



Houston, Texas

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
December 31, 2024**

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

FOR THE YEAR ENDED DECEMBER 31, 2024

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FINANCIAL SECTION

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INDEPENDENT AUDITOR’S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of North Harris County Regional Water Authority (the “Authority”), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Authority, as of December 31, 2024, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

OFFICE LOCATIONS

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Auditor's Responsibility 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 GAAS and *Government 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 GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2025, on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority’s internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
May 14, 2025

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Management's Discussion and Analysis

As management of the North Harris County Regional Water Authority (the "Authority"), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2024. Please read it in conjunction with the basic financial statements that begin that follow this section.

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

- The Authority's basic financial statements including the notes to the financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements.
- 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, 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.

The statement of net position presents information on all the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority 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 changed during the most recent fiscal year. All revenues and expenses are included in 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 the cash provided by the Authority's operating activities to operating income as reported in the Statement of Revenues, Expenses and Changes in Net Position.

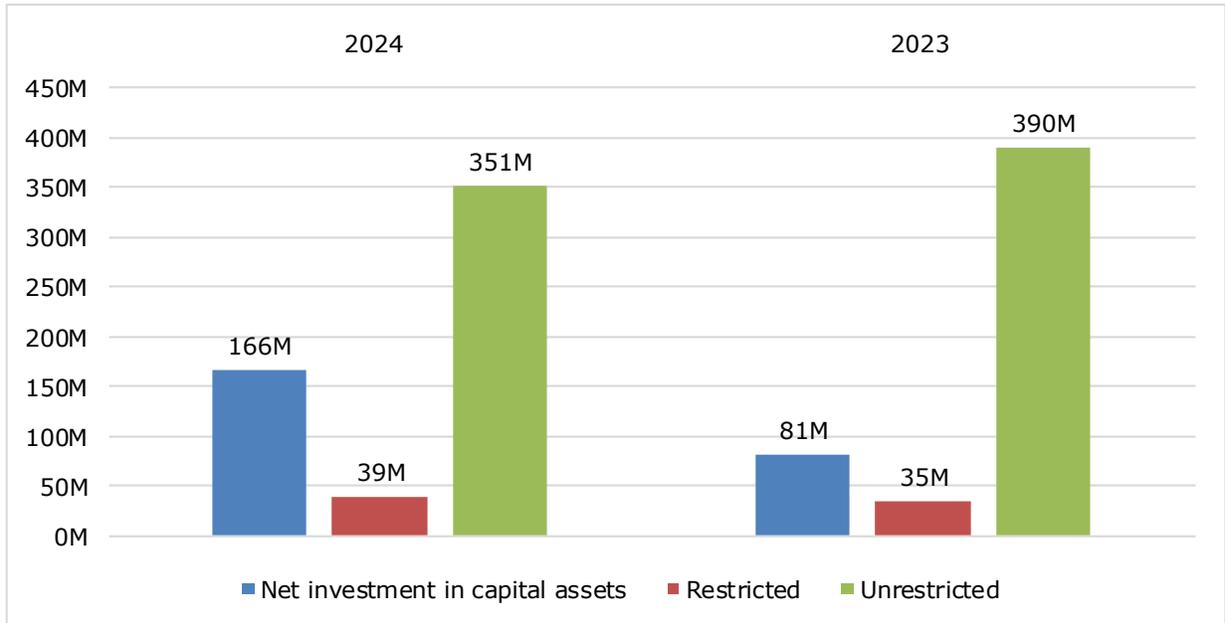
FINANCIAL ANALYSIS

The Authority’s net position at December 31, 2024, was \$556,123,854. A comparative summary of the Authority’s overall financial position, as of December 31, 2024, and 2023, is as follows:

Statement of Net Position

	2024	2023
Current and other assets	\$ 1,289,218,666	\$ 1,258,632,676
Capital assets (net)	<u>1,612,078,276</u>	<u>1,488,594,143</u>
Total assets	<u>2,901,296,942</u>	<u>2,747,226,819</u>
Deferred outflows of resources	<u>15,546,131</u>	<u>16,732,255</u>
Current liabilities	99,727,118	48,514,542
Noncurrent liabilities	<u>2,260,992,101</u>	<u>2,209,939,358</u>
Total liabilities	<u>2,360,719,219</u>	<u>2,258,453,900</u>
Net position:		
Net investment in capital assets	166,167,177	80,991,832
Restricted	39,255,365	34,776,942
Unrestricted	<u>350,701,312</u>	<u>389,736,400</u>
Total net position	<u>\$ 556,123,854</u>	<u>\$ 505,505,174</u>

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



The total net position of the Authority, increased during the current fiscal year by \$50,618,680. A comparative summary of the Authority’s statement of revenues, expenses and changes in net position for the past two years is as follows:

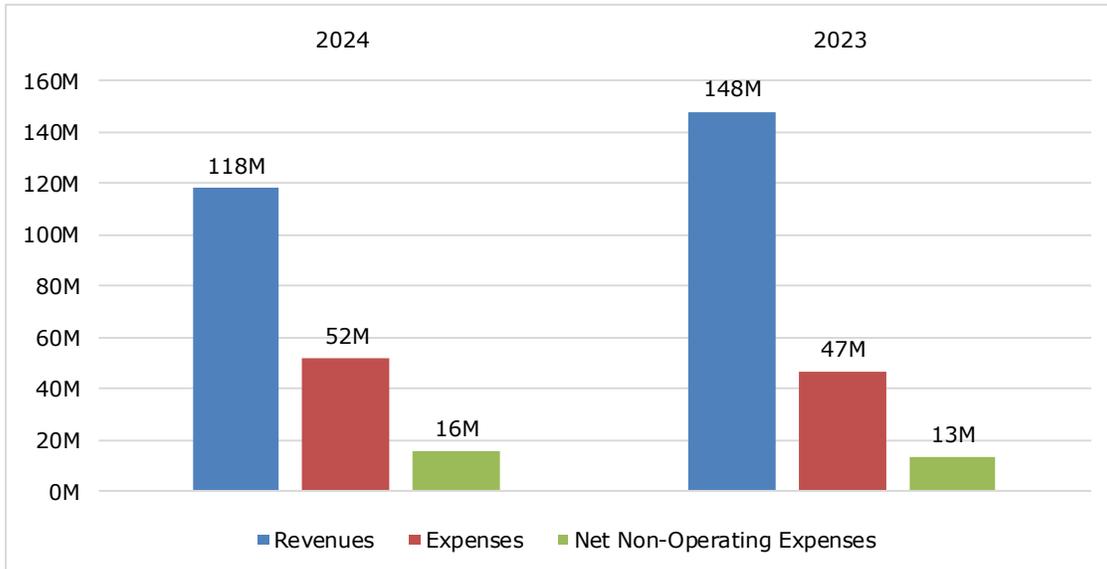
Statement of Revenues, Expenses and Changes in Net Position

	2024	2023
Operating revenues	\$ 117,943,486	\$ 148,006,892
Operating expenses	<u>(51,748,961)</u>	<u>(46,557,904)</u>
Net operating income	66,194,525	101,448,988
Net nonoperating revenues/(expenses)	<u>(15,575,845)</u>	<u>(13,385,872)</u>
Change in net position	50,618,680	88,063,116
Net position, beginning	<u>505,505,174</u>	<u>417,442,058</u>
Net position, ending	<u>\$ 556,123,854</u>	<u>\$ 505,505,174</u>

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

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:



DEBT AND CAPITAL ASSET ADMINISTRATION

Capital Assets

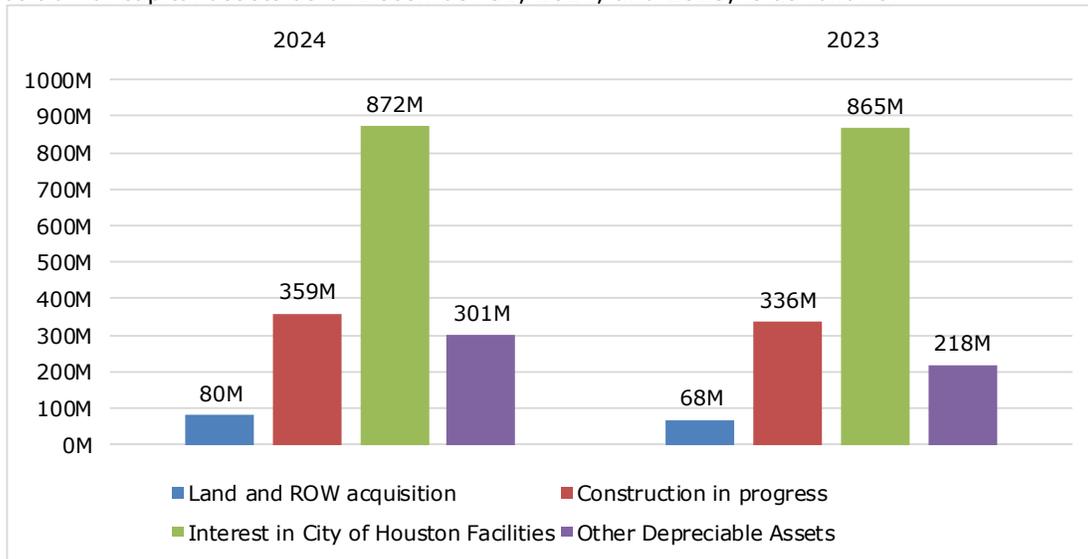
The Authority’s capital assets primarily consist of land, construction in progress, infrastructure, right-to-use assets and the Authority’s interest in the City of Houston treated water facilities and water transmission facilities. Capital assets held by the Authority as of December 31, 2024, and 2023, are summarized as follows:

Capital Assets
(net of Accumulated Depreciation)

	2024	2023
Land and ROW acquisition	\$ 80,197,853	\$ 68,452,041
Construction in progress	358,863,281	336,231,976
Interest in water facilities	643,317,071	631,993,432
Interest in transmission facilities	229,058,723	233,493,534
Infrastructure	299,696,816	217,134,083
Furniture, fixtures & equipment	74,580	46,628
Right-to-use lease	198,032	346,555
Subscription-based IT	671,920	895,894
Total	<u>\$ 1,612,078,276</u>	<u>\$ 1,488,594,143</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. Additionally, five projects were completed and transferred to infrastructure with a total capitalized cost of \$91.4 million.

The composition of capital assets as of December 31, 2024, and 2023, is as follows:



Additional information on capital assets can be found in note III to the financial statements.

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, 2024, was \$215,312.

Subscription-Based IT Payable

The Authority has 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 \$895,894. The balance due for the SBITA as of December 31, 2024, was \$696,680.

Long-Term Debt

During the year, the Authority issued \$118,000,000 in senior lien revenue bonds. A comparative summary of the Authority’s long-term obligations, as of December 31, 2024, and 2023, is as follows:

	2024	2023
Chloramination conversion credits payable	\$ 15,781,037	\$ 16,345,399
Capital contributions		
2003	16,829,655	18,279,023
2005	8,397,878	8,967,538
2008	25,551,589	26,756,936
	50,779,122	54,003,497
Revenue bonds		
Series 2013 Senior Lien Refunding	58,760,000	64,010,000
Series 2014 Senior Lien Refunding	46,485,000	49,640,000
Series 2015 Senior Lien	63,530,000	65,755,000
Series 2016 Senior Lien Refunding	213,170,000	222,310,000
Series 2016A Senior Lien	157,025,000	162,600,000
Series 2017 Senior Lien	331,310,000	341,735,000
Series 2018 Senior Lien	464,345,000	465,345,000
Series 2019 Senior Lien	228,200,000	228,700,000
Series 2020 Senior Lien	78,190,000	78,350,000
Series 2021 Senior Lien	38,330,000	38,430,000
Series 2022 Senior Lien	225,315,000	225,840,000
Series 2023 Senior Lien	171,330,000	171,330,000
Series 2024 Senior Lien	118,000,000	-
Unamortized bond premium	45,618,786	48,466,770
Unamortized bond discount	-	(1,257,622)
	2,239,608,786	2,161,254,148
Compensated absences	315,695	331,326
	\$ 2,306,484,640	\$ 2,231,934,370

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 IV to the financial statements, 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 the required levels.

Additional information on long-term debt can be found in note IV to the financial statements.

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 25, 2014, for recertification. The 2025-2029 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 was \$11.86 per 1,000 gallons for fiscal year 2024. During years when 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	2030	1,046,000
2011	123,600,000	2035	<u>664,272,000</u>
2012	-	Total Series B Credits	<u>665,318,000</u>
2013	1,187,600,000		
2014	1,079,400,000		
2015	764,200,000		
2016	892,600,000		
2017	1,014,100,000		
2018	512,200,000		
2019	751,500,000		
2020	530,700,000		
2021	<u>238,730,000</u>		
Total	<u>8,898,130,000</u>		

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

The 2025-2029 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 2025-2029 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 2025-2029 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 2015-2028 the TWDB has committed \$2.805 billion of financial support to the Authority.

As illustrated by the table that follows, approximately \$985.2 million of SWIRFT Funds, \$8.1 million of Participant Funds and \$54.5 million of Capital Funds are committed to implement the 2025-2029 CIP.

Category	Fiscal Year Planned Budget (Present Value, Thousands)					Five Year Total Budget (Thousands)
	2025	2026	2027	2028	2029	
Planned Authorization						
Acquisition	\$ 25,848	\$ 21,666	\$ 5,940	\$ -	\$ -	\$ 53,454
Design	41,394	16,151	3,500	3,500	3,500	68,045
Construction	302,928	204,684	243,345	108,803	6,447	866,207
Other	<u>38,115</u>	<u>5,500</u>	<u>5,500</u>	<u>5,500</u>	<u>5,500</u>	<u>60,115</u>
Total Authorizations	<u>\$ 408,285</u>	<u>\$ 248,001</u>	<u>\$ 258,285</u>	<u>\$ 117,803</u>	<u>\$ 15,447</u>	<u>\$ 1,047,821</u>
Planned Funding						
SWIFT Funds	\$ 396,037	\$ 230,890	\$ 246,992	\$ 106,803	\$ 4,447	\$ 985,169
Participation Funds	1,720	6,112	293	-	-	8,125
Capital Funds	<u>10,528</u>	<u>11,000</u>	<u>11,000</u>	<u>11,000</u>	<u>11,000</u>	<u>54,528</u>
Total Authorizations	<u>\$ 408,285</u>	<u>\$ 248,002</u>	<u>\$ 258,285</u>	<u>\$ 117,803</u>	<u>\$ 15,447</u>	<u>\$ 1,047,821</u>

Next Year's Budget

The Authority's 2025 budget as compared to actual results for 2024 is as follows:

	2024 <u>Actual</u>	2025 <u>Budget</u>
Operating revenues	\$ 117,943,486	\$ 91,713,003
Operating expenses	<u>(51,748,961)</u>	<u>(41,560,080)</u>
Net operating income	<u>66,194,525</u>	<u>50,192,923</u>
Non-operating revenue (expense)		
Interest expense	(72,750,131)	(154,981,373)
Investment earnings	60,747,419	3,000,000
Bond issuance costs	(357,887)	-
Luce Bayou debt service contribution	<u>(3,215,246)</u>	<u>-</u>
Net non-operating revenue (expense)	<u>(15,575,845)</u>	<u>(151,981,373)</u>
Change in net position	50,618,680	(101,828,450)
Net position, beginning of year	<u>505,505,174</u>	<u>556,123,854</u>
Net position, end of year	<u>\$ 556,123,854</u>	<u>\$ 454,295,404</u>

Actual revenues for 2024 are higher than budgeted revenues for 2025 because the Authority takes a conservative approach to budgeting and the Authority approved a rate reduction for 2025, which decreased anticipated revenues. The budget for 2025 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 of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, North Harris County Regional Water Authority, 3648 Cypress Creek Parkway, Suite 110, Houston, Texas 77068.

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BASIC FINANCIAL STATEMENTS

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

STATEMENT OF NET POSITION

DECEMBER 31, 2024

ASSETS

Current assets:	
Cash and cash equivalents	\$ 136,085,225
Investments	71,388,077
Accounts receivable	15,249,422
Due from other governments	1,358,945
Restricted cash and cash equivalents	<u>39,255,365</u>
Total current assets	<u>263,337,034</u>
Non-current assets:	
Investments	130,011,228
Restricted cash and cash equivalents	70,382,077
Restricted investments	189,958,792
Cash equivalents with escrow agent	635,529,535
Capital assets:	
Nondepreciable	439,061,134
Depreciable, net of accumulated depreciation	<u>1,173,017,142</u>
Total non-current assets	<u>2,637,959,908</u>
Total assets	<u>2,901,296,942</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred charge on refunding	<u>15,546,131</u>
Total deferred outflows of resources	<u>15,546,131</u>

LIABILITIES

Current liabilities:	
Accounts payable	37,597,104
Accrued liabilities	4,709
Retainage payable	12,649,593
Interest payable on bonds	3,071,181
Current portion of long term liabilities:	
Chloramine conversion credits payable	598,224
Capital contributions	3,389,874
Bonds payable	41,970,000
Lease payable	159,628
Subscription-based IT payable	223,666
Compensated absences	<u>63,139</u>
Total current liabilities	<u>99,727,118</u>
Non-current liabilities:	
Chloramine conversion credits payable	15,182,813
Capital contributions	47,389,248
Bonds payable	2,197,638,786
Lease payable	55,684
Subscription-based IT payable	473,014
Compensated absences	<u>252,556</u>
Total non-current liabilities	<u>2,260,992,101</u>
Total liabilities	<u>2,360,719,219</u>

NET POSITION

Net investment in capital assets	166,167,177
Restricted for debt service	39,255,365
Unrestricted	<u>350,701,312</u>
Total net position	<u>\$ 556,123,854</u>

The accompanying notes are an integral part of these financial statements.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2024

OPERATING REVENUES

Charges for services	\$ 117,943,486
Total operating revenues	<u>117,943,486</u>

OPERATING EXPENSES

Personnel services	2,011,356
Professional fees	966,885
Purchased water	18,243,107
Contracted services	2,372,270
Occupancy and office	1,030,327
Other	1,777,448
Depreciation and amortization	<u>25,347,568</u>
Total operating expenses	<u>51,748,961</u>

OPERATING INCOME

66,194,525

NON-OPERATING REVENUES (EXPENSES)

Interest expense	(72,750,131)
Investment earnings	60,747,419
Bond issuance costs	(357,887)
Luce Bayou debt service contributions	<u>(3,215,246)</u>
Net non-operating revenues (expenses)	<u>(15,575,845)</u>

CHANGE IN NET POSITION

50,618,680

NET POSITION, BEGINNING OF YEAR

505,505,174

NET POSITION, END OF YEAR

\$ 556,123,854

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2024

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 119,175,464
Payments for personnel costs	(2,027,113)
Payments to contractors and vendors	<u>(23,664,165)</u>
Net cash provided by operating activities	<u>93,484,186</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Interest paid on long-term debt	(76,951,792)
Principal paid on long-term debt	(38,412,966)
Acquisition and construction of capital assets	(97,770,465)
Proceeds from issuance of long-term debt	117,642,113
Paid to City of Houston for water supply and transmission facilities	(22,979,409)
Paid to City of Houston for Luce Bayou debt service	<u>(3,215,246)</u>
Net cash used by capital and related financing activities	<u>(121,687,765)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>61,431,093</u>
Net cash provided by investing activities	<u>61,431,093</u>

NET CHANGE IN CASH AND INVESTMENTS

33,227,514

CASH AND INVESTMENTS, BEGINNING

1,239,382,785

CASH AND INVESTMENTS, ENDING

\$ 1,272,610,299

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating income (loss)	\$ 66,194,525
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	25,347,568
Change in current assets and liabilities:	
(Increase) decrease in accounts receivable	1,231,978
(Increase) decrease in water conservation credits	725,872
Increase (decrease) in accrued liabilities	(126)
Increase (decrease) in compensated absences	<u>(15,631)</u>
Net cash provided (used) by operating activities	<u>\$ 93,484,186</u>

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024

I. 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:

A. 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.

B. Reporting Entity

The Authority is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established 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.

C. Basis of Presentation

The Authority is engaged solely in business-type activities. As such, it reports only those financial statements required for proprietary funds. The Authority's activities are reported in an enterprise fund, which is a type of proprietary fund. 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.

D. 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. 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 of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Assets, Liabilities, Deferred Outflows of Resources, Net Position, Revenues, and Expenses

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).

Investments for the Authority are reported at fair value except for external government investment pools (the Pools). The Pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

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. As of December 31, 2024, 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
Lease and subscription assets	Life of Contract

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Authority's Statement of Net Position. Bonds payable are reported net of the applicable bond premium or discount and deferred amounts on refundings. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenses in the period incurred.

Leases

The Authority has entered into a lease agreement for office space as lessee. Key estimates and judgments related to leases include how the Authority determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the interest rate charged by the lessor as the discount rate, if available. When the interest rate charged by the lessor is not provided, the Authority generally uses its estimated incremental borrowing rate as the discount rate for leases.

- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and the purchase option price that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability or lease asset.

Lessee. The Authority is a lessee for noncancellable leases of its office building. The Authority recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life. Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt in the statement of net position.

Subscription-based IT Arrangements

The Authority has agreements for subscription-based IT arrangements (SBITAs). The Authority recognizes a SBITA liability and an intangible right-to-use asset in the statement of net position.

At the commencement of a SBITA, the Authority initially measures the liability at the present value of payments expected to be made during the agreement term. Subsequently, the liability is reduced by the principal portion of payments made. The asset is initially measured as the initial amount of the liability, adjusted for payments made at or before the commencement date, plus certain initial direct costs. Subsequently, the asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to SBITAs include how the Authority determines (1) the discount rate it uses to discount the expected payments to present value, (2) agreement term, and (3) agreed upon payments.

- The Authority uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Authority generally uses its estimated incremental borrowing rate as the discount rate.
- The agreement term includes the noncancellable period of the SBITA.
- The agreed upon payments included in the measurement of the liability are composed of fixed payments and the purchase option price that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that would require a remeasurement of its SBITA and will remeasure the asset and liability if certain changes occur that are expected to significantly affect the amount of the liability. These right-to-use assets are reported with other capital assets and liabilities are reported with long-term debt in the statement of net position.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has one item that qualifies for reporting in this category. Deferred charges on bond refunding arise from the difference between the net proceeds of refunding debt and the book value of the bonds being refunded. This difference is recognized as interest expense on a straight-line basis over either the life of the refunding bonds or the bonds that were refunded, whichever is shorter.

Net Position

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.

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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.

II. CASH AND INVESTMENTS

Restricted Financial Resources

Financial resources were restricted for the following purposes as of December 31, 2024:

Bond Reserves	\$	279,810,675
Capital improvements		46,187,496
Held by escrow agents:		
Capital improvements		<u>635,529,535</u>
Total Restricted Funds held at bank		961,527,706
Less: Funds reclassified to unrestricted		<u>(26,401,937)</u>
Restricted Funds in Statement of Net Position	\$	<u>935,125,769</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, 2024, 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.

Investments

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

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

As of December 31, 2024, the Authority's investments (including cash equivalents) are as follows:

Investment Type	Fair Value	Percentage of Total	Rating	Maturities In Years	
				Less than 1	1-5 Yrs
Federal Farm Credit Bank Bonds	\$ 6,036,840	1%	AAA	\$ 6,036,840	\$ -
First American Government Obligations Fund, Class V	50,717,204	4%	AAAm	50,717,204	-
U.S. Treasury Notes / Bonds	334,604,053	27%	AAA	147,957,750	186,646,303
TexPool and TexPool Prime	104,121,074	8%	AAAm	104,121,074	-
TexSTAR	107,477,479	9%	AAAm	107,477,479	-
Held by escrow agents:					
Fidelity Treasury Portfolio, Class I	635,529,535	51%	AAAm	635,529,535	-
	<u>\$ 1,238,486,185</u>	<u>100%</u>		<u>\$ 1,051,839,882</u>	<u>\$ 186,646,303</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 in the Statement of Net Position.

Investment Valuation

The Authority's investments in U.S. treasuries, U.S. agency and instrumentality securities and TexSTAR are reported at fair value in the Statement of Net Position. Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. Fair value measurements of the Authority's investments as of December 31, 2024, are as follows:

- U.S. Treasury Notes and Bonds: valued at \$334,604,053 based on quoted market prices (Level 1 inputs).
- U.S. Government Agency and Instrumentality Securities: valued at \$56,754,044 based on a bid evaluation pricing method (Level 2 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.

III. CAPITAL ASSETS

A summary of changes in capital assets during the year ended December 31, 2024, follows:

	Balance 12/31/2023	Additions	Disposals	Balance 12/31/2024
Capital assets not being depreciated				
Land and ROW acquisition	\$ 68,452,041	\$ 11,745,812	\$ -	\$ 80,197,853
Construction in Progress	<u>336,231,976</u>	<u>114,056,628</u>	<u>(91,425,323)</u>	<u>358,863,281</u>
Total capital assets, nondepreciable	<u>404,684,017</u>	<u>125,802,440</u>	<u>(91,425,323)</u>	<u>439,061,134</u>
Capital assets being depreciated/amortized				
Interest in water facilities	693,001,623	22,979,411	-	715,981,034
Interest in transmission facilities	262,079,787	-	-	262,079,787
Infrastructure	307,256,465	91,425,323	-	398,681,788
Furniture, fixtures & equipment	443,385	49,850	(6,062)	487,173
Right-to-use lease	445,570	-	-	445,570
Subscription-based IT	<u>1,119,868</u>	<u>-</u>	<u>-</u>	<u>1,119,868</u>
Total capital assets, depreciable	<u>1,264,346,698</u>	<u>114,454,584</u>	<u>(6,062)</u>	<u>1,378,795,220</u>
Less accumulated depreciation/amortization				
Interest in water facilities	(61,008,191)	(11,655,772)	-	(72,663,963)
Interest in transmission facilities	(28,586,253)	(4,434,811)	-	(33,021,064)
Infrastructure	(90,122,382)	(8,862,590)	-	(98,984,972)
Furniture, fixtures & equipment	(396,757)	(21,898)	6,062	(412,593)
Right-to-use lease	(99,015)	(148,523)	-	(247,538)
Subscription-based IT	<u>(223,974)</u>	<u>(223,974)</u>	<u>-</u>	<u>(447,948)</u>
Total accumulated depreciation	<u>(180,436,572)</u>	<u>(25,347,568)</u>	<u>6,062</u>	<u>(205,778,078)</u>
Net capital assets being depreciated	<u>1,083,910,126</u>	<u>89,107,016</u>	<u>-</u>	<u>1,173,017,142</u>
Net capital assets	<u>\$ 1,488,594,143</u>	<u>\$ 214,909,456</u>	<u>\$ (91,425,323)</u>	<u>\$ 1,612,078,276</u>

Depreciation and amortization expense for the current year was \$25,347,568.

IV. LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
General bonds	\$ 335,960,000	\$ -	\$ 17,545,000	\$ 318,415,000	\$ 18,295,000
Direct placement bonds	1,778,085,000	118,000,000	20,510,000	1,875,575,000	23,675,000
Unamortized premiums	48,466,770	-	2,847,984	45,618,786	-
Unamortized discounts	<u>(1,257,622)</u>	<u>-</u>	<u>(1,257,622)</u>	<u>-</u>	<u>-</u>
Total bonds payable	<u>2,161,254,148</u>	<u>118,000,000</u>	<u>39,645,362</u>	<u>2,239,608,786</u>	<u>41,970,000</u>
Chloramination conversion credits payable	16,345,399	-	564,362	15,781,037	598,224
Capital contributions	54,003,497	-	3,224,375	50,779,122	3,389,874
Leases payable	357,759	-	142,447	215,312	159,628
Subscription-based IT payable	912,199	-	215,519	696,680	223,666
Compensated absences	<u>331,326</u>	<u>1,431,229</u>	<u>1,446,860</u>	<u>315,695</u>	<u>63,139</u>
Total long-term liabilities	<u>\$ 2,233,204,328</u>	<u>\$ 119,431,229</u>	<u>\$ 45,238,925</u>	<u>\$ 2,307,396,632</u>	<u>\$ 46,404,531</u>

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.

The Authority's outstanding general bonds payable as of December 31, 2024, are comprised of the following individual issues:

Series	Principal Payments	Interest Payments	Callable	Interest Rate	Original Principal	Amount Outstanding
2013 refunding	12/15/14 - 12/15/33	6/15 & 12/15	12/15/22	2.00% - 5.00%	\$ 106,320,000	\$ 58,760,000
2014 refunding	12/15/15 - 12/15/35	6/15 & 12/15	12/15/24	2.00% - 5.00%	72,510,000	46,485,000
2016 and refunding	12/15/29 - 12/15/46	6/15 & 12/15	12/15/26	5.00%	258,125,000	213,170,000
Total					<u>\$ 436,955,000</u>	<u>\$ 318,415,000</u>

The Authority's outstanding direct placement bonds payable as of December 31, 2024, are comprised of the following individual issues:

Series	Principal Payments	Interest Payments	Callable	Interest Rate	Original Principal	Amount Outstanding
2015	12/15/17 - 12/15/45	6/15 & 12/15	12/15/25	0.45% - 3.21%	\$ 80,435,000	\$ 63,530,000
2016A	12/15/18 - 12/15/46	6/15 & 12/15	12/15/26	0.65% - 3.07%	195,050,000	157,025,000
2017	12/15/19 - 12/15/47	6/15 & 12/15	12/15/27	0.76% - 3.02%	391,715,000	331,310,000
2018	12/15/20 - 12/15/48	6/15 & 12/15	12/15/28	1.63% - 3.51%	469,345,000	464,345,000
2019	12/15/21 - 12/15/49	6/15 & 12/15	12/15/29	1.07% - 2.83%	230,200,000	228,200,000
2020	12/15/22 - 12/15/50	6/15 & 12/15	12/15/30	0.15% - 2.65%	78,670,000	78,190,000
2021	12/15/23 - 12/15/51	6/15 & 12/15	12/15/31	0.24% - 2.84%	38,530,000	38,330,000
2022	12/15/24 - 12/15/52	6/15 & 12/15	12/15/32	2.87% - 4.30%	225,840,000	225,315,000
2023	12/15/25 - 12/15/53	6/15 & 12/15	12/15/33	3.06% - 4.32%	171,330,000	171,330,000
2024	12/15/26 - 12/15/54	6/15 & 12/15	12/15/34	3.49% - 3.64%	118,000,000	118,000,000
Total					<u>\$ 1,999,115,000</u>	<u>\$ 1,875,575,000</u>

As of December 31, 2024, 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, 2024, the Authority issued its tenth series of SWIRFT bonds, the \$118,000,000 Series 2024 Senior Lien Revenue Bonds. As of December 31, 2024, the remaining SWIRFT bond commitment is as follows:

Total commitment from TWDB	\$ 2,805,985,000
SWIRFT bonds issued	<u>(1,999,115,000)</u>
Remaining commitment	<u>\$ 806,870,000</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 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, 2024, the Authority had cash equivalents in the amount of \$32,046,172 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, 2024, the Authority had cash equivalents and investments in the amount of \$173,072,107 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, 2024, was \$36,066,337. The Authority has cash equivalents and investments in the amount of \$62,468,275 in this fund, of which \$26,401,937 has been classified as unrestricted for reporting purposes.
- Operation and Maintenance Reserve Fund – Funds from gross revenues of the Authority will be deposited on or before the last business day of the month into this account. The Operation and Maintenance requirement, as of December 31, 2024, was \$5,505,656. The Authority has cash equivalents and investments in the amount of \$6,930,826 in this fund.

Historical Debt Service Coverage

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

	<u>2024</u>	<u>2023</u>
Net operating income per financial statements	\$ 66,194,525	\$ 101,448,988
Add back depreciation and amortization	<u>25,347,568</u>	<u>22,955,332</u>
Net revenues for debt service:	91,542,093	124,404,320
Add:		
Coverage fund	62,468,275	59,721,817
Improvement fund	<u>293,602,513</u>	<u>306,888,095</u>
Adjusted net revenues	<u>\$ 447,612,881</u>	<u>\$ 491,014,232</u>
 Debt Service Requirements	 <u>\$ 113,955,332</u>	 <u>\$ 107,398,113</u>
 Debt Service coverage	 0.80	 1.16
Adjusted debt service coverage	3.93	4.57

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, 2024, the debt service requirements on all Senior Bonds outstanding are as follows:

Fiscal Year	General Bonds		Direct Placement Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2025	\$ 18,295,000	\$ 14,570,419	\$ 23,675,000	\$ 57,414,914	\$ 41,970,000	\$ 71,985,333
2026	19,215,000	13,655,669	26,775,000	56,895,149	45,990,000	70,550,818
2027	20,165,000	12,694,919	27,290,000	56,407,606	47,455,000	69,102,525
2028	21,050,000	11,807,269	43,140,000	55,883,370	64,190,000	67,690,639
2029	21,985,000	10,868,969	52,105,000	54,962,942	74,090,000	65,831,911
2030	23,015,000	9,850,119	56,215,000	53,840,353	79,230,000	63,690,472
2031	24,165,000	8,699,369	58,920,000	52,596,416	83,085,000	61,295,785
2032	25,335,000	7,527,256	60,435,000	51,193,461	85,770,000	58,720,717
2033	26,580,000	6,287,194	69,535,000	49,690,893	96,115,000	55,978,087
2034	19,795,000	5,021,000	71,620,000	47,829,350	91,415,000	52,850,350
2035	20,780,000	4,031,250	73,660,000	45,848,963	94,440,000	49,880,213
2036	16,110,000	3,147,150	75,805,000	43,760,904	91,915,000	46,908,054
2037	16,600,000	2,663,850	78,065,000	41,528,539	94,665,000	44,192,389
2038	17,260,000	1,999,850	80,455,000	39,180,186	97,715,000	41,180,036
2039	3,005,000	1,309,450	82,950,000	36,706,530	85,955,000	38,015,980
2040	3,125,000	1,189,250	85,550,000	34,135,398	88,675,000	35,324,648
2041	3,250,000	1,064,250	88,310,000	31,426,418	91,560,000	32,490,668
2042	3,380,000	934,250	91,150,000	28,596,797	94,530,000	29,531,047
2043	3,550,000	765,250	94,135,000	25,629,228	97,685,000	26,394,478
2044	3,730,000	587,750	97,240,000	22,551,698	100,970,000	23,139,448
2045	3,915,000	401,250	100,450,000	19,296,087	104,365,000	19,697,337
2046	4,110,000	20,500	99,645,000	13,895,582	103,755,000	13,916,082
2047	-	-	93,380,000	12,543,500	93,380,000	12,543,500
2048	-	-	76,070,000	7,849,231	76,070,000	7,849,231
2049	-	-	48,010,000	6,643,384	48,010,000	6,643,384
2050	-	-	35,290,000	4,915,355	35,290,000	4,915,355
2051	-	-	31,900,000	3,536,131	31,900,000	3,536,131
2052	-	-	30,850,000	2,228,845	30,850,000	2,228,845
2053	-	-	16,565,000	927,489	16,565,000	927,489
2054	-	-	<u>6,385,000</u>	<u>241,353</u>	<u>6,385,000</u>	<u>241,353</u>
	<u>\$ 318,415,000</u>	<u>\$ 119,096,233</u>	<u>\$ 1,875,575,000</u>	<u>\$ 958,156,064</u>	<u>\$ 2,193,990,000</u>	<u>\$ 1,077,252,297</u>

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 remaining amounts plus accrued interest at the end of the capital contribution expiration date will be credited against any amounts owed to the Authority by the MUDs or paid to the MUDs by the Authority.

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

In 2008, the Authority entered into contracts with twenty MUDs to provide funds to pay capital expenses of the Authority’s system. Each MUD has paid a capital contribution based on a percentage of its pro-rata share of the total groundwater production for all water utilities during the calendar year 2009. Capital contributions of \$30,936,787 and \$4,960,093 were made to the Authority in the 2008 and 2009 fiscal years, respectively, for total 2008 contributions of \$35,896,880. The participating MUDs began receiving contribution credits against their individual water fees distributed over the life of the Series 2008 Senior Bonds beginning with the 2009 first quarter pumpage fees. Any remaining amounts 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, 2024, are as follows:

Fiscal Year	Principal	Interest	Total	Remaining Balance
2025	\$ 3,389,874	\$ 2,628,511	\$ 6,018,385	\$ 47,389,248
2026	3,563,869	2,454,516	6,018,385	43,825,379
2027	3,746,810	2,271,575	6,018,385	40,078,569
2028	3,939,158	2,079,227	6,018,385	36,139,411
2029	4,141,396	1,876,989	6,018,385	31,998,015
2030	4,354,034	1,664,351	6,018,385	27,643,981
2031	4,577,608	1,440,777	6,018,385	23,066,373
2032	4,812,682	1,205,703	6,018,385	18,253,691
2033	5,059,698	958,541	6,018,239	13,193,993
2034	2,945,880	698,663	3,644,543	10,248,113
2035	3,099,076	545,472	3,644,548	7,149,037
2036	2,259,370	384,294	2,643,664	4,889,667
2037	2,380,822	262,842	2,643,664	2,508,845
2038	2,508,845	134,860	2,643,705	-
	<u>\$ 50,779,122</u>	<u>\$ 18,606,321</u>	<u>\$ 69,385,443</u>	

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, 2024, 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 \$564,362 in principal and \$980,720 in interest to districts for chloramination conversion facilities.

As of December 31, 2024, the annual chloramination credits, including principal, interest and remaining balance are as follows:

Fiscal Year	Principal	Interest	Total	Remaining Balance
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>\$ 15,781,037</u>	<u>\$ 9,385,637</u>	<u>\$ 25,166,674</u>	

Leases

In fiscal year 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 on April 1, 2023, and will terminate March 31, 2026. Monthly lease payments range from \$13,066 to \$13,863. The lease liability and right-to-use asset were valued using an imputed interest rate of 3.78%. The remaining balance of the liability as of December 31, 2024, is \$215,312.

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

Fiscal Year	Principal	Interest	Total
2025	\$ 159,628	\$ 5,102	\$ 164,730
2026	55,684	410	56,094
	<u>\$ 215,312</u>	<u>\$ 5,512</u>	<u>\$ 220,824</u>

Subscription-Based Information Technology Arrangements

In fiscal year 2022, the Authority entered into a subscription-based information technology arrangement (SBITA) for software services. The Authority makes annual subscription payments of \$250,000 in fiscal years 2023 through 2027. The subscription liability and right-to-use asset were valued using an imputed interest rate of 3.78%. The remaining balance of the liability as of December 31, 2024, is \$696,680.

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

Fiscal Year	Principal	Interest	Total
2025	\$ 223,666	\$ 26,334	\$ 250,000
2026	232,120	17,880	250,000
2027	240,894	9,106	250,000
	<u>\$ 696,680</u>	<u>\$ 53,320</u>	<u>\$ 750,000</u>

V. 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, 2024, the Authority recognized retirement expense of \$74,911.

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, 2024.

The Authority had no liability to the Plan as of December 31, 2024.

VI. 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. As of December 31, 2024, all of the Authority's employees were members of the Plan. Non-vested contributions are immaterial to total contributions as of December 31, 2024. Vested contributions are solely the possession of participating employees. Total covered payroll was \$1,545,907 for the year ended December 31, 2024. Employer contributions to the Plan were \$179,697.

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.

VII. 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, 2024, 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*.

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, 2024, 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, 2024, the Authority has paid Houston \$29,820,465 for its pro-rata share of estimated right of way costs, net of refunds.

Payments for Existing Untreated Water Facilities. The Authority seeks to increase its Untreated Water Facilities Demand from 31 MGD to 159 MGD, which is currently estimated to be the Authority's surface water demand in the year 2040. Under the terms of the Supplement, the Authority is required to make four payments to Houston for Existing Untreated Water Facilities. Each payment is based on a formula defined in the Supplement based on the Authority's water demand needs in 2025, 2030, 2035 and 2040.

The first payment is due within 60 days of receiving notification from Houston of the certified completion of Luce Bayou; the second payment is due the earlier of 60 days after sending notice to Houston of the Authority's water demand needs for 2030 or June 30, 2025; the third payment is due the earlier of 60 days after sending notice to Houston of the Authority's water demand needs for 2035 or June 30, 2030; and the fourth payment is due the earlier of 60 days after sending notice to Houston of the Authority's water demand needs for 2040 or June 30, 2035.

Payment for Phases 1 and 2 Annual New Untreated Water Facilities. Payments made to Houston for Phase 1 and 2 Annual New Untreated Water Facilities are to be used only for the purpose of making debt service payments on obligations issued by either Houston or CWA for the construction of Phase 1 and Phase 2 of Luce Bayou. The formulas used to calculate payments are defined in the contract and take into consideration the Authority's 159 MGD untreated water reservation, the total amount of untreated water sold by Houston to all customers and Houston's annual debt service requirement. The Authority's pro-rata share of CWA's debt service payments on the \$28,754,000 financial assistance CWA received from the State of Texas under the State Participation Program will be repaid over 33 years. During the current fiscal year, the Authority paid Houston \$3,215,246 for its portion of the annual debt service requirement.

Northeast Water Purification Plant Explosion 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 two 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 party's 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 the 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 \$22,979,410, deposited \$30,716,250 in the escrow accounts and has \$49,880,622 remaining in escrow as of December 31, 2024.

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 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 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 \$236,285,553 for its pro-rata share of project costs incurred through the effective date of the Fourth Supplement. During the current fiscal year, the Authority did not incur costs for its pro-rata share of the project.

VIII. 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, 2024, the commencement test has not been performed, and the Authority has not contributed funding for the project.

IX. 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 year 2021, 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.

X. 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.

XI. 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.

XII. SIGNIFICANT FORTHCOMING STANDARDS

Significant new accounting standards issued by the GASB not yet implemented by the Authority include the following:

GASB Statement No. 102, *Certain Risk Disclosures* – The objective of this Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. This Statement will become effective for the Authority for the fiscal year ended December 31, 2025, and the impact has not yet been determined.

GASB Statement No. 103, *Financial Reporting Model Improvements* – The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability. This Statement also addresses certain application issues. This Statement will become effective for the Authority for the fiscal year ended December 31, 2026, and the impact has not yet been determined.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* – The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be presented separately in the note disclosures, including right-to-use assets related to leases, Subscription-Based Information Technology Arrangements, and public-private or public-public partnerships. Other intangible assets are also required to be presented separately by major class. Additional disclosures have also been required for capital assets held for sale. This Statement will become effective for the Authority for the fiscal year ended December 31, 2026, and the impact has not yet been determined.

SUPPLEMENTARY INFORMATION

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

SCHEDULE OF OPERATING EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2024

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Personnel services			
Employee salaries	\$ 1,532,566	\$ 1,574,582	\$ 1,853,247
Employee retirement	179,603	195,966	189,682
Group insurance	198,194	194,989	257,770
Medicare/social security	98,367	121,538	113,691
Unemployment compensation	<u>2,626</u>	<u>99</u>	<u>2,635</u>
Total personnel	<u>2,011,356</u>	<u>2,087,174</u>	<u>2,417,025</u>
Professional fees			
Legal	583,910	564,656	382,361
Engineering	(8,363)	-	771,345
Financial services	16,315	4,185	4,185
Legislative consultant	119,167	130,000	130,000
Investment management services	180,356	138,607	131,398
Redistricting / mappy	18,000	700	12,000
Audit	<u>57,500</u>	<u>70,000</u>	<u>54,500</u>
Total professional fees	<u>966,885</u>	<u>908,148</u>	<u>1,485,789</u>
Purchased Services			
Bulk water purchases	<u>18,243,107</u>	<u>15,993,264</u>	<u>13,461,886</u>
Total purchased services	<u>18,243,107</u>	<u>15,993,264</u>	<u>13,461,886</u>
Contracted services			
Operations and maintenance	2,359,270	2,172,519	1,845,510
Temporary services	<u>13,000</u>	<u>7,488</u>	<u>25,437</u>
Total contracted services	<u>2,372,270</u>	<u>2,180,007</u>	<u>1,870,947</u>
Occupancy and office			
Office	7,080	156,723	15,670
Safe deposit box	75	75	75
Bank charges	36,942	21,287	17,073
Printing and office	12,558	18,930	64,284
Postage and delivery	4,708	3,420	5,718
Telephone	69,711	70,625	39,831
Utilities	827,958	775,551	694,167
Equipment leases	16,275	15,220	14,335
Internet services	55,020	50,042	15,304
Communication services	<u>-</u>	<u>-</u>	<u>78,100</u>
Total occupancy and office	<u>1,030,327</u>	<u>1,111,873</u>	<u>944,557</u>
Other			
Director fees	34,400	34,200	21,900
Election	265,057	-	776,095
Technology transfer projects	-	-	63,168
Insurance	437,781	178,261	152,923
Travel	52,927	51,291	59,978
Membership/subscription fees	13,529	8,938	10,133
Computer services	9,406	13,846	22,235
Computer software and equipment	34,304	50,813	21,439
Maintenance and repairs	19,207	8,716	50,282
Office furniture	-	-	2,835
Water conservation	727,315	5,080	40,442
Mileage reimbursement	10,107	12,614	7,318
Permit fees	125,516	899,140	638,501
Seminar/training	25,004	19,548	15,300
Security	4,480	4,960	5,753
Miscellaneous	<u>18,415</u>	<u>34,699</u>	<u>-</u>
Total other	<u>1,777,448</u>	<u>1,322,106</u>	<u>1,888,302</u>
Expenses before Depreciation and Amortization	26,401,393	23,602,572	22,068,506
Depreciation and amortization	<u>25,347,568</u>	<u>22,955,332</u>	<u>20,599,028</u>
Total expenses	<u>\$ 51,748,961</u>	<u>\$ 46,557,904</u>	<u>\$ 42,667,534</u>

2021	2020	2019
\$ 1,573,252	\$ 1,541,331	\$ 1,385,277
166,057	137,034	119,465
216,582	194,633	181,342
98,572	98,572	87,973
2,772	1,440	1,422
<u>2,057,235</u>	<u>1,973,010</u>	<u>1,775,479</u>
165,281	254,037	231,347
610,905	753,396	1,097,161
9,585	7,830	3,240
130,000	119,167	151,667
122,215	110,680	127,836
-	9,250	-
71,000	44,500	40,700
<u>1,108,986</u>	<u>1,298,860</u>	<u>1,651,951</u>
13,297,716	12,503,804	12,091,279
<u>13,297,716</u>	<u>12,503,804</u>	<u>12,091,279</u>
2,351,765	2,000,416	2,188,815
20,777	2,547	24,220
<u>2,372,542</u>	<u>2,002,963</u>	<u>2,213,035</u>
171,999	129,701	125,195
75	75	75
18,121	17,353	11,117
110,452	28,340	128,198
41,621	5,269	39,797
45,823	47,858	60,713
626,441	614,360	607,985
15,242	13,874	13,566
31,046	31,694	37,891
85,200	73,330	81,670
<u>1,146,020</u>	<u>961,854</u>	<u>1,106,207</u>
18,900	19,500	21,300
209,772	509,407	-
52,193	56,182	56,806
138,411	130,461	98,148
44,655	36,192	51,602
9,286	12,211	9,712
14,418	23,519	40,836
30,533	24,380	18,337
24,885	15,937	8,969
-	-	2,036
21,180	34,965	61,686
4,246	2,422	8,266
604,726	617,616	568,421
7,620	6,809	13,125
3,851	2,584	7,449
6,543	-	-
<u>1,191,219</u>	<u>1,492,185</u>	<u>966,693</u>
21,173,718	20,232,676	19,804,644
<u>18,969,199</u>	<u>15,924,780</u>	<u>12,308,095</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

FOR THE YEAR ENDED DECEMBER 31, 2024

Name	Total Gallons	Fees Paid	Share (%)
NW Harris Co. M.U.D. 5	1,393,642,000	\$ 5,387,011	4.0937%
Harris Co. M.U.D. 387	1,116,386,000	4,160,667	3.2793%
Harris Co. M.U.D. 358	991,866,000	3,860,534	2.9135%
Tomball, City of	975,484,000	3,765,624	2.8654%
Bridgestone M.U.D.	787,945,000	3,555,729	2.3145%
Harris Co. F.W.S.D. 61	752,648,000	3,208,388	2.2108%
Timber Lane U.D.	666,627,000	2,841,727	1.9582%
Harris Co. M.U.D. 367 & 383	680,854,000	2,643,702	1.9999%
Aqua Texas, Inc.	588,617,000	2,582,905	1.7290%
Harris Co. M.U.D. 365	513,962,000	2,243,486	1.5097%
Subtotal	8,468,031,000	34,249,773	24.8741%
All other retail utilities	25,294,793,113	94,393,422	74.3012%
All private well owners	280,757,041	895,313	0.8247%
Total	34,043,581,154	\$ 129,538,508	100.0000%

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

HISTORICAL RATES AND CHARGES

FOR THE YEAR ENDED DECEMBER 31, 2024

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
October 1, 2024	Groundwater	2.60
	Surface Water	3.05

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

BILLING AND COLLECTION EXPERIENCE

FOR THE YEAR ENDED DECEMBER 31, 2024

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%
2024	34,231,699,720	34,043,581,154	99.45%

COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of North Harris County Regional Water Authority (the "Authority"), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 14, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
May 14, 2025