



FINANCIAL STATEMENTS

December 31, 2022

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**NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
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McGRATH & CO., PLLC

Certified Public Accountants

2900 North Loop West, Suite 880

Houston, Texas 77092

Independent Auditors' Report

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

Opinion

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, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of North Harris County Regional Water Authority, as of December 31, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Authority implemented GASB Statement No. 87, *Leases* and GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* during the current fiscal year. Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Supplementary Information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

McGuire & Co, P.C.

Houston, Texas
May 1, 2023

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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, 2022***

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, 2022. 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 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*, the 3) *Statement of Cash Flows*, and 4) *Notes to the Financial Statements*. 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*.

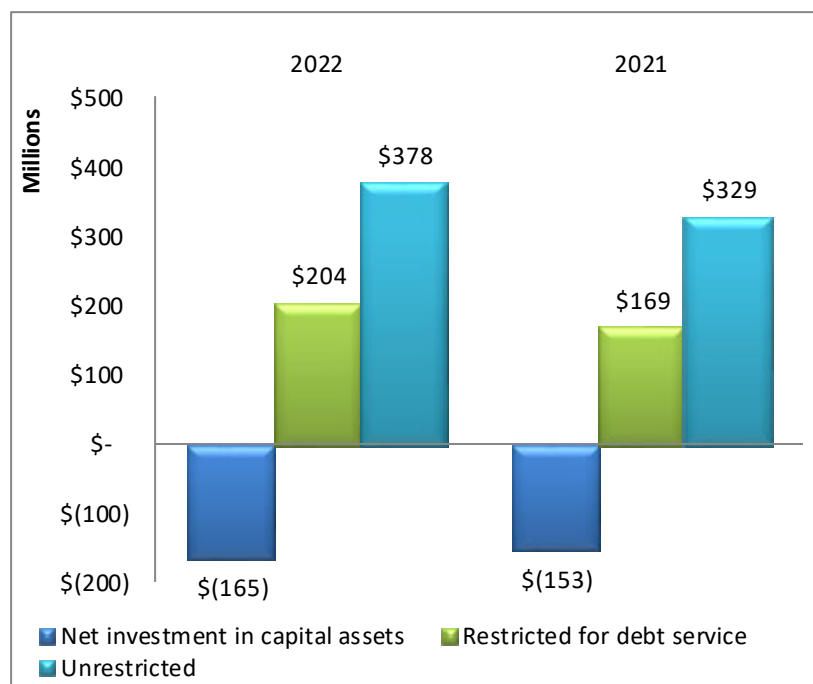
**North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2022**

Financial Analysis of the Authority

The Authority's net position at December 31, 2022, was \$417,442,058. A comparative summary of the Authority's overall financial position, as of December 31, 2022 and 2021 is as follows:

	2022	2021
Current and other assets	\$ 1,238,219,560	\$ 1,199,476,453
Capital assets	1,293,546,829	1,067,021,781
Total assets	<u>2,531,766,389</u>	<u>2,266,498,234</u>
Deferred outflows of resources	<u>17,902,932</u>	<u>19,073,609</u>
Current liabilities	47,006,677	43,829,813
Long term liabilities	<u>2,085,220,586</u>	<u>1,897,135,551</u>
Total liabilities	<u>2,132,227,263</u>	<u>1,940,965,364</u>
Net Position		
Net investment in capital assets	(165,060,795)	(152,857,868)
Restricted for debt service	204,439,796	168,791,504
Unrestricted	<u>378,063,057</u>	<u>328,672,843</u>
Total net position	<u>\$ 417,442,058</u>	<u>\$ 344,606,479</u>

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



During the current fiscal year, the Authority implemented GASB Statement 87, *Leases*, which requires the recognition of capital assets and obligations for leases. In accordance with this standard, the Authority recognized a right-to-use leased asset and lease obligation for its office lease measured at the present value of remaining lease payments as of the beginning of the current fiscal year. Prior year data has not been restated to include values for this right-to-use leased asset or lease obligation

**North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2022**

and, as a result, the presentation of prior year data as it relates to leases is not consistent with the current year presentation (see Notes 2 and 5).

The total net position of the Authority increased during the current fiscal year by \$72,835,579. A comparative summary of the Authority's *Statement of Revenues, Expenses, and Changes in Net Position* for the past two years is as follows:

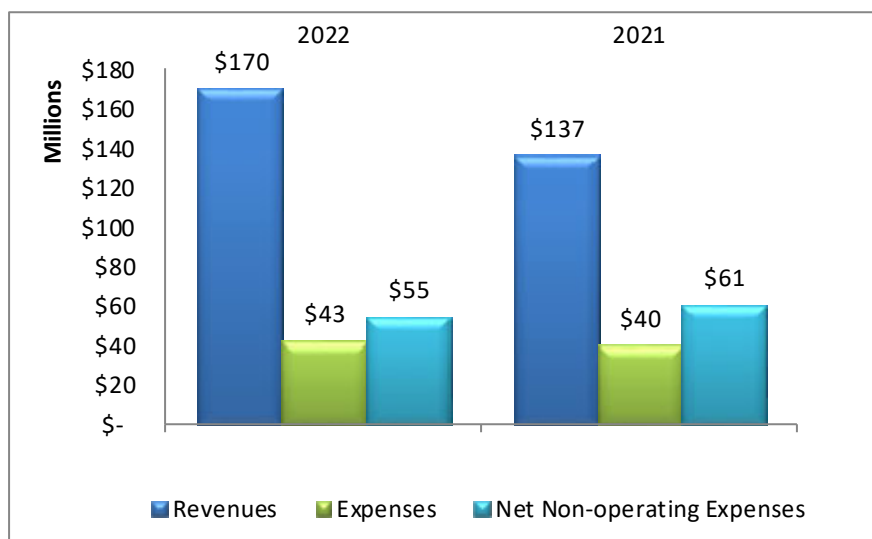
	2022	2021
Operating revenues	\$ 170,240,335	\$ 136,537,469
Operating expenses	<u>(42,667,534)</u>	<u>(40,142,917)</u>
Net operating income	127,572,801	96,394,552
Net non-operating revenue (expense)	<u>(54,737,222)</u>	<u>(60,654,634)</u>
Change in net position	72,835,579	35,739,918
Net position, beginning of year	344,606,479	308,866,561
Net position, end of year	<u>\$ 417,442,058</u>	<u>\$ 344,606,479</u>

Non-operating revenues and non-operating expenses consist of interest income from the Authority's investments, interest expense from the Authority's debt, debt service contribution for bonds related to the Luce Bayou project, and issuance costs for the Series 2022 Bonds.

As previously noted, the Authority implemented GASB 87 during the current year. As a result, prior year data is not consistent with current year data for the same leases which are measured, classified and presented differently.

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, 2022*

Capital Assets

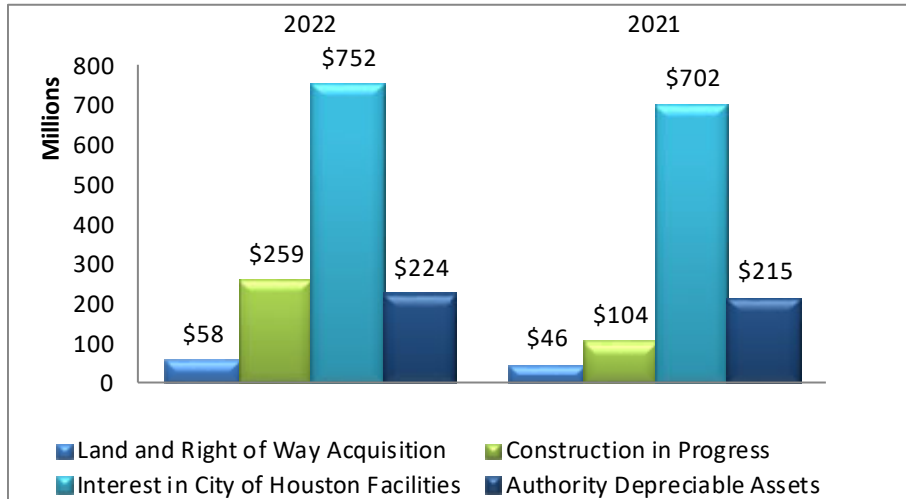
The Authority's capital assets primarily consist of land, construction in progress, infrastructure, right-to-use lease and the Authority's interest in City of Houston treated water facilities and water transmission facilities. Capital assets held by the Authority at December 31, 2022 and 2021 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Capital assets not being depreciated		
Land and ROW acquisition	\$ 57,858,034	\$ 46,255,441
Construction in progress	<u>259,407,959</u>	<u>103,633,783</u>
Non-depreciable capital assets	<u>317,265,993</u>	<u>149,889,224</u>
Capital assets being depreciated or amortized		
Interest in treated water facilities	566,068,076	502,358,214
Interest in transmission facilities	259,952,414	259,928,505
Infrastructure	307,293,158	291,484,347
Furniture, fixtures & equipment	413,396	383,826
Right-to-use lease	175,155	
	<u>1,133,902,199</u>	<u>1,054,154,892</u>
Less accumulated depreciation and amortization		
Interest in treated water facilities	(49,659,206)	(40,588,906)
Interest in transmission facilities	(24,151,435)	(19,754,117)
Infrastructure	(83,291,472)	(76,313,363)
Furniture, fixtures & equipment	(379,126)	(365,949)
Right-to-use lease	(140,124)	
Total accumulated depreciation and amortization	<u>(157,621,363)</u>	<u>(137,022,335)</u>
Depreciable capital assets, net	<u>976,280,836</u>	<u>917,132,557</u>
Total capital assets, net	<u>\$ 1,293,546,829</u>	<u>\$ 1,067,021,781</u>

Current year capital additions primarily consist of the Authority's share of the City of Houston's Northeast Water Purification Plant expansion project and treated water transmission lines. Construction in progress is primarily for engineering fees and construction costs of various waterlines and State Highway 249 regional pump station. Additionally, the Authority implemented GASB 87 as of the beginning of the current fiscal year. As a result, the Authority recognized a right-to-use leased asset and lease obligation. (See Note 2).

*North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2022*

The composition of capital assets as of December 31, 2022 and 2021, is as follows:



Lease Obligations

The Authority has entered into a lease obligation for office space. The Authority recognized a right-to-use leased asset and lease obligation in the amount of \$175,155 for this lease. The balance due for the lease as of December 31, 2022, was \$36,713.

*North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2022*

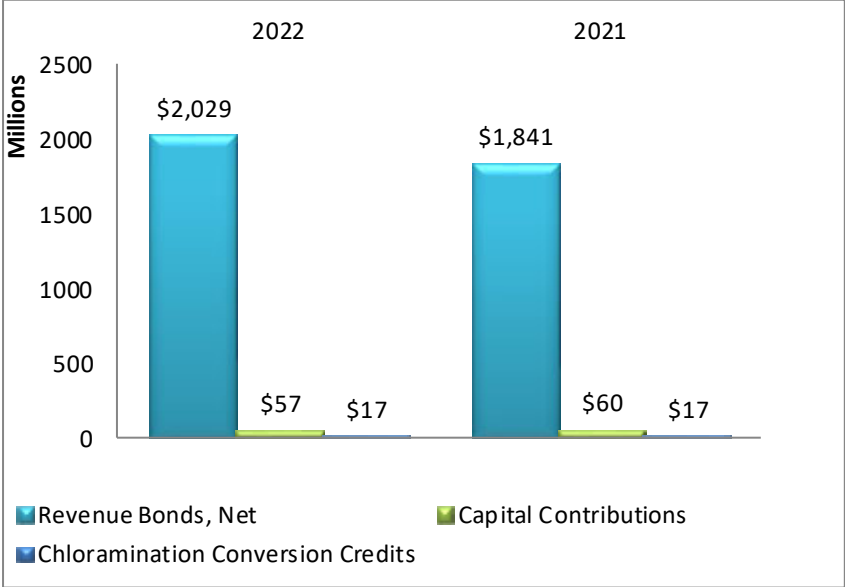
Long-Term Obligations

During the year, the Authority issued \$225,840,000 in senior lien revenue bonds. A comparative summary of the Authority's long-term obligations, as of December 31, 2022 and 2021 is as follows:

	2022	2021
Chloramination conversion credits payable	<u>\$ 16,877,816</u>	<u>\$ 17,380,097</u>
Capital contributions		
2003	19,658,614	20,971,791
2005	9,511,059	10,029,643
2008	27,900,790	28,986,296
	<u>57,070,463</u>	<u>59,987,730</u>
Revenue bonds		
Series 2013 Senior Lien Refunding	69,060,000	73,920,000
Series 2014 Senior Lien Refunding	52,640,000	55,505,000
Series 2015 Senior Lien	67,940,000	70,090,000
Series 2016 Senior Lien and Refunding	231,020,000	239,315,000
Series 2016A Senior Lien	168,115,000	173,580,000
Series 2017 Senior Lien	351,990,000	362,100,000
Series 2018 Senior Lien	466,345,000	467,345,000
Series 2019 Senior Lien	229,200,000	229,700,000
Series 2020 Senior Lien	78,510,000	78,670,000
Series 2021 Senior Lien	38,530,000	38,530,000
Series 2022 Senior Lien	225,840,000	
Unamortized bond premium	51,231,669	53,994,924
Unamortized bond discount	(1,321,523)	(1,385,423)
	<u>2,029,100,146</u>	<u>1,841,364,501</u>
Accrued compensated absences	270,401	154,006
	<u>\$ 2,103,318,826</u>	<u>\$ 1,918,886,334</u>

**North Harris County Regional Water Authority
 Management’s Discussion and Analysis
 December 31, 2022**

The chart below illustrates the composition of the Authority’s long-term obligations as of December 31, 2022 and 2021:



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 7, the Authority’s master resolution 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 bond 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 2023-2024 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 \$3 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. The disincentive fee is \$9.80 per 1,000

***North Harris County Regional Water Authority
Management’s Discussion and Analysis
December 31, 2022***

gallons for fiscal year 2022. During years where the Authority exceeded conversion requirements, the Authority accumulated over-conversion credits. These credits may be used to increase future authorized withdrawals and offset potential disincentive fees. Permittees with an approved groundwater reduction plan (“GRP”) may transfer over-conversion credits to another permittee with an approved GRP within regulatory area three and upon meeting certain conditions set forth by the Harris-Galveston Subsidence District. The following table shows the amount of over-conversion credits and the years in which they were earned.

<u>Year</u>	<u>Gallons</u>
2010	1,803,500,000
2011	123,600,000
2012	-
2013	1,187,600,000
2014	1,079,400,000
2015	764,200,000
2016	892,600,000
2017	1,014,100,000
2018	512,200,000
2019	751,500,000
2020	530,700,000
2021	<u>238,730,000</u>
Total	<u><u>8,898,130,000</u></u>

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 2023-2024 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.

The 2023-2024 CIP continues the systematic planning and development process and is based on the conversion schedule and prioritized based on cost effectiveness. The primary focus of the 2023-2024 CIP is to continue to complete the infrastructure required to enable the Authority to meet the HGSD’s 2025 conversion requirement and initiate projects to meet the 2035 conversion requirement.

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

As illustrated by the table that follows, approximately \$6 million of Revenue Bonds will be used to implement the 2023-2024 CIP. Additionally, approximately \$469 million of SWIRFT funds and \$15 million of Participation Funds are committed to implement the 2023-2024 CIP.

North Harris County Regional Water Authority
Management's Discussion and Analysis
December 31, 2022

The remaining approximately \$33 million will be funded from sources yet to be determined.

Category	Fiscal Year Planned		Project Total
	Authorizations (Thousands)		
	2023	2024	
Acquisition	\$ 26,911	\$ 16,092	\$ 43,003
Design	24,547	21,156	45,703
Construction	206,299	55,123	261,422
Other	87,695	85,689	173,384
Total Authorizations	<u>\$ 345,452</u>	<u>\$ 178,060</u>	<u>\$ 523,512</u>
Source of Funds			
Revenue Bonds	\$ 2,995	\$ 3,389	\$ 6,384
SWIFT Funds	318,408	150,782	469,190
Participation Funds	3,191	11,535	14,726
Other	20,858	12,354	33,212
Total Funds	<u>\$ 345,452</u>	<u>\$ 178,060</u>	<u>\$ 523,512</u>

Next Year's Budget

The Authority's 2023 budget as compared to actual results for 2022 is as follows:

	2022 Actual	2023 Budget
Operating revenues	\$ 170,240,335	\$ 104,050,000
Operating expenses	(42,667,534)	(28,437,285)
Net operating income	<u>127,572,801</u>	<u>75,612,715</u>
Non operating revenues (expenses)		
Interest expense	(58,367,833)	(94,124,064)
Investment income	6,884,331	100,000
Bond issuance costs	(581,420)	
Luce Bayou debt service contribution	(2,672,300)	
Net non-operating expense	<u>(54,737,222)</u>	<u>(94,024,064)</u>
Change in net position	72,835,579	(18,411,349)
Beginning net position	344,606,479	417,442,058
Ending net position	<u>\$ 417,442,058</u>	<u>\$ 399,030,709</u>

Actual revenues for 2022 are higher than budgeted revenues for 2023 because the Authority takes a conservative approach to budgeting and the Authority approved a rate reduction for 2023, which decreased anticipated revenues. Additionally, an exceptional drought year contributed to higher water usage volumes and higher revenues in 2022. The budget for 2023 assumes normal rainfall amounts. Expenses fluctuate proportionate with revenues.

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 Finance Director, 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, 2022*

Assets

Current assets

Cash and cash equivalents	\$ 271,788,881
Investments	86,972,574
Accounts receivable	19,685,612
Accrued interest receivable	452,849
Due from other governments	1,446,460
Total current assets	<u>380,346,376</u>

Noncurrent assets

Restricted cash and cash equivalents	175,286,461
Restricted investments	134,326,081
Cash equivalents with escrow agent	547,534,770
Water conservation credits	725,872
Capital assets not being depreciated	317,265,993
Capital assets, net	<u>976,280,836</u>
Total noncurrent assets	<u>2,151,420,013</u>

Total assets

2,531,766,389

Deferred Outflows of Resources

Deferred difference on refunding	<u>17,902,932</u>
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Liabilities

Current liabilities

Accounts payable	3,676,094
Other payables	51,099
Interest payable on bonds	3,168,364
Current portion of long term liabilities	
Chloramine conversion credits payable	532,417
Capital contributions	3,066,990
Bonds payable	36,475,000
Lease payable	<u>36,713</u>
Total current liabilities	<u>47,006,677</u>

Noncurrent liabilities

Accounts payable from restricted assets	12,444,224
Retainage payable from restricted assets	9,531,943
Accrued compensated absences	270,401
Long term liabilities due in more than one year	
Chloramine conversion credits payable	16,345,399
Capital contributions	54,003,473
Bonds payable (net of unamortized bond premium and discount)	<u>1,992,625,146</u>
Total noncurrent liabilities	<u>2,085,220,586</u>

Total liabilities

2,132,227,263

Net Position

Net investment in capital assets	(165,060,795)
Restricted for debt service	204,439,796
Unrestricted	<u>378,063,057</u>
Total net position	<u>\$ 417,442,058</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, 2022*

Operating revenues	
Charges for services	
Water fees	\$ 170,240,335
Total operating revenues	<u>170,240,335</u>
Operating expenses	
Personnel	2,417,025
Professional fees	1,485,789
Purchased water	13,461,886
Contracted services	1,870,947
Occupancy and office	944,557
Other	1,888,302
Depreciation and amortization	20,599,028
Total operating expenses	<u>42,667,534</u>
Net operating income	127,572,801
Non-operating revenues (expenses)	
Interest and fees	(58,367,833)
Investment income	6,884,331
Bond issuance costs	(581,420)
Luce Bayou debt service contribution	(2,672,300)
Net non-operating revenues (expenses)	<u>(54,737,222)</u>
Change in net position	72,835,579
Total net position - beginning	344,606,479
Total net position - ending	<u>\$ 417,442,058</u>

See Notes to Financial Statements

North Harris County Regional Water Authority
Statement of Cash Flows
For the Year Ended December 31, 2022

Cash flows from operating activities	
Receipts from customers	\$ 156,649,404
Payments for personnel costs	(2,300,630)
Payments to contractors and vendors	(18,228,593)
Net cash provided by operating activities	<u>136,120,181</u>
Cash flows from capital and related financing activities	
Interest paid	(55,093,232)
Acquisition and construction of capital assets	(178,487,924)
Paid to City of Houston for water supply and transmission facilities	(63,733,771)
Proceeds from sale of bonds, net	225,840,000
Principal payments (bonded debt and lease obligations)	(35,368,287)
Bond issuance costs	(581,420)
Paid to City of Houston for Luce Bayou debt service	(2,672,300)
Net cash used by capital and related financing activities	<u>(110,096,934)</u>
Cash flows from investing activities	
Interest received	13,475,782
Payments for investments	(79,474,985)
Net deposits into money market accounts	(8,798,959)
Receipts from investment maturities	86,525,000
Net cash provided by investing activities	<u>11,726,838</u>
Net increase in cash and cash equivalents	37,750,085
Balances - beginning of the year	<u>956,860,027</u>
Balances - end of the year	<u><u>\$ 994,610,112</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 127,572,801
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	20,599,028
Non-cash revenue from capital contribution credit	(6,018,364)
Non-cash revenue from chloramine conversion credit	(1,545,083)
Change in current assets and liabilities:	
(Increase) decrease in accounts receivable	(6,027,484)
(Increase) decrease in due from other governments	191,955
Increase (decrease) in accounts payable	1,182,147
Increase (decrease) in other payable	48,786
Increase (decrease) in compensated absences	116,395
Total adjustments	<u>8,547,380</u>
Net cash provided by operating activities	<u><u>\$ 136,120,181</u></u>
Cash and cash equivalents per balance sheet:	
Cash and cash equivalents	\$ 271,788,881
Restricted cash and cash equivalents	175,286,461
Cash equivalents with escrow agent	547,534,770
	<u><u>\$ 994,610,112</u></u>

See Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

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

Creation

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.

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 *Statement of Net Position*, the *Statement of Revenues, Expenses and Changes in Net Position*, the *Statement of Cash Flows*, and the *Notes to the Financial Statements*. These statements focus on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from these activities for the fiscal year.

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, money market mutual funds held by escrow agents 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, 2022 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, right-to-use leased assets 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
Right-to-use leased assets	Life of contract

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.

Note 2 – Implementation of New Accounting Standards

During the current fiscal year, the Authority implemented GASB Statement 87 - *Leases*. The purpose of this standard is to enhance the relevance and consistency of information of the Authority’s financing activities based on the principle that leases are financings of the right-to-use an underlying asset. GASB 87 requires a retrospective implementation for existing leases in which leases are measured based on facts and circumstances that exist at the beginning of the year of implementation. A lessee is required to recognize a lease liability and asset in the amount of the present value of remaining lease payments. As further discussed in Note 5, the Authority has a lease for office space that is subject to GASB 87. As a result of the implementation of GASB 87, the Authority recognized \$175,155 for the right-to-use leased asset and lease obligation for office space which was in effect as of the beginning of the current fiscal year. Prior year amounts were not restated as a result of the implementation (see Note 5).

During the current fiscal year, the Authority implemented GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The primary objectives of GASB 97 are (1) to increase consistency and comparability related to the reporting of certain fiduciary component units and (2) to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan. The implementation of GASB 97 resulted solely in revised note disclosure for the Authority’s 457 plan (see Note 11).

Note 3 – Cash and Investments

Restricted Financial Resources

Financial resources were restricted for the following purposes at December 31, 2022:

Bond reserves	\$ 207,608,160
Capital improvements	102,004,382
Held by escrow agents:	
Capital improvements	547,534,770
	<u>\$ 857,147,312</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, 2022, the Authority’s deposits are fully collateralized.

Note 3 – Cash and Investments (continued)

Investment Risks

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

- Investment credit risk - the risk that the investor may not recover the value of an investment from the issuer.
- Interest rate risk - the risk that the value of an investment will be adversely affected by changes in interest rates.
- Custodial credit risk - the risk that the investor will not be able to recover the value of its investments that are in the possession of an outside party if the counterparty fails.

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

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.

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2022

Note 3 – Cash and Investments (continued)

Investments (continued)

As of December 31, 2022, the Authority’s investments (including cash equivalents) are as follows:

Investment Type	Fair Value	Percentage of Total	Rating	Maturities in Years	
				Less Than 1	1-5
Federal National Mortgage Association bonds	\$ 13,134,592	1%	AAA	\$ 13,134,592	
Federal Home Loan Mortgage Corporation bonds	40,413,714	3%	AAA	40,413,714	
Federal Home Loan Bank bonds	4,483,581	0%	AAA	4,483,581	
Federal Farm Credit Bank bonds	9,923,835	1%	AAA	3,488,462	6,435,373
First American Government Obligations Fund, Class V	9,311,493	1%	AAA _m	9,311,493	
U.S. Treasury notes/bonds	144,031,440	12%	--	15,711,653	128,319,787
TexPool and TexPool Prime	176,366,627	15%	AAA _m	176,366,627	
TexSTAR	254,577,954	21%	AAA _m	254,577,954	
Held by escrow agents: Fidelity Treasury Portfolio, Class I	547,534,770	46%	AAA _m	547,534,770	
	<u>\$ 1,199,778,006</u>	<u>100%</u>		<u>\$ 1,065,022,846</u>	<u>\$ 134,755,160</u>

Investments in local government pools and money market funds have a maturity of less than one year because the weighted average maturities of these pools/funds are less than one year.

Ratings for local government investment pools are by Standard & Poor’s, while ratings for government agency bonds are by Moody’s. As previously noted, local government investment pools and money market mutual funds held by escrow agents are reported as cash equivalents on the *Statement of Net Position*.

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, 2022 are as follows:

- U.S. Treasury Notes and Bonds: valued at \$144,031,440 based on quoted market prices (level 1 inputs).
- U.S. Government Agency and Instrumentality Securities: valued at \$67,955,722 based on a bid evaluation pricing method (level 2 inputs).
- TexSTAR: valued at \$254,577,954 based on published fair value per share (level 1 inputs).

Note 3 – Cash and Investments (continued)

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 fair 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, and J.P. Morgan Investment Management, Inc. Hilltop Securities provides participant and marketing services while J.P. Morgan provides investment management services. Custodial and depository services are provided by J.P. Morgan Chase Bank N.A. or its subsidiary.

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

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2022

Note 4 – Capital Assets

A summary of changes in capital assets during the year ended December 31, 2022, follows:

	Beginning Balance	Additions/ Retirements	Ending Balance
Capital assets not being depreciated			
Land and ROW acquisition	\$ 46,255,441	\$ 11,602,593	\$ 57,858,034
Construction in progress	103,633,783	155,774,176	259,407,959
Non-depreciable capital assets	<u>149,889,224</u>	<u>167,376,769</u>	<u>317,265,993</u>
Capital assets being depreciated/amortized			
Interest in water facilities	502,358,214	63,709,862	566,068,076
Interest in transmission facilities	259,928,505	23,909	259,952,414
Infrastructure	291,484,347	15,808,811	307,293,158
Furniture, fixtures & equipment	383,826	29,570	413,396
Right-to-use lease		175,155	175,155
Subtotal	<u>1,054,154,892</u>	<u>79,747,307</u>	<u>1,133,902,199</u>
Less accumulated depreciation/amortization			
Interest in water facilities	(40,588,906)	(9,070,300)	(49,659,206)
Interest in transmission facilities	(19,754,117)	(4,397,318)	(24,151,435)
Infrastructure	(76,313,363)	(6,978,109)	(83,291,472)
Furniture, fixtures & equipment	(365,949)	(13,177)	(379,126)
Right-to-use lease		(140,124)	(140,124)
Subtotal	<u>(137,022,335)</u>	<u>(20,599,028)</u>	<u>(157,621,363)</u>
Depreciable capital assets, net	<u>917,132,557</u>	<u>59,148,279</u>	<u>976,280,836</u>
Total capital assets, net	<u>\$ 1,067,021,781</u>	<u>\$ 226,525,048</u>	<u>\$ 1,293,546,829</u>

Depreciation and amortization expense for the current year was \$20,599,028.

Note 5 – 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 recognized a lease liability and an intangible right-to-use leased asset in the amount of \$175,155, which is measured at the present value remaining lease payments at January 1, 2022. The remaining balance of the liability at December 31, 2022, is \$36,713.

Annual requirements to amortize long-term lease obligations and related interest are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 36,713	\$ 493	\$ 37,205

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2022

Note 6 – Compensated Absences

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

Balance at beginning of year	\$ 154,006
Increase in liability	116,395
Balance at end of year	<u>\$ 270,401</u>

Note 7 – 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. The Authority is required to present information related to direct placement bonds 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:

	General Bonds	Direct Placement Bonds	Total
Bonds payable	\$ 352,720,000	\$ 1,626,470,000	\$ 1,979,190,000
Unamortized premiums	51,231,669		51,231,669
Unamortized discounts	(1,321,523)		(1,321,523)
Total	<u>\$ 402,630,146</u>	<u>\$ 1,626,470,000</u>	<u>\$ 2,029,100,146</u>
Due within one year	<u>\$ 16,760,000</u>	<u>\$ 19,715,000</u>	<u>\$ 36,475,000</u>

The Authority’s outstanding general bonds payable at December 31, 2022 are comprised of the following individual issues:

Series	Amounts Outstanding	Original Issue Amount	Interest Rates and Key Dates	
2013 Refunding	\$ 69,060,000	\$ 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	52,640,000	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	231,020,000	258,125,000	Interest Rates	5.00%
			Principal Payments	December 15, 2019/2046
			Interest Payments	June 15 & December 15
			Callable	December 15, 2026
Total	<u>\$ 352,720,000</u>	<u>\$ 436,955,000</u>		

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2022

Note 7 - Senior Lien Revenue Bonds (continued)

The Authority's outstanding direct placement bonds payable at December 31, 2022 are comprised of the following individual issues:

Series	Amounts Outstanding	Original Issue Amount	Interest Rates and Key Dates	
2015	\$ 67,940,000	\$ 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	168,115,000	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	351,990,000	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	466,345,000	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	229,200,000	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
2020	78,510,000	78,670,000	Interest Rates	0.15% - 2.65%
			Principal Payments	December 15, 2022/2050
			Interest Payments	June 15 & December 15
			Callable	December 15, 2030
2021	38,530,000	38,530,000	Interest Rates	0.24% - 2.84%
			Principal Payments	December 15, 2023/2051
			Interest Payments	June 15 & December 15
			Callable	December 15, 2031
2022	225,840,000	225,840,000	Interest Rates	2.87% - 4.30%
			Principal Payments	December 15, 2024/2052
			Interest Payments	June 15 & December 15
			Callable	December 15, 2032
Total	<u>\$ 1,626,470,000</u>	<u>\$ 1,709,785,000</u>		

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2022

Note 7 - Senior Lien Revenue Bonds (continued)

As of December 31, 2022, 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 2030 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 December 1, 2022 the Authority issued its eighth series of SWIRFT bonds, the \$225,840,000 Series 2022 Senior Lien Revenue Bonds. As of December 31, 2022, the remaining SWIRFT bond commitment is as follows:

Total commitment from TWDB	\$ 2,075,995,000
SWIRFT bonds issued	<u>(1,709,785,000)</u>
Remaining commitment	<u><u>\$ 366,210,000</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	\$ 368,740,000	\$ 1,420,015,000	\$ 1,788,755,000
Bonds issued		225,840,000	225,840,000
Bonds retired	<u>(16,020,000)</u>	<u>(19,385,000)</u>	<u>(35,405,000)</u>
Ending balance	<u><u>\$ 352,720,000</u></u>	<u><u>\$ 1,626,470,000</u></u>	<u><u>\$ 1,979,190,000</u></u>

The Senior Bonds are secured by a lien on and pledge of 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, 2022, the Authority had cash equivalents in the amount of \$32,507,966 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, 2022, the Authority had cash equivalents and investments in the amount of \$141,198,652 in the Reserve Fund.

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2022

Note 7 – 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, 2022, was \$33,901,541. The Authority has cash equivalents and investments in the amount of \$56,574,256 in this fund, of which \$22,672,715 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, 2022 was \$4,739,547. The Authority has cash equivalents and investments in the amount of \$4,831,680 in this fund, of which \$92,133 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:

	<u>2022</u>	<u>2021</u>
Net operating income per financial statements	\$ 127,572,801	\$ 96,394,552
Add back depreciation and amortization	20,599,028	18,969,199
Net revenues for debt service	148,171,829	115,363,751
Add:		
Coverage fund	56,574,256	56,022,524
Improvement fund	291,370,057	251,083,090
Adjusted net revenues	<u>\$ 496,116,142</u>	<u>\$ 422,469,365</u>
Debt Service Requirements	<u>\$ 100,174,538</u>	<u>\$ 90,489,184</u>
Debt service coverage	1.48	1.27
Adjusted debt service coverage	4.95	4.67

North Harris County Regional Water Authority
Notes to Basic Financial Statements
December 31, 2022

Note 7 – 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, 2022, the debt service requirements on all Senior Bonds outstanding are as follows:

Year	General Bonds		Direct Placement Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 16,760,000	\$ 16,096,269	\$ 19,715,000	\$ 47,603,269	\$ 36,475,000	\$ 63,699,538
2024	17,545,000	15,308,769	20,510,000	46,998,009	38,055,000	62,306,778
2025	18,295,000	14,570,419	20,795,000	46,714,288	39,090,000	61,284,707
2026	19,215,000	13,655,669	21,115,000	46,404,580	40,330,000	60,060,249
2027	20,165,000	12,694,919	21,445,000	46,067,599	41,610,000	58,762,518
2028	21,050,000	11,807,269	37,095,000	45,695,969	58,145,000	57,503,238
2029	21,985,000	10,868,969	45,855,000	44,934,207	67,840,000	55,803,176
2030	23,015,000	9,850,118	49,745,000	43,976,889	72,760,000	53,827,007
2031	24,165,000	8,699,368	52,230,000	42,897,109	76,395,000	51,596,477
2032	25,335,000	7,527,256	53,510,000	41,690,475	78,845,000	49,217,731
2033	26,580,000	6,287,194	62,355,000	40,383,968	88,935,000	46,671,162
2034	19,795,000	5,021,000	63,990,000	38,728,860	83,785,000	43,749,860
2035	20,780,000	4,031,250	65,745,000	36,975,118	86,525,000	41,006,368
2036	16,110,000	3,147,150	67,590,000	35,135,956	83,700,000	38,283,106
2037	16,600,000	2,663,850	69,535,000	33,173,032	86,135,000	35,836,882
2038	17,260,000	1,999,850	71,595,000	31,114,520	88,855,000	33,114,370
2039	3,005,000	1,309,450	73,720,000	28,951,160	76,725,000	30,260,610
2040	3,125,000	1,189,250	75,955,000	26,720,449	79,080,000	27,909,699
2041	3,250,000	1,064,250	78,315,000	24,372,085	81,565,000	25,436,335
2042	3,380,000	934,250	80,740,000	21,923,678	84,120,000	22,857,928
2043	3,550,000	765,250	83,290,000	19,357,586	86,840,000	20,122,836
2044	3,730,000	587,750	85,930,000	16,699,760	89,660,000	17,287,510
2045	3,915,000	401,250	88,660,000	13,887,009	92,575,000	14,288,259
2046	4,110,000	205,500	87,350,000	10,980,803	91,460,000	11,186,303
2047			80,555,000	8,102,813	80,555,000	8,102,813
2048			62,680,000	5,424,687	62,680,000	5,424,687
2049			34,050,000	3,266,046	34,050,000	3,266,046
2050			20,725,000	2,112,632	20,725,000	2,112,632
2051			16,695,000	1,329,248	16,695,000	1,329,248
2052			14,980,000	644,140	14,980,000	644,140
Totals	<u>\$ 352,720,000</u>	<u>\$ 150,686,269</u>	<u>\$ 1,626,470,000</u>	<u>\$ 852,265,944</u>	<u>\$ 1,979,190,000</u>	<u>\$ 1,002,952,213</u>

Note 8 – Capital Contributions

In 2003, the Authority entered into contracts with twenty-four Municipal Utility Districts (“MUD”s) 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, 2022*

Note 8 – 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, 2022 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Remaining Balance</u>
2023	\$ 3,066,990	\$ 2,951,395	\$ 6,018,385	54,003,452
2024	3,224,386	2,793,999	6,018,385	50,779,066
2025	3,389,874	2,628,511	6,018,385	47,389,192
2026	3,563,869	2,454,516	6,018,385	43,825,323
2027	3,746,810	2,271,575	6,018,385	40,078,513
2028	3,939,158	2,079,227	6,018,385	36,139,355
2029	4,141,396	1,876,989	6,018,385	31,997,959
2030	4,354,034	1,664,351	6,018,385	27,643,925
2031	4,577,608	1,440,777	6,018,385	23,066,317
2032	4,812,682	1,205,703	6,018,385	18,253,635
2033	5,059,698	958,541	6,018,239	13,193,958
2034	2,945,880	698,663	3,644,543	10,248,078
2035	3,099,076	545,472	3,644,548	7,149,002
2036	2,259,370	384,294	2,643,664	4,889,632
2037	2,380,822	262,842	2,643,664	2,508,810
2038	2,508,810	134,860	2,643,670	
	<u>\$ 57,070,463</u>	<u>\$ 24,351,715</u>	<u>\$ 81,422,178</u>	

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

Capital contributions, beginning balance	\$ 59,987,730
Principal repayments	(2,917,267)
Capital contributions, ending balance	<u>\$ 57,070,463</u>

Note 9 – 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 chloramine 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, 2022, 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, 2022

Note 9 – Chloramination Conversion Credits (continued)

During the current fiscal year, the Authority reimbursed \$502,281 in principal and \$1,042,802 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	\$ 17,380,097
Principal repayments	(502,281)
Chloramine credits payable, end of year	<u><u>\$ 16,877,816</u></u>

As of December 31, 2022, 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>
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><u>\$ 16,877,816</u></u>	<u><u>\$ 11,379,022</u></u>	<u><u>\$ 28,256,838</u></u>	

Note 10 – Unrestricted Net Position

Included in the Authority’s unrestricted net position (i.e., the residual of assets plus deferred outflows less liabilities) of \$378,063,057, is \$291,370,057 in cash and investments, which the Authority has designated as additional bond reserves and has deposited in the Improvement Fund.

Note 11 – Internal Revenue Code Section 457 Deferred Compensation Plan

The Authority contributes to the North Harris County Regional Water Authority Deferred Compensation Plan (the “Plan”), a defined contribution pension plan, for management employees. The plan is administered by the International City Management Association - Retirement Corporation (“ICMA-RC”). Benefit terms, including contribution requirements, for the Plan are established and may be amended by the Board of Directors. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. The Authority makes a matching contribution of up to 6.2% for each payroll period, exclusive of bonuses, to individual employee accounts for each participating employee. For the year ended December 31, 2022, the Authority recognized retirement expense of \$78,971.

Employees are immediately vested in their own and employer contributions and earnings on those contributions. There were no forfeitures for the year ended December 31, 2022.

The Authority had no liability to the Plan as of December 31, 2022.

Note 12 – Internal Revenue Code Section 401(a) Defined Contribution Plan

The Authority has established the North Harris County Regional Water Authority Money Purchase Plan & Trust 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, 2022, all of the Authority’s employees were members of the Plan. Non-vested contributions are immaterial to total contributions at December 31, 2022. Vested contributions are solely the possession of participating employees. Total covered payroll was \$1,853,247 for the year ended December 31, 2022. Employer contributions to the Plan were \$189,682.

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 13 – 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 13 – 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, 2022, the net amount owed to the Authority by the City of Houston for the true-ups is \$1,446,460, 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 13 – Water Supply Contracts (continued)

Luce Bayou Interbasin Transfer Project (continued)

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. As of December 31, 2022, the project has been completed and is in use.

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, 2022, 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 certified 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 \$2,672,300 for its portion of the annual debt service requirement.

Note 13 – 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 authorized cash call withdrawals from the escrow accounts in the amount of \$63,709,862, deposited \$69,785,016 in the escrow accounts and has \$73,376,193 remaining in escrow as of December 31, 2022.

Note 13 – 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 \$2,696,561 for its pro-rata share of project costs incurred through the effective date of the Third Supplement. During the current fiscal year, the Authority did not incur costs for its pro-rata share of the project.

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 \$234,194,875 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 \$23,909 for its pro-rata share of the project.

Note 14 – Agreement with Enchanted Rock Solutions, LLC

On December 16, 2020, the Authority entered into an Integrated Reliability on Call Master Service Agreement (the "Agreement") and Ground Lease (the "Lease") with Enchanted Rock Solutions, LLC ("Enchanted Rock") for the provision of backup power to the Authority's pump station under construction at 11690 N. Gessner Rd. In accordance with the Agreement, Enchanted Rock will provide the pump station site with utility grade backup power during emergency outages and for non-emergency use. Enchanted Rock is responsible for installing the equipment necessary to construct the power grid on land owned by the Authority, which is leased to Enchanted Rock for a 20-year period. The Authority is required to contribute \$658,000 to install the equipment necessary to construct the power grid upon the completion of a successful commencement test. As of December 31, 2022, the commencement test has not been performed and the Authority has not contributed funding for the project.

Note 15 – Central Harris County Regional Water Authority

Effective November 6, 2013, the Authority and the Central Harris County Regional Water Authority (“Central Authority”) entered into an Amended and Restated Joint Facilities Agreement (the “Agreement”) for a period of 40 years unless terminated by mutual agreement. The Agreement provides for the financing, design and construction of the Greens Road Water Line, the Transmission Line, the Jimmie Schindewolf RPS (previously known as the Spears Road RPS), the Metering Station, (as such terms are defined in the Agreement) and any future facilities designated as Joint Facilities by written agreement of the parties. Pursuant to the terms of the Agreement, the Central Authority is also responsible for payment of its pro rata share of operation and maintenance costs, including major rehabilitations, as necessary, of the Joint Facilities. The Authority holds title to the Joint Facilities, with the exception of the Greens Road Water Line, which the City holds title to. During prior years, the Central Authority has provided funds totaling \$8,378,124 to the Authority for its share of each phase of the construction and design of the Joint Facilities. Effective June 7, 2021, the Authority and the Central Authority entered into the First Amendment to the Agreement, to provide for the construction, operation and maintenance of new Joint Facilities including, Northeast Transmission Line (NETL) Metering Station, Transmission Line No. 2 and Transmission Line No. 3 as appropriate, and other related facilities. In the prior year, the Central Authority provided funds totaling \$646,040 to the Authority for its share of capital costs for the new Joint Facilities previously funded by the Central Authority, in accordance with the First Amendment to the Agreement.

Note 16 – 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 Operating Expenses
Last Five Fiscal Years

	2022	2021	2020	2019	2018
Personnel					
Employee salaries	\$ 1,853,247	\$ 1,573,252	\$ 1,541,331	\$ 1,385,277	\$ 1,322,972
Employee retirement	189,682	166,057	137,034	119,465	113,484
Group insurance	257,770	216,582	194,633	181,342	169,776
Medicare/ Social security	113,691	98,572	98,572	87,973	83,764
Unemployment compensation	2,635	2,772	1,440	1,422	1,458
	<u>2,417,025</u>	<u>2,057,235</u>	<u>1,973,010</u>	<u>1,775,479</u>	<u>1,691,454</u>
Professional fees					
Legal	382,361	165,281	254,037	231,347	258,640
Engineering	771,345	610,905	753,396	1,097,161	77,060
Financial services	4,185	9,585	7,830	3,240	2,700
Legislative consultant	130,000	130,000	119,167	151,667	130,000
Investment management services	131,398	122,215	110,680	127,836	94,472
Redistricting/mapping	12,000		9,250		9,000
Audit	54,500	71,000	44,500	40,700	35,500
	<u>1,485,789</u>	<u>1,108,986</u>	<u>1,298,860</u>	<u>1,651,951</u>	<u>607,372</u>
Purchased Services					
Bulk water purchases	<u>13,461,886</u>	<u>13,297,716</u>	<u>12,503,804</u>	<u>12,091,279</u>	<u>12,236,705</u>
Contracted services					
Operations and maintenance	1,845,510	2,351,765	2,000,416	2,188,815	1,826,317
Temporary services	25,437	20,777	2,547	24,220	9,745
	<u>1,870,947</u>	<u>2,372,542</u>	<u>2,002,963</u>	<u>2,213,035</u>	<u>1,836,062</u>
Occupancy and office					
Office	15,670	171,999	129,701	125,195	120,267
Safe deposit box	75	75	75	75	
Bank charges	17,073	18,121	17,353	11,117	15,192
Printing and office	64,284	110,452	28,340	128,198	90,587
Postage and delivery	5,718	41,621	5,269	39,797	39,031
Telephone	39,831	45,823	47,858	60,713	51,919
Utilities	694,167	626,441	614,360	607,985	673,432
Equipment leases	14,335	15,242	13,874	13,566	15,044
Internet service	15,304	31,046	31,694	37,891	40,155
Communication services	78,100	85,200	73,330	81,670	76,152
	<u>944,557</u>	<u>1,146,020</u>	<u>961,854</u>	<u>1,106,207</u>	<u>1,121,779</u>

See Accompanying Auditors' Report

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

	2022	2021	2020	2019	2018
Other					
Director fees	\$ 21,900	\$ 18,900	\$ 19,500	\$ 21,300	\$ 24,900
Election expense	776,095	209,772	509,407		-
Technology transfer projects	63,168	52,193	56,182	56,806	52,404
Insurance	152,923	138,411	130,461	98,148	80,527
Travel	59,978	44,655	36,192	51,602	53,329
Membership/Subscription fees	10,133	9,286	12,211	9,712	12,367
Computer services	22,235	14,418	23,519	40,836	13,157
Computer software and equipment	21,439	30,533	24,380	18,337	19,378
Maintenance and repairs	50,282	24,885	15,937	8,969	14,325
Office furniture	2,835			2,036	1,271
Water conservation	40,442	21,180	34,965	61,686	52,126
Mileage reimbursement	7,318	4,246	2,422	8,266	8,238
Permit fees	638,501	604,726	617,616	568,421	672,875
Seminars/training	15,300	7,620	6,809	13,125	10,930
Security	5,753	3,851	2,584	7,449	5,489
Miscellaneous		6,543			81,071
	<u>1,888,302</u>	<u>1,191,219</u>	<u>1,492,185</u>	<u>966,693</u>	<u>1,102,387</u>
Expenses Before Depreciation and Amortization	<u>22,068,506</u>	<u>21,173,718</u>	<u>20,232,676</u>	<u>19,804,644</u>	<u>18,595,759</u>
Depreciation and Amortization	<u>20,599,028</u>	<u>18,969,199</u>	<u>15,924,780</u>	<u>12,308,095</u>	<u>9,992,214</u>
Total Expenses	<u>\$ 42,667,534</u>	<u>\$ 40,142,917</u>	<u>\$ 36,157,456</u>	<u>\$ 32,112,739</u>	<u>\$ 28,587,973</u>

See accompanying auditors' report.

*North Harris County Regional Water Authority
Schedule of Principal Water Users
December 31, 2022*

Name	Total Gallons	Fees Paid	Share (%)
NW Harris Co. M.U.D. 5	1,387,295,000	\$ 6,347,462	3.8258%
Harris Co. M.U.D. 387	1,233,959,000	5,676,211	3.4029%
Harris Co. M.U.D. 358	1,154,736,000	5,311,786	3.1844%
Tomball, City of	978,391,000	4,500,599	2.6981%
Bridgestone M.U.D.	829,990,000	3,832,894	2.2889%
Harris Co. F.W.S.D. 61	772,779,000	3,554,783	2.1311%
Harris Co. M.U.D. 367 & 383	721,273,000	3,331,630	1.9891%
Aqua Texas, Inc.	518,908,000	3,327,487	1.4310%
Timber Lane U.D.	670,426,000	3,083,960	1.8488%
Harris Co. M.U.D. 280/281/282	579,704,000	2,666,638	1.5987%
Subtotal	8,847,461,000	41,633,451	24.3989%
All other retail utilities	26,597,830,118	123,909,929	73.3495%
All private well owners	816,495,153	3,707,050	2.2517%
Total	36,261,786,271	\$ 169,250,429	100.0000%

See Accompanying Auditors' Report

*North Harris County Regional Water Authority
Historical Rates and Charges
December 31, 2022*

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
January 1, 2009		1.50
January 1, 2010	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
April 1, 2021	Groundwater	4.60
	Surface Water	5.05
April 1, 2022	Groundwater	4.60
	Surface Water	5.05
February 1, 2023	Groundwater	4.10
	Surface Water	4.55

See Accompanying Auditors' Report

***North Harris County Regional Water Authority
Billing and Collection Experience
December 31, 2022***

<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%
2020	31,885,053,544	31,833,933,918	99.84%
2021	29,813,653,757	29,773,556,736	99.87%
2022	36,322,197,280	36,261,786,271	99.83%

See Accompanying Auditors' Report