

**NORTH HARRIS COUNTY
REGIONAL WATER AUTHORITY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDING
DECEMBER 31, 2023**

TABLE OF CONTENTS

	<u>PAGE</u>
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	10
Statement of Revenues, Expenses, and Changes in Net Position	11
Statement of Cash Flows	12
Notes to the Basic Financial Statements	13
SUPPLEMENTARY INFORMATION	
Schedule of Operating Expenses	32
Schedule of Principal Water Uses	34
Historical Rates and Charges	35
Billing and Collection Experience	36

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Harris County Regional Water Authority

Opinions

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the North Harris County Regional Water Authority North Harris County Regional Water Authority, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the North Harris County Regional Water 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 and the aggregate remaining fund information of the North Harris County Regional Water Authority, as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 North Harris County Regional Water Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Harris County Regional Water 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 North Harris County Regional Water 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 North Harris County Regional Water Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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 North Harris County Regional Water Authority's basic financial statements. The Supplementary Information is 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Firm's Signature

Mitchell T Fontenote CPA, Inc.

Port Neches, Texas
April 30, 2024

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2023

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, 2023. 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*.

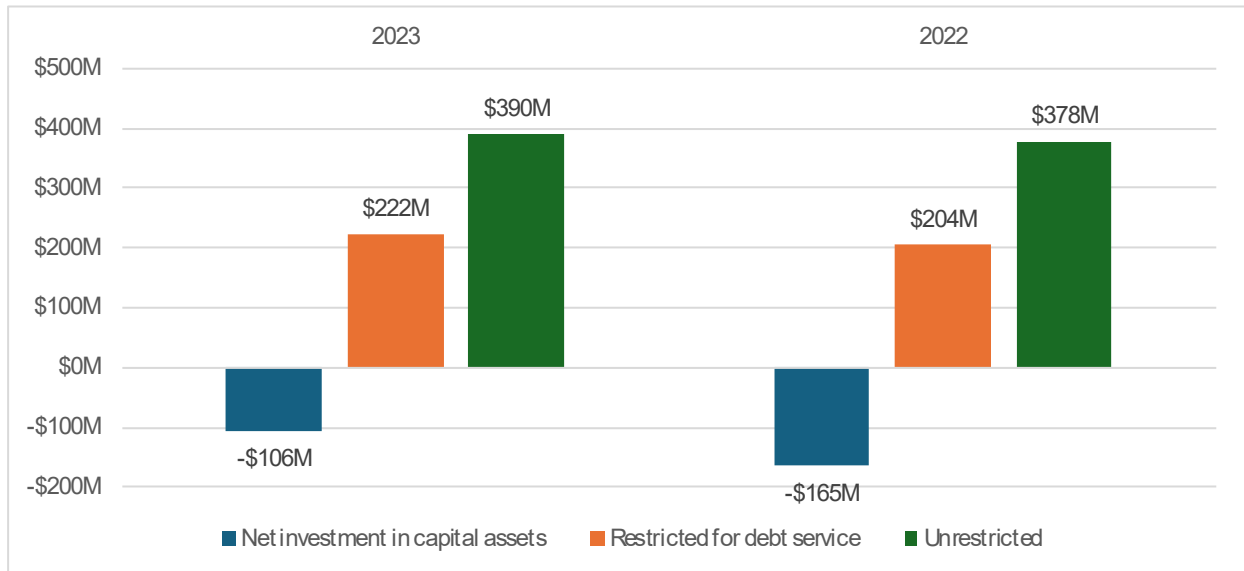
NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2023

Financial Analysis of the Authority

The Authority's net position at December 31, 2023, was \$505,505,174. A comparative summary of the Authority's overall financial position, as of December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Current and other assets	\$ 1,258,632,676	\$ 1,238,219,560
Capital assets	<u>1,488,594,143</u>	<u>1,293,546,829</u>
Total assets	<u>2,747,226,819</u>	<u>2,531,766,389</u>
Deferred outflows of resources	<u>16,732,255</u>	<u>17,902,932</u>
Current liabilities	48,514,542	47,006,677
Long term liabilities	<u>2,209,939,358</u>	<u>2,085,220,586</u>
Total liabilities	<u>2,258,453,900</u>	<u>2,132,227,263</u>
Net Position		
Net investment in capital assets	(105,733,434)	(165,060,795)
Restricted for debt service	221,502,208	204,439,796
Unrestricted	<u>389,736,400</u>	<u>378,063,057</u>
Total net position	<u>\$ 505,505,174</u>	<u>\$ 417,442,058</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 96, *Subscription-Based Information Technology Arrangements*, which requires the recognition of capital assets and obligations for subscription-based IT arrangements (SBITA). In accordance with this standard, the Authority recognized a right-to-use asset and obligation for its SBITAs measured at the present value of remaining subscription 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 SBITA asset or obligation and, as a result, the presentation of prior year data as it relates to subscriptions is not consistent with the current year presentation (see Notes 2 and 6).

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2023

The total net position of the Authority increased during the current fiscal year by \$88,063,116. A comparative summary of the Authority's *Statement of Revenues, Expenses, and Changes in Net Position* for the past two years is as follows:

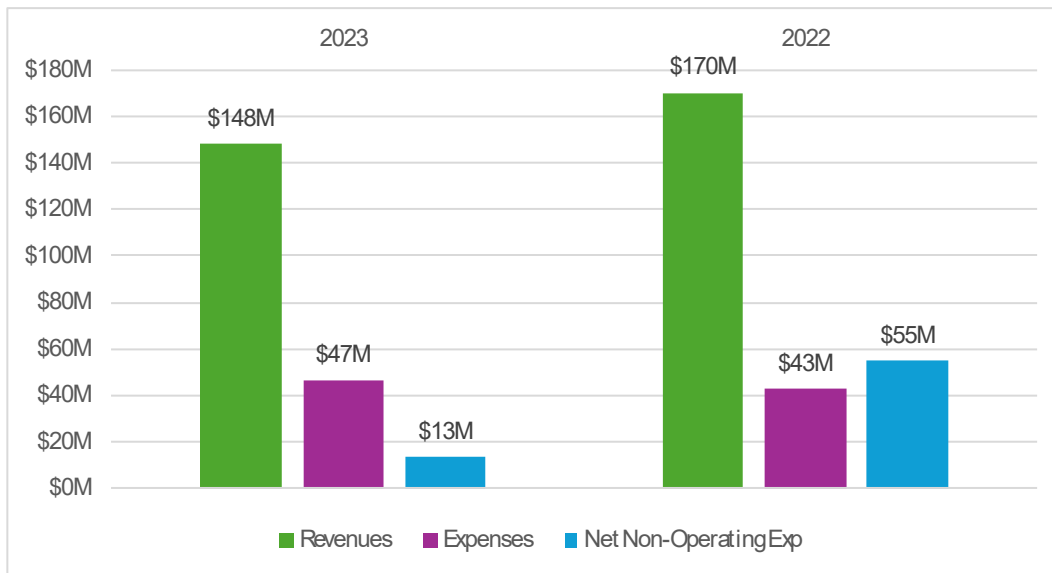
	2023	2022
Operating revenues	\$ 148,006,892	\$ 170,240,335
Operating expenses	(46,557,904)	(42,667,534)
Net operating income	101,448,988	127,572,801
Net non-operating revenue (expense)	(13,385,872)	(54,737,222)
Change in net position	88,063,116	72,835,579
Net position, beginning of year	417,442,058	344,606,479
Net position, end of year	<u>\$ 505,505,174</u>	<u>\$ 417,442,058</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 2023 Bonds.

As previously noted, the Authority implemented GASB 96 during the current year. As a result, prior year data is not consistent with current year data for the same subscriptions 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 DISCUSSION AND ANALYSIS

DECEMBER 31, 2023

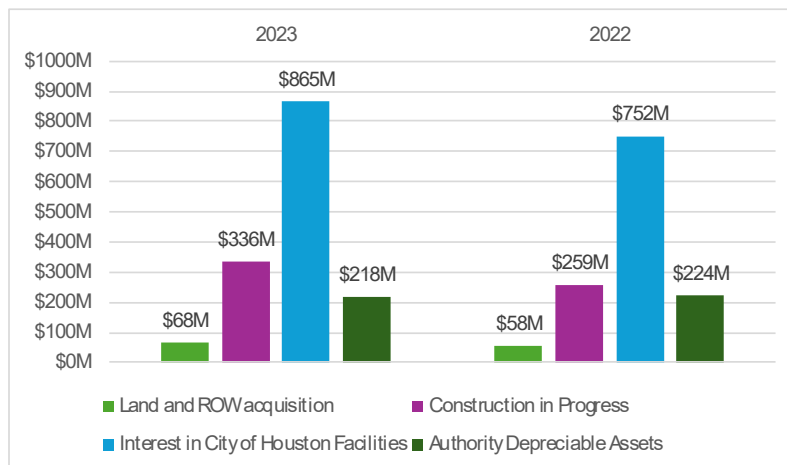
Capital Assets

The Authority's capital assets primarily consist of land, construction in progress, infrastructure, right-to-use assets 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, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Capital assets not being depreciated		
Land and ROW acquisition	\$ 68,452,041	\$ 57,857,420
Construction in Progress	336,231,976	259,408,573
Non-depreciable capital assets	<u>404,684,017</u>	<u>317,265,993</u>
Capital assets being depreciated/amortized		
Interest in water facilities	693,001,623	566,068,074
Interest in transmission facilities	262,079,787	259,989,109
Infrastructure	307,256,465	307,256,465
Furniture, fixtures, & equipment	443,385	413,397
Right-to-use lease	445,570	175,155
Subscription-based IT	1,119,868	-
Subtotal	<u>1,264,346,697</u>	<u>1,133,902,199</u>
Less accumulated depreciation/amortization		
Interest in water facilities	(61,008,190)	(49,659,211)
Interest in transmission facilities	(28,586,253)	(24,151,435)
Infrastructure	(90,122,382)	(83,291,466)
Furniture, fixtures, & equipment	(396,757)	(379,127)
Right-to-use lease	(99,015)	(140,124)
Subscription-based IT	(223,974)	-
Subtotal	<u>(180,436,571)</u>	<u>(157,621,363)</u>
Depreciable capital assets, net	<u>1,083,910,126</u>	<u>976,280,836</u>
Total capital assets, net	<u>\$ 1,488,594,143</u>	<u>\$ 1,293,546,829</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 the Alan Rendl Regional Pump Station. Additionally, the Authority implemented GASB 96 as of the beginning of the current fiscal year. As a result, the Authority recognized a right- to-use subscription asset and obligation. (See Note 2).

The composition of capital assets as of December 31, 2023 and 2022, is as follows:



NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

DECEMBER 31, 2023

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 \$445,570 for this lease. The balance due for the lease as of December 31, 2023, was \$357,759.

Long-Term Obligations

During the year, the Authority issued \$171,330,000 in senior lien revenue bonds. A comparative summary of the Authority's long-term obligations, as of December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Chloramination conversion credits payable	\$ 16,345,399	\$ 16,877,816
Capital contributions		
2003	18,279,023	19,658,614
2005	8,967,538	9,511,059
2008	26,756,936	27,900,790
	<u>54,003,497</u>	<u>57,070,463</u>
Revenue bonds		
Series 2013 Senior Lien Refunding	64,010,000	69,060,000
Series 2014 Senior Lien Refunding	49,640,000	52,640,000
Series 2015 Senior Lien	65,755,000	67,940,000
Series 2016 Senior Lien Refunding	222,310,000	231,020,000
Series 2016A Senior Lien	162,600,000	168,115,000
Series 2017 Senior Lien	341,735,000	351,990,000
Series 2018 Senior Lien	465,345,000	466,345,000
Series 2019 Senior Lien	228,700,000	229,200,000
Series 2020 Senior Lien	78,350,000	78,510,000
Series 2021 Senior Lien	38,430,000	38,530,000
Series 2022 Senior Lien	225,840,000	225,840,000
Series 2023 Senior Lien	171,330,000	-
Unamortized bond premium	48,466,770	51,231,669
Unamortized bond discount	(1,257,622)	(1,321,523)
	<u>2,161,254,148</u>	<u>2,029,100,146</u>
Accrued compensated absences	<u>331,326</u>	<u>270,401</u>
	<u>\$ 2,231,934,370</u>	<u>\$ 2,103,318,826</u>

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 8, 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

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2023

25, 2014 for recertification. The 2024-2028 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 \$10.78 per 1,000 gallons for fiscal year 2023. 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 and Series B credits available to the Authority.

Over-Conversion Credits by Year Earned		Series B Credits by Expiration Date	
Year	Gallons	Expiration Year	Gallons
2010	1,803,500,000	2031	32,172,000
2011	123,600,000	2032	80,724,000
2012	-	2033	77,700,000
2013	1,187,600,000	2034	98,952,000
2014	1,079,400,000	2035	965,580,000
2015	764,200,000	Total Series B Credits	1,255,128,000
2016	892,600,000		
2017	1,014,100,000		
2018	512,200,000		
2019	751,500,000		
2020	530,700,000		
Total	8,898,130,000		

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 2024-2028 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 2024-2028 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 2024-2028 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 2015-2023 the TWDB has committed \$2.805 billion of financial support to the Authority.

As illustrated by the table that follows, approximately \$5.2 million of Revenue Bonds will be used to implement the 2024-2028 CIP. Additionally, approximately \$715.7 million of SWIRFT funds and \$13.6 million of Participation Funds are committed to implement the 2024-2028 CIP.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**MANAGEMENT DISCUSSION AND ANALYSIS****DECEMBER 31, 2023**

Category	Fiscal Year Planned Authorizations (Thousands)		Project Total
	2024	2025	
Acquisition	\$ 24,332	\$ 16,803	\$ 41,135
Design	41,187	2,935	44,122
Construction	217,473	252,241	469,714
Other	7,452	6,200	13,652
Total Authorizations	<u>\$ 290,444</u>	<u>\$ 278,179</u>	<u>\$ 568,623</u>
Source of Funds			
SWIFT Funds	\$ 64,451	\$ 257,335	\$ 321,786
Participation Funds	2,571	345	2,916
Other	5,000	5,000	10,000
Remaining Funds	218,422	15,499	233,921
Total Funds	<u>\$ 290,444</u>	<u>\$ 278,179</u>	<u>\$ 568,623</u>

Next Year's Budget

The Authority's 2024 budget as compared to actual results for 2023 is as follows:

	2023 Actual	2024 Budget
Operating revenues	\$ 148,006,892	\$ 91,800,000
Operating expenses	(46,557,904)	(33,033,936)
Net operating income	<u>101,448,988</u>	<u>58,766,064</u>
Non-operating revenue (expense)		
Interest expense	(65,955,287)	(106,332,348)
Investment income	56,001,811	3,000,000
Bond issuance costs	(481,235)	-
Luce Bayou debt service contribution	(2,951,161)	-
Net non-operating revenue (expense)	<u>(13,385,872)</u>	<u>(103,332,348)</u>
Change in net position	88,063,116	(44,566,284)
Net position, beginning of year	<u>417,442,058</u>	<u>417,442,058</u>
Net position, end of year	<u>\$ 505,505,174</u>	<u>\$ 372,875,774</u>

Actual revenues for 2023 are higher than budgeted revenues for 2024 because the Authority takes a conservative approach to budgeting and the Authority approved a rate reduction for 2024, which decreased anticipated revenues. Additionally, an exceptional drought year contributed to higher water usage volumes and higher revenues in 2023. The budget for 2024 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.

BASIC FINANCIAL STATEMENTS

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**STATEMENT OF NET POSITION****DECEMBER 31, 2023****Assets****Current assets**

Cash and cash equivalents	\$	181,985,584
Investments		192,948,315
Accounts receivable		16,481,400
Accrued interest receivable		683,674
Due from other governments		1,358,945
Total current assets		<u>393,457,918</u>

Noncurrent assets

Restricted cash and cash equivalents		62,553,125
Restricted investments		193,326,978
Cash equivalents with escrow agent		608,568,783
Water conservation credits		725,872
Capital assets not being depreciated		404,684,017
Capital assets, net		<u>1,083,910,126</u>
Total noncurrent assets		<u>2,353,768,901</u>

Total assets2,747,226,819**Deferred Outflows of Resources**

Deferred difference on refunding		<u>16,732,255</u>
----------------------------------	--	-------------------

Liabilities**Current liabilities**

Accounts payable		3,228,126
Other payables		4,835
Interest payable on bonds		3,079,867
Current portion of long term liabilities		
Chloramine conversion credits payable		564,362
Capital contributions		3,224,386
Bonds payable		38,055,000
Lease payable		142,447
Subscription-Based IT payable		<u>215,519</u>
Total current liabilities		<u>48,514,542</u>

Noncurrent liabilities

Accounts payable from restricted assets		9,430,764
Retainage payable from restricted assets		9,505,980
Accrued compensated absences		331,326
Long term liabilities due in more than one year		
Chloramine conversion credits payable		15,781,037
Capital contributions		50,779,111
Bonds payable (net of unamortized bond premium and discount)		2,123,199,148
Lease payable		215,312
Subscription-Based IT payable		<u>696,680</u>
Total noncurrent liabilities		<u>2,209,939,358</u>

Total liabilities2,258,453,900**Net Position**

Net investment in capital assets		(105,733,434)
Restricted for debt service		221,502,208
Unrestricted		<u>389,736,400</u>

Total net position\$ 505,505,174

The accompanying notes are an integral part of this financial statement.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023

Operating revenues	
Charges for services	
Water fees	\$ 148,006,892
Total operating revenues	<u>148,006,892</u>
Operating expenses	
Personnel	2,087,174
Professional fees	908,148
Purchased water	15,993,264
Contracted services	2,180,007
Occupancy and office	1,111,873
Other	1,322,106
Depreciation and amortization	<u>22,955,332</u>
Total operating expenses	<u>46,557,904</u>
Net operating income	101,448,988
Non-operating revenues (expenses)	
Interest and fees	(65,955,287)
Investment income	56,001,811
Bond issuance costs	(481,235)
Luce Bayou debt service contributions	<u>(2,951,161)</u>
Net non-operating revenues (expenses)	<u>(13,385,872)</u>
Change in net position	88,063,116
Total net position - beginning	<u>417,442,058</u>
Total net position - ending	<u>\$ 505,505,174</u>

The accompanying notes are an integral part of this financial statement.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED DECEMBER 31, 2023****Cash flows from operating activities**

Receipts from customers	\$	143,647,637
Payments for personnel costs		(2,026,249)
Payments to contractors and vendors		(24,935,575)
Net cash provided by operating activities		<u>116,685,813</u>

Cash flows from capital and related financing activities

Interest paid		(63,699,538)
Acquisition and construction of capital assets		(89,039,412)
Paid to City of Houston for water supply and transmission facilities		(129,024,227)
Proceeds from sale of bonds, net		171,330,000
Principal payments (bonded debt and lease obligations)		(36,475,000)
Bond issuance costs		(481,235)
Paid to City of Houston for Luce Bayou debt service		(2,951,161)
Net cash used by capital and related financing activities		<u>(150,340,573)</u>

Cash flows from investing activities

Interest received		47,979,940
Payments for investments		(501,673,119)
Receipts from investment maturities		348,187,201
Net deposits into money market accounts		(2,341,882)
Net cash provided by investing activities		<u>(107,847,860)</u>

Net increase in cash and cash equivalents (141,502,620)**Balances - beginning of the year** 994,610,112**Balances - end of the year** \$ 853,107,492**Reconciliation of operating income to net cash provided by operating activities:**

Operating income	\$	101,448,988
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense		22,955,332
Non-cash revenue from capital contributions credit		(6,018,385)
Non-cash revenue from chloramine conversion credit		(1,545,082)
Change in current assets and liabilities:		
(Increase) decrease in accounts receivable		3,204,212
(Increase) decrease in due from other governments		87,515
Increase (decrease) in accounts payable		(3,461,428)
Increase (decrease) in other payable		(46,264)
Increase (decrease) in compensated absences		60,925
Total adjustments		<u>15,236,825</u>

Net cash provided by operating activities \$ 116,685,813**Cash and cash equivalents per balance sheet:**

Cash and cash equivalents	\$	181,985,584
Restricted cash and cash equivalents		62,553,125
Cash equivalents with escrow agent		608,568,783
	\$	<u>853,107,492</u>

The accompanying notes are an integral part of this financial statement.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023

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.

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.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023

Note 1 – Summary of Significant Accounting Policies (continued)

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, 2023 an allowance for uncollectible accounts was not considered necessary.

Restricted Assets

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

Capital Assets

The Authority defines capital assets as assets with an individual cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets, which include land, right of way acquisition costs, infrastructure, 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:

<u>Assets</u>	<u>Years</u>
Interest in facilities	Life of contract
Infrastructure	20 - 45 Years
Furniture, fixtures, and equipment	5 - 7 Years
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.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023

Note 2 – Implementation of New Accounting Standards

During the current fiscal year, the Authority implemented GASB Statement 96 – *Subscription-Based Information Technology Assets*. 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 96 requires a retrospective implementation for existing subscriptions in which subscriptions are measured based on facts and circumstances that exist at the beginning of the year of implementation. An organization is required to recognize a subscription-based IT liability and asset in the amount of the present value of remaining subscription payments. As further discussed in Note 6, the Authority has a subscription is subject to GASB 96. As a result of the implementation of GASB 96, the Authority recognized \$1,119,868 for the subscription-based IT asset and liability for a subscription 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 6).

Note 3 – Cash and Investments

Restricted Financial Resources

Financial resources were restricted for the following purposes at December 31, 2023:

Bond reserves	\$	246,869,023
Capital improvements		31,298,028
Held by escrow agents:		
Capital improvements		<u>608,568,783</u>
Total Restricted Funds held at bank	\$	<u>886,735,834</u>
Less:Funds reclassified to unrestricted		<u>(22,286,948)</u>
Restricted Funds on Statement of Net Position	\$	<u>864,448,886</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, 2023, the Authority’s deposits are fully collateralized.

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.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**NOTES TO THE FINANCIAL STATEMENTS****DECEMBER 31, 2023****Note 3 – Cash and Investments (continued)****Investments**

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

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

As of December 31, 2023, the Authority's investments (including cash equivalents) are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percentage</u>		<u>Maturities In Years</u>	
		<u>of Total</u>	<u>Rating</u>	<u>Less than 1</u>	<u>1 - 5 Yrs</u>
Federal Farm Credit Bank bonds	13,385,153	1%	AAA	6,737,966	6,647,187
First American Government Obligations Fund, Class V	6,969,611	1%	AAAm	6,969,611	
U.S. Treasury Notes / Bonds	388,207,476	31%	---	160,548,542	227,658,934
TexPool and TexPool Prime	88,781,255	7%	AAAm	88,781,255	
TexSTAR	128,836,778	10%	AAAm	128,836,778	
Held by escrow agents:					
Fidelity Treasury Portfolio, Class I	608,568,783	49%	AAAm	608,568,783	
	<u>\$1,234,749,056</u>	<u>100%</u>		<u>\$1,000,442,935</u>	<u>\$234,306,121</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*.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023

Note 3 – Cash and Investments (continued)

Investment Valuation

The Authority's investments in U.S. treasuries, U.S. agency and instrumentality securities and TexSTAR are reported at fair value in the *Statement of Net Position*. Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. Fair value measurements of the Authority's investments as of December 31, 2023 are as follows:

- U.S. Treasury Notes and Bonds: valued at \$388,207,476 based on quoted market prices (level 1 inputs).
- U.S. Government Agency and Instrumentality Securities: valued at \$20,354,764 based on a bid evaluation pricing method (level 2 inputs).
- TexSTAR: valued at \$128,836,778 based on published fair value per share (level 1 inputs).

TexPool and TexPool Prime

The Authority participates in two investment pools offered by the Texas Local Government Investment Pool, TexPool and TexPool Prime. The State Comptroller of Public Accounts exercises oversight responsibility of the Texas Local Government Investment Pool which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of participants in TexPool/TexPool Prime and other persons who do not have a business relationship with Texas Local Government Investment Pool. The Advisory Board members review the investment policy and management fee structure.

As permitted by GAAP, TexPool and TexPool Prime use amortized cost (which excludes unrealized gains and losses) rather than 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 THE FINANCIAL STATEMENTS****DECEMBER 31, 2023****Note 4 – Capital Assets**

A summary of changes in capital assets during the year ended December 31, 2023, follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land and ROW acquisition	\$ 57,857,420	\$ 10,594,621	\$ -	\$ 68,452,041
Construction in Progress	259,408,573	76,823,403	-	336,231,976
Non-depreciable capital assets	<u>317,265,993</u>	<u>87,418,024</u>	<u>-</u>	<u>404,684,017</u>
Capital assets being depreciated/amortized				
Interest in water facilities	566,068,074	126,933,549	-	693,001,623
Interest in transmission facilities	259,989,109	2,090,678	-	262,079,787
Infrastructure	307,256,465	-	-	307,256,465
Furniture, fixtures,& equipment	413,397	29,988	-	443,385
Right-to-use lease	175,155	445,570	(175,155)	445,570
Subscription-based IT	-	1,119,868	-	1,119,868
Subtotal	<u>1,133,902,199</u>	<u>130,619,653</u>	<u>(175,155)</u>	<u>1,264,346,697</u>
Less accumulated depreciation/amortization				
Interest in water facilities	(49,659,211)	(11,348,979)	-	(61,008,190)
Interest in transmission facilities	(24,151,435)	(4,434,818)	-	(28,586,253)
Infrastructure	(83,291,466)	(6,830,916)	-	(90,122,382)
Furniture, fixtures,& equipment	(379,127)	(17,630)	-	(396,757)
Right-to-use lease	(140,124)	(99,015)	140,124	(99,015)
Subscription-based IT	-	(223,974)	-	(223,974)
Subtotal	<u>(157,621,363)</u>	<u>(22,955,332)</u>	<u>140,124</u>	<u>(180,436,571)</u>
Depreciable capital assets, net	<u>976,280,836</u>	<u>107,664,321</u>	<u>(35,031)</u>	<u>1,083,910,126</u>
Total capital assets, net	<u>\$ 1,293,546,829</u>	<u>\$ 195,082,345</u>	<u>\$ (35,031)</u>	<u>\$ 1,488,594,143</u>

Depreciation and amortization expense for the current year was \$22,955,332.

Note 5 – Leases

In 2000, the Authority entered into a lease agreement for office space, which was amended November 2005, February 2011, July 2014, October 2016, and March 2023. The sixth amendment of the lease was executed in April 1, 2023 and will terminate March 31, 2026. The Authority recognized a lease liability and an intangible right-to-use leased asset in the amount of \$445,570, which is measured at the present value remaining lease payments at March 1, 2023. The remaining balance of the liability at December 31, 2023, is \$357,760.

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>
2024	\$ 142,447	\$ 10,740	\$ 153,187
2025	159,628	5,102	164,730
2026	55,684	510	56,194
	<u>\$ 357,759</u>	<u>\$ 16,352</u>	<u>\$ 374,111</u>

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**NOTES TO THE FINANCIAL STATEMENTS****DECEMBER 31, 2023****Note 6 – Subscription-Based Information Technology Assets**

In 2022, the Authority entered into a subscription-based information technology arrangement (SBITA) for software services. The Authority recognized a SBITA liability and an intangible SBITA asset in the amount of \$1,119,868, which is measured at the present value remaining subscription payments at January 1, 2023. The remaining balance of the liability at December 31, 2023, is \$912,199.

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

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 215,519	\$ 34,481	\$ 250,000
2025	223,665	26,335	250,000
2026	232,120	17,880	250,000
2027	240,895	9,105	250,000
	<u>\$ 912,199</u>	<u>\$ 87,801</u>	<u>\$ 1,000,000</u>

Note 7 – Compensated Absences

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

Balance at beginning of year	\$ 270,401
Increase in liability	60,925
Balance at end of year	<u>\$ 331,326</u>

Note 8 – 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:

	<u>General Bonds</u>	<u>Direct Placement Bonds</u>	<u>Total</u>
Bonds payable	\$ 335,960,000	\$ 1,778,085,000	\$ 2,114,045,000
Unamortized premiums	48,466,770	-	48,466,770
Unamortized discounts	(1,257,622)	-	(1,257,622)
Total	<u>\$ 383,169,148</u>	<u>\$ 1,778,085,000</u>	<u>\$ 2,161,254,148</u>
Due within one year	<u>\$ 17,545,000</u>	<u>\$ 20,510,000</u>	<u>\$ 38,055,000</u>

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**NOTES TO THE FINANCIAL STATEMENTS****DECEMBER 31, 2023****Note 8 - Senior Lien Revenue Bonds (continued)**

The Authority's outstanding general bonds payable at December 31, 2023 are comprised of the following individual issues:

<u>Series</u>	<u>Amounts Outstanding</u>	<u>Original Issue Amount</u>	<u>Interest Rates and Key Dates</u>	
2013 Refunding	\$ 64,010,000	\$ 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	\$ 49,640,000	\$ 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	\$ 222,310,000	\$ 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>\$ 335,960,000</u>	<u>\$ 436,955,000</u>		

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**NOTES TO THE FINANCIAL STATEMENTS****DECEMBER 31, 2023****Note 8 - Senior Lien Revenue Bonds (continued)**

The Authority's outstanding direct placement bonds payable at December 31, 2023 are comprised of the following individual issues:

Series	Amounts Outstanding	Original Issue Amount	Interest Rates and Key Dates	
2015	\$ 65,755,000	\$ 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	\$ 162,600,000	\$ 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	\$ 341,735,000	\$ 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	\$ 465,345,000	\$ 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	\$ 228,700,000	\$ 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	\$ 78,350,000	\$ 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	\$ 38,430,000	\$ 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
2023	\$ 171,330,000	\$ 171,330,000	Interest Rates	3.06% - 4.32%
			Principal Payments	December 15, 2025 / 2053
			Interest Payments	June 15 & December 15
			Callable	December 15, 2033
Total	<u>\$ 1,778,085,000</u>	<u>\$ 1,709,785,000</u>		

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023

Note 8 - Senior Lien Revenue Bonds (continued)

As of December 31, 2023, the Texas Water Development Board has approved a total of \$2,805,985,000 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, 2023 the Authority issued its ninth series of SWIRFT bonds, the \$171,330,000 Series 2023 Senior Lien Revenue Bonds. As of December 31, 2023, the remaining SWIRFT bond commitment is as follows:

Total commitment from TWDB	\$ 2,805,985,000
SWIRFT bonds issued	<u>(1,881,115,000)</u>
Remaining commitment	<u>\$ 924,870,000</u>

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

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

	<u>General Bonds</u>	<u>Direct Placement Bonds</u>	<u>Total</u>
Beginning Balance	\$ 352,720,000	\$ 1,626,470,000	\$ 1,979,190,000
Bonds issued	-	171,330,000	171,330,000
Bonds retired	<u>(16,760,000)</u>	<u>(19,715,000)</u>	<u>(36,475,000)</u>
Ending Balance	<u>\$ 335,960,000</u>	<u>\$ 1,778,085,000</u>	<u>\$ 2,114,045,000</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, 2023, the Authority had cash equivalents in the amount of \$28,936,217 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, 2023, the Authority had cash equivalents and investments in the amount of \$158,210,989 in the Reserve Fund.
- 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, 2023, was \$36,401,453. The Authority has cash equivalents and investments in the amount of \$59,721,817 in this fund, of which \$22,286,948 has been classified as unrestricted for reporting purposes.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023

Note 8 – Senior Lien Revenue Bonds (continued)

- 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, 2023 was \$5,505,656. The Authority has cash equivalents and investments in the amount of \$5,576,740 in this fund, of which \$71,084 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>2023</u>	<u>2022</u>
Net operating income per financial statements	\$ 101,448,988	\$ 127,572,801
Add back depreciation and amortization	<u>22,955,332</u>	<u>20,599,028</u>
Net revenues for debt service	124,404,320	148,171,829
Add:		
Coverage fund	59,721,817	56,666,389
Improvement fund	<u>306,888,095</u>	<u>291,370,057</u>
Adjusted net revenues	<u>\$ 491,014,232</u>	<u>\$ 496,208,274</u>
Debt Service Requirements	<u>\$ 107,398,113</u>	<u>\$ 100,174,538</u>
Debt service coverage	1.16	1.48
Adjusted debt service coverage	4.57	4.95

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023

Note 8 – 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, 2023, 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
2024	\$ 17,545,000	\$ 15,308,769	\$ 20,510,000	\$ 54,034,344	\$ 38,055,000	\$ 69,343,113
2025	18,295,000	14,570,419	23,675,000	53,487,231	41,970,000	68,057,650
2026	19,215,000	13,655,669	24,125,000	53,083,923	43,340,000	66,739,592
2027	20,165,000	12,694,919	24,585,000	52,652,127	44,750,000	65,347,046
2028	21,050,000	11,807,269	40,370,000	52,183,485	61,420,000	63,990,754
2029	21,985,000	10,868,969	49,275,000	51,321,807	71,260,000	62,190,776
2030	23,015,000	9,850,118	53,320,000	50,259,495	76,335,000	60,109,613
2031	24,165,000	8,699,368	55,960,000	49,069,248	80,125,000	57,768,616
2032	25,335,000	7,527,256	57,405,000	47,744,373	82,740,000	55,271,629
2033	26,580,000	6,287,194	66,425,000	46,313,616	93,005,000	52,600,810
2034	19,795,000	5,021,000	68,435,000	44,528,268	88,230,000	49,549,268
2035	20,780,000	4,031,250	70,385,000	42,626,507	91,165,000	46,657,757
2036	16,110,000	3,147,150	72,445,000	40,626,801	88,555,000	43,773,951
2037	16,600,000	2,663,850	74,605,000	38,489,097	91,205,000	41,152,947
2038	17,260,000	1,999,850	76,890,000	36,242,995	94,150,000	38,242,845
2039	3,005,000	1,309,450	79,260,000	33,878,425	82,265,000	35,187,875
2040	3,125,000	1,189,250	81,740,000	31,423,898	84,865,000	32,613,148
2041	3,250,000	1,064,250	84,365,000	28,839,506	87,615,000	29,903,756
2042	3,380,000	934,250	87,070,000	26,141,234	90,450,000	27,075,484
2043	3,550,000	765,250	89,910,000	23,311,181	93,460,000	24,076,431
2044	3,730,000	587,750	92,865,000	20,377,301	96,595,000	20,965,051
2045	3,915,000	401,250	95,910,000	17,277,441	99,825,000	17,678,691
2046	4,110,000	205,500	94,935,000	14,060,935	99,045,000	14,266,435
2047			88,490,000	10,858,307	88,490,000	10,858,307
2048			70,990,000	10,840,563	70,990,000	10,840,563
2049			42,740,000	5,326,254	42,740,000	5,326,254
2050			29,820,000	3,797,432	29,820,000	3,797,432
2051			26,215,000	2,621,144	26,215,000	2,621,144
2052			24,940,000	1,524,772	24,940,000	1,524,772
			10,425,000	450,360	10,425,000	450,360
	<u>\$ 335,960,000</u>	<u>\$ 134,590,000</u>	<u>\$ 1,778,085,000</u>	<u>\$ 943,392,070</u>	<u>\$ 2,114,045,000</u>	<u>\$ 1,077,982,070</u>

Note 9 – 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.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**NOTES TO THE FINANCIAL STATEMENTS****DECEMBER 31, 2023****Note 9 – Capital Contributions (continued)**

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.

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, 2023 are as follows:

Year	Principal	Interest	Total	Remaining Balance
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	13,193,937
2034	2,945,880	698,663	3,644,543	10,248,057
2035	3,099,076	545,472	3,644,548	7,148,981
2036	2,259,370	384,294	2,643,664	4,889,611
2037	2,380,822	262,842	2,643,664	2,508,789
2038	2,508,834	134,860	2,643,694	-
	<u>\$ 54,003,497</u>	<u>\$ 21,400,320</u>	<u>\$ 75,403,817</u>	

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

Capital contributions, beginning balance	\$ 57,070,463
Principal repayments	<u>(3,066,966)</u>
Capital contributions, ending balance	<u>\$ 54,003,497</u>

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023

Note 10 – 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, 2023, approximately fifty entities have provided the required documentation to the Authority and are receiving the monthly chloramination credit.

During the current fiscal year, the Authority reimbursed \$532,417 in principal and \$1,012,665 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 balance	\$ 16,877,816
Principal repayments	<u>(532,417)</u>
Chloramine credits payable, ending balance	<u>\$ 16,345,399</u>

As of December 31, 2023, 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>
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>\$ 16,345,399</u>	<u>\$ 10,366,357</u>	<u>\$ 26,711,756</u>	

Note 11 – Unrestricted Net Position

Included in the Authority’s unrestricted net position (i.e., the residual of assets plus deferred outflows less liabilities) of \$647,642,092, is \$255,880,103 in cash and investments, which the Authority has designated as additional bond reserves and has deposited in the Improvement Fund.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023

Note 12 – 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, 2023, the Authority recognized retirement expense of \$177,067.

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, 2023.

The Authority had no liability to the Plan as of December 31, 2023.

Note 13 – 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, 2023, all of the Authority's employees were members of the Plan. Non-vested contributions are immaterial to total contributions at December 31, 2023. Vested contributions are solely the possession of participating employees. Total covered payroll was \$1,565,949 for the year ended December 31, 2023. Employer contributions to the Plan were \$235,099.

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 14 – 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.

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, 2023, the net amount owed to the Authority by the City of Houston for the true-ups is \$1,358,945, which has been recorded as Due from other governments in the *Statement of Net Position*.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023

Note 14 – Water Supply Contracts (continued)

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.

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, 2023, 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, 2023, the Authority has paid Houston \$29,820,465 for its pro-rata share of estimated right of way costs, net of refunds. Of this amount, \$26,821,427 was paid during fiscal year 2023.

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 \$2,951,161 for its portion of the annual debt service requirement.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023

Note 14 – 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 \$100,112,119, deposited \$68,879,708 in the escrow accounts and has \$42,143,782 remaining in escrow as of December 31, 2023.

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 \$2,090,678 for its pro-rata share of the project.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023

Note 15 – 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, 2023, the commencement test has not been performed and the Authority has not contributed funding for the project.

Note 16 – 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 17 – 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.

Note 18 – Legal

The Authority is a 35% partner in the City of Houston Northeast Water Purification Plant expansion, a project managed by the City. The City is a defendant in litigation brought on by Houston Water Team, the contractor, for alleged change orders and cost increases. The matter is still under investigation and, currently, potential costs are undetermined.

Note 19 – Subsequent Events

Subsequent events have been evaluated through April 30, 2024, the date at which the financial statements were available to issue.

The amount reported on the Statement of Net Position as due from other governments for \$1,358,945 is a preliminary value provided to the Authority by the City of Houston. This value is subject to change pending the issuance of the final agreed upon procedures report.

SUPPLEMENTARY INFORMATION

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

SCHEDULE OF OPERATING EXPENSES

FOR THE YEARS ENDING DECEMBER 31, 2023 - 2019

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Personnel					
Employee salaries	\$ 1,574,582	\$ 1,853,247	\$ 1,573,252	\$ 1,541,331	\$ 1,385,277
Employee retirement	195,966	189,682	166,057	137,034	119,465
Group insurance	194,989	257,770	216,582	194,633	181,342
Medicare / Social security	121,538	113,691	98,572	98,572	87,973
Unemployment compensation	99	2,635	2,772	1,440	1,422
	<u>2,087,174</u>	<u>2,417,025</u>	<u>2,057,235</u>	<u>1,973,010</u>	<u>1,775,479</u>
Professional fees					
Legal	564,656	382,361	165,281	254,037	231,347
Engineering	-	771,345	610,905	753,396	1,097,161
Financial services	4,185	4,185	9,585	7,830	3,240
Legislative consultant	130,000	130,000	130,000	119,167	151,667
Investment management services	138,607	131,398	122,215	110,680	127,836
Redistricting / mappy	700	12,000	-	9,250	-
Audit	70,000	54,500	71,000	44,500	40,700
	<u>908,148</u>	<u>1,485,789</u>	<u>1,108,986</u>	<u>1,298,860</u>	<u>1,651,951</u>
Purchased Services					
Bulk water purchases	15,993,264	13,461,886	13,297,716	12,503,804	12,091,279
	<u>15,993,264</u>	<u>13,461,886</u>	<u>13,297,716</u>	<u>12,503,804</u>	<u>12,091,279</u>
Contracted services					
Operations and maintenance	2,172,519	1,845,510	2,351,765	2,000,416	2,188,815
Temporary services	7,488	25,437	20,777	2,547	24,220
	<u>2,180,007</u>	<u>1,870,947</u>	<u>2,372,542</u>	<u>2,002,963</u>	<u>2,213,035</u>
Occupancy and office					
Office	156,723	15,670	171,999	129,701	125,195
Safe deposit box	75	75	75	75	75
Bank charges	21,287	17,073	18,121	17,353	11,117
Printing and office	18,930	64,284	110,452	28,340	128,198
Postage and delivery	3,420	5,718	41,621	5,269	39,797
Telephone	70,625	39,831	45,823	47,858	60,713
Utilities	775,551	694,167	626,441	614,360	607,985
Equipment leases	15,220	14,335	15,242	13,874	13,566
Internet services	50,042	15,304	31,046	31,694	37,891
Communication services	-	78,100	85,200	73,330	81,670
	<u>1,111,873</u>	<u>944,557</u>	<u>1,146,020</u>	<u>961,854</u>	<u>1,106,207</u>

See accompanying Auditors' Report

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDING DECEMBER 31, 2023 - 2019

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Other					
Director fees	34,200	21,900	18,900	19,500	21,300
Election expense	-	776,095	209,772	509,407	-
Technology transfer projects	-	63,168	52,193	56,182	56,806
Insurance	178,261	152,923	138,411	130,461	98,148
Travel	51,291	59,978	44,655	36,192	51,602
Membership/Subscription fees	8,938	10,133	9,286	12,211	9,712
Computer services	13,846	22,235	14,418	23,519	40,836
Computer software and equipment	50,813	21,439	30,533	24,380	18,337
Maintenance and repairs	8,716	50,282	24,885	15,937	8,969
Office furniture	-	2,835	-	-	2,036
Water conservation	5,080	40,442	21,180	34,965	61,686
Mileage reimbursement	12,614	7,318	4,246	2,422	8,266
Permit fees	899,140	638,501	604,726	617,616	568,421
Seminar/Training	19,548	15,300	7,620	6,809	13,125
Security	4,960	5,753	3,851	2,584	7,449
Miscellaneous	34,699	-	6,543	-	-
	<u>1,322,106</u>	<u>1,888,302</u>	<u>1,191,219</u>	<u>1,492,185</u>	<u>966,693</u>
Expenses before Depreciation and Amortization	<u>23,602,572</u>	<u>22,068,506</u>	<u>21,173,718</u>	<u>20,232,676</u>	<u>19,804,644</u>
Depreciation and amortization	<u>22,955,332</u>	<u>20,599,028</u>	<u>18,969,199</u>	<u>15,924,780</u>	<u>12,308,095</u>
Total Expenses	<u>\$ 46,557,904</u>	<u>\$ 42,667,534</u>	<u>\$ 40,142,917</u>	<u>\$ 36,157,456</u>	<u>\$ 32,112,739</u>

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY
SCHEDULE OF PRINCIPAL WATER USERS
DECEMBER 31, 2023

<u>Name</u>	<u>Total Gallons</u>	<u>Fees Paid</u>	<u>Share (%)</u>
NW Harris Co. M.U.D. 5	1,188,935,000	\$ 4,854,266	3.2130%
Harris Co. M.U.D. 387	1,160,557,000	4,709,330	3.1363%
Harris Co. M.U.D. 358	1,026,894,000	3,995,442	2.7751%
Tomball, City of	955,498,000	3,877,953	2.5822%
Bridgestone M.U.D.	914,542,000	3,739,588	2.4715%
Harris Co. F.W.S.D. 61	841,992,000	3,500,086	2.2754%
Harris Co. M.U.D. 367 & 383	806,670,000	3,314,345	2.1800%
Aqua Texas, Inc.	805,919,000	3,302,139	2.1779%
Timber Lane U.D.	636,994,000	2,621,129	1.7214%
Harris Co. M.U.D. 280/281/282	<u>627,500,000</u>	<u>2,561,860</u>	<u>1.6958%</u>
Subtotal	8,965,501,000	36,476,138	24.2287%
All other retail utilities	27,162,155,972	111,118,475	73.4041%
All private well owners	<u>875,948,886</u>	<u>3,517,737</u>	<u>2.3672%</u>
Total	<u><u>37,003,605,858</u></u>	<u><u>\$ 151,112,350</u></u>	<u><u>100.0000%</u></u>

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**HISTORICAL RATES AND CHARGES****DECEMBER 31, 2023**

Name	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
October 1, 2023	Groundwater	3.60
	Surface Water	4.05

See accompanying Auditors' Report

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**BILLING AND COLLECTION EXPERIENCE****DECEMBER 31, 2023**

Year	Volume Reported to Subsidence District (gallons)	Volume Reported to Authority (gallons)	Percentage
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	29,420,864,157	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%
2023	37,045,123,816	37,003,605,858	99.89%

See accompanying Auditors' Report