>Year Ending</u>	<u>Amount</u>
2020	\$ 137,546
2021	149,505
2022	153,491
2023	38,705
	<u>\$ 479,247</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	\$ 131,240
Increase/(decrease) in liability	(43,809)
Balance at end of year	<u>\$ 87,431</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. As previously noted, the Authority implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* during the current fiscal year. This statement requires that information related to direct placement bonds be reported separately from other debt. For these purposes, the Authority considers bonds sold directly to the Texas Water Development Board to be direct placement bonds.

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

	<u>General Bonds</u>	<u>Direct Placement Bonds</u>	<u>Total</u>
Bonds payable	\$ 396,050,000	\$ 1,340,165,000	\$ 1,736,215,000
Unamortized premiums	59,521,433	-	59,521,433
Unamortized discounts	(1,513,222)	-	(1,513,222)
Total	<u>\$ 454,058,211</u>	<u>\$ 1,340,165,000</u>	<u>\$ 1,794,223,211</u>
Due within one year	<u>\$ 13,370,000</u>	<u>\$ 18,335,000</u>	<u>\$ 31,705,000</u>

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2019

Note 6 – Senior Lien Revenue Bonds (continued)

The Authority's outstanding bonds payable at December 31, 2019 are comprised of the following individual issues:

Series	Amounts Outstanding	Original Issue Amount	Interest Rates and Key Dates	
General Bonds				
2013 Refunding	\$ 83,040,000	\$ 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	60,855,000	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
2016 and Refunding	252,155,000	258,125,000	Interest Rates	5.00%
			Principal Payments	December 15, 2019/2046
			Interest Payments	June 15 & December 15
			Callable	December 15, 2026
Direct Placement Bonds				
2015	74,295,000	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
2016A	184,380,000	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	381,945,000	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
2019	230,200,000	230,200,000	Interest Rates	1.07% - 2.83%
			Principal Payments	December 15, 2021/2049
			Interest Payments	June 15 & December 15
			Callable	December 15, 2029
	\$ 1,736,215,000	\$ 1,803,700,000		

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*North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2019*

Note 6 – Senior Lien Revenue Bonds (continued)

As of December 31, 2019, 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, 2019, the Authority issued its fifth series of SWIRFT bonds, the \$230,200,000 Series 2019 Senior Lien Revenue Bonds. As of December 31, 2019, the remaining SWIRFT bond commitment is as follows:

Total commitment from TWDB	\$ 2,075,995,000
SWIRFT bonds issued	<u>(1,366,745,000)</u>
Remaining commitment	<u><u>\$ 709,250,000</u></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:

	General Bonds	Direct Placement Bonds	Total
Beginning balance	\$ 408,820,000	\$ 1,127,150,000	\$ 1,535,970,000
Bonds issued	-	230,200,000	230,200,000
Bonds retired	<u>(12,770,000)</u>	<u>(17,185,000)</u>	<u>(29,955,000)</u>
Ending balance	<u><u>\$ 396,050,000</u></u>	<u><u>\$ 1,340,165,000</u></u>	<u><u>\$ 1,736,215,000</u></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, 2019, the Authority had cash equivalents in the amount of \$34,949,273 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, 2019, the Authority had cash equivalents and investments in the amount of \$116,675,248 in the Reserve Fund.

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2019

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, 2019, was \$27,824,068. The Authority has cash equivalents and investments in the amount of \$55,600,706 in this fund, of which \$27,776,638 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, 2019 was \$3,845,000. The Authority has cash equivalents and investments in the amount of \$4,709,868 in this fund, of which \$864,868 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:

	2019	2018
Net operating income per financial statements	\$ 87,635,467	\$ 74,528,814
Add back depreciation and amortization	<u>12,308,095</u>	<u>9,992,214</u>
Net revenues for debt service	99,943,562	84,521,028
Add:		
Coverage fund	55,600,706	29,354,126
Improvement fund	<u>188,557,673</u>	<u>134,864,982</u>
Adjusted net revenues	<u>\$ 344,101,941</u>	<u>\$ 248,740,136</u>
Debt Service Requirements	<u>\$ 86,235,127</u>	<u>\$ 80,342,867</u>
Debt service coverage	1.16	1.05
Adjusted debt service coverage	3.99	3.10

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2019

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, 2019, the debt service requirements on the Senior Bonds outstanding are as follows:

Year	General Bonds		Direct Placement Bonds	
	Principal	Interest	Principal	Interest
2020	\$ 13,370,000	\$ 18,104,369	\$ 18,335,000	\$ 36,425,758
2021	13,940,000	17,528,669	19,015,000	35,788,832
2022	16,020,000	16,848,669	19,225,000	35,596,804
2023	16,760,000	16,096,269	19,455,000	35,379,530
2024	17,545,000	15,308,769	19,725,000	35,136,024
2025	18,295,000	14,570,419	20,010,000	34,868,076
2026	19,215,000	13,655,669	20,330,000	34,574,548
2027	20,165,000	12,694,919	20,660,000	34,254,266
2028	21,050,000	11,807,269	36,310,000	33,899,922
2029	21,985,000	10,868,969	45,065,000	33,155,914
2030	23,015,000	9,850,118	46,055,000	32,216,902
2031	24,165,000	8,699,368	47,150,000	31,182,113
2032	25,335,000	7,527,256	48,350,000	30,046,421
2033	26,580,000	6,287,194	49,605,000	28,824,079
2034	19,795,000	5,021,000	50,950,000	27,518,751
2035	20,780,000	4,031,250	52,395,000	26,141,889
2036	16,110,000	3,147,150	53,895,000	24,703,590
2037	16,600,000	2,663,850	55,480,000	23,185,625
2038	17,260,000	1,999,850	57,150,000	21,591,691
2039	3,005,000	1,309,450	58,875,000	19,912,369
2040	3,125,000	1,189,250	60,680,000	18,184,381
2041	3,250,000	1,064,250	62,585,000	16,360,443
2042	3,380,000	934,250	64,540,000	14,476,163
2043	3,550,000	765,250	66,605,000	12,503,732
2044	3,730,000	587,750	68,730,000	10,453,738
2045	3,915,000	401,250	70,940,000	8,268,088
2046	4,110,000	205,500	69,075,000	6,003,816
2047	-	-	61,720,000	3,801,479
2048	-	-	43,255,000	1,822,039
2049	-	-	14,000,000	396,200
	<u>\$ 396,050,000</u>	<u>\$ 203,167,976</u>	<u>\$ 1,340,165,000</u>	<u>\$ 706,673,174</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, 2019*

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, 2019 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Remaining Balance</u>
2020	\$ 2,639,472	\$ 3,378,913	\$ 6,018,385	\$ 62,762,619
2021	2,774,899	3,243,486	6,018,385	59,987,720
2022	2,917,283	3,101,102	6,018,385	57,070,437
2023	3,066,987	2,951,398	6,018,385	54,003,450
2024	3,224,385	2,794,000	6,018,385	50,779,065
2025	3,389,874	2,628,511	6,018,385	47,389,191
2026	3,563,869	2,454,516	6,018,385	43,825,322
2027	3,746,812	2,271,573	6,018,385	40,078,510
2028	3,939,161	2,079,224	6,018,385	36,139,349
2029	4,141,399	1,876,986	6,018,385	31,997,950
2030	4,354,038	1,664,347	6,018,385	27,643,912
2031	4,577,613	1,440,772	6,018,385	23,066,299
2032	4,812,687	1,205,698	6,018,385	18,253,612
2033	5,059,604	958,534	6,018,138	13,194,008
2034	2,945,877	698,666	3,644,543	10,248,131
2035	3,099,114	545,475	3,644,589	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>\$ 65,402,091</u>	<u>\$ 34,075,201</u>	<u>\$ 99,477,292</u>	

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

Capital contributions, beginning balance	\$ 67,912,744
Principal repayments	(2,510,653)
Capital contributions, ending balance	<u>\$ 65,402,091</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, 2019, 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, 2019

Note 8 – Chloramination Conversion Credits (continued)

During the current fiscal year, the Authority reimbursed \$421,724 in principal and \$1,123,358 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	\$ 18,722,699
Principal repayments	(421,724)
Chloramine credits payable, end of year	<u>\$ 18,300,975</u>

As of December 31, 2019, 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>
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>\$ 18,300,975</u>	<u>\$ 14,591,112</u>	<u>\$ 32,892,087</u>	

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2019

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 \$263,480,837, is \$188,557,673 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, 2019, all of the Authority's employees were members of the Plan. Non-vested contributions are immaterial to total contributions at December 31, 2019. Vested contributions are solely the possession of participating employees. Total covered payroll was \$1,385,276 for the year ended December 31, 2019. Employer contributions to the Plan were \$119,465.

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, 2019, the net amount owed to the Authority by the City of Houston for the true-up for Houston’s fiscal year ended June 30, 2019 is \$3,443,537, 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 the first quarter of 2021. 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, 2019, 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 \$1,584,704 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.

On June 3, 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 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 Use Fee for any party exceeding its capacity interest in the Expansion (113 MGD for the Authority) of \$3.84 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 for future rebalancing of each parties interest in NEWPP capacity by leasing that capacity from one participant to another.

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. During the current year, the Authority paid Houston \$72,452,456 in cash call withdrawals from the escrow account and has \$192,819,014 remaining in escrow as of December 31, 2019.

Note 12 – Water Supply Contracts (continued)

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. During the current fiscal year, the Authority incurred costs of \$2,190,031 for its pro-rata share of project costs incurred.

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 \$63,660,438 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 \$62,564,688 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

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

	2019	2018	2017	2016	2015
Personnel					
Employee salaries	\$ 1,385,276	\$ 1,322,972	\$ 1,346,367	\$ 1,143,146	\$ 955,192
Employee retirement	119,465	113,484	117,303	104,607	88,977
Group insurance	181,342	169,776	152,197	113,838	104,225
Medicare/ Social security	87,973	83,764	84,594	73,522	59,232
Unemployment compensation	1,423	1,458	1,499	1,540	62
	<u>1,775,479</u>	<u>1,691,454</u>	<u>1,701,960</u>	<u>1,436,653</u>	<u>1,207,688</u>
Professional fees					
Legal	231,347	258,640	213,773	269,269	150,616
Engineering	1,097,161	77,060	143,259	554,388	1,702,550
Financial services	3,240	2,700	2,970	3,510	4,860
Legislative consultant	151,667	130,000	130,000	130,000	130,000
Investment management services	127,836	94,472	98,297	102,891	142,930
Redistricting/mapping		9,000		6,960	
Audit	40,700	35,500	30,500	28,050	27,500
	<u>1,651,951</u>	<u>607,372</u>	<u>618,799</u>	<u>1,095,068</u>	<u>2,158,456</u>
Purchased Services					
Bulk water purchases	12,091,279	12,236,705	11,313,413	9,519,465	13,725,609
	<u>12,091,279</u>	<u>12,236,705</u>	<u>11,313,413</u>	<u>9,519,465</u>	<u>13,725,609</u>
Contracted services					
Operations and maintenance	2,188,815	1,826,317	2,392,895	2,172,966	1,983,564
Temporary services	24,220	9,745	12,375	11,850	4,960
	<u>2,213,035</u>	<u>1,836,062</u>	<u>2,405,270</u>	<u>2,184,816</u>	<u>1,988,524</u>
Occupancy and office					
Office lease	125,195	120,267	124,305	120,913	110,017
Safe deposit box	75		75		
Bank charges	11,117	15,192	16,229	6,227	4,202
Printing and office	128,198	90,587	57,734	184,943	102,404
Postage and delivery	39,797	39,031	3,514	73,384	38,807
Telephone	60,713	51,919	50,863	50,494	47,906
Utilities	607,985	673,432	644,197	578,632	715,751
Equipment leases	13,566	15,044	14,797	15,673	14,810
Internet service	37,891	40,155	42,560	45,450	38,376
Communication services	81,670	76,152	75,000	72,000	72,000
	<u>1,106,207</u>	<u>1,121,779</u>	<u>1,029,274</u>	<u>1,147,716</u>	<u>1,144,273</u>

See Accompanying Auditors' Report

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

	2019	2018	2017	2016	2015
Other					
Director fees	\$ 21,300	\$ 24,900	\$ 21,600	\$ 23,700	\$ 25,650
Election expense					31,956
Technology transfer projects	56,806	52,404	56,082	41,888	34,788
Insurance	98,148	80,527	80,504	78,404	80,917
Travel	51,602	53,329	56,479	43,301	37,065
Legal notices					
Membership/Subscription fees	9,712	12,367	19,632	15,238	13,035
Computer services	40,836	13,157	38,466	7,172	11,295
Computer software and equipment	18,337	19,378	18,737	12,844	9,200
Maintenance and repairs	8,969	14,325	25,474	15,191	5,864
Office furniture	2,036	1,271	2,794	3,240	1,300
Public education					
Water conservation	61,686	52,126	48,859	43,739	48,845
Mileage reimbursement	8,266	8,238	8,269	6,196	6,788
Permit fees	568,421	672,875	573,095	508,025	506,700
Seminars/training	13,125	10,930	13,112	13,660	9,950
Security	7,449	5,489	5,909	936	830
Miscellaneous		81,071	137,988	145,227	21,621
	<u>966,693</u>	<u>1,102,387</u>	<u>1,107,000</u>	<u>958,761</u>	<u>845,804</u>
Expenses Before Depreciation and Amortization	<u>19,804,644</u>	<u>18,595,759</u>	<u>18,175,716</u>	<u>16,342,479</u>	<u>21,070,354</u>
Depreciation and Amortization	<u>12,308,095</u>	<u>9,992,214</u>	<u>8,405,517</u>	<u>7,979,761</u>	<u>7,637,169</u>
Total Expenses	<u>\$ 32,112,739</u>	<u>\$ 28,587,973</u>	<u>\$ 26,581,233</u>	<u>\$ 24,322,240</u>	<u>\$ 28,707,523</u>

See Accompanying Auditors' Report

***North Harris County Regional Water Authority
Schedule of Principal Water Users
December 31, 2019***

Name	Total Gallons	Fees Paid	Share (%)
NW Harris Co. M.U.D. 5	1,108,204,382	\$ 4,289,195	3.6209%
Harris Co. M.U.D. 358	1,035,521,039	3,986,756	3.3834%
Harris Co. M.U.D. 387	946,861,039	3,645,415	3.0937%
Tomball, City of	803,742,779	3,094,410	2.6261%
Bridgestone M.U.D.	727,068,292	2,841,720	2.3756%
Harris Co. F.W.S.D. 61	701,666,688	2,701,417	2.2926%
Harris Co. M.U.D. 367 & 383	578,170,659	2,414,227	1.8891%
Timber Lane U.D.	557,371,675	2,145,881	1.8211%
Aqua Texas, Inc.	507,620,600	1,987,048	1.6586%
Harris Co. M.U.D. 24	483,313,965	1,959,027	1.5791%
Subtotal	7,449,541,118	29,065,095	24.3401%
All other retail utilities	22,665,445,392	83,561,956	74.0553%
All private well owners	491,103,955	2,853,250	1.6046%
Total	30,606,090,465	\$ 115,480,301	100.0000%

See Accompanying Auditors' Report

*North Harris County Regional Water Authority
Historical Rates and Charges
December 31, 2019*

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
July 1, 2020	Groundwater	4.25
* COVID 19 Postponement	Surface Water	4.70

See Accompanying Auditors' Report

***North Harris County Regional Water Authority
Billing and Collection Experience
December 31, 2019***

<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%
2019	30,641,337,668	30,606,090,465	99.88%

See Accompanying Auditors' Report