Coastal Water Authority Pension Plan

Financial Report
September 30, 2020

weaver
Assurance • Tax • Advisory

CONTENTS

Coastal Water Authority Pension Plan

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

As management of the Coastal Water Authority Pension Plan (the Plan), we offer readers of the Plan's financial statements this narrative overview and analysis of the financial activities of the Plan for the fiscal years ended September 30, 2020 and 2019. Please read this discussion and analysis in conjunction with the Plan's basic financial statements, which follow this section.

Overview of the Financial Statements

The financial section of this annual report consists of two parts: Management's Discussion and Analysis and the basic financial statements.

The financial statements provide information about the Plan's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The Plan's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as applied to governmental units on an accrual basis. Under this basis, contributions and investment income are recognized in the period in which they are earned, expenses and investment losses are recognized in the period in which they are incurred, and benefit payments are recognized in the period in which payments are made.

The Statements of Net Assets Available for Benefits include all assets and liabilities associated with the operations of the Plan. The Statements of Changes in Net Assets Available for Benefits report the Plan's net assets and how they have changed. Net assets are the differences between the Plan's assets and liabilities.

Financial Analysis of the Plan

Table A-1

Coastal Water Authority Pension Plan's Financial Information

	2020	2019
ASSETS		
Investments in U.S. government and agency securities, at fair value	$ 14,109,226	$ 15,275,490
Receivables		
Employer's contributions	17,234	16,782
Other receivables	5,950	57,395
Total receivables	23,184	74,177
NET ASSETS AVAILABLE FOR BENEFITS	$ 14,132,410	$ 15,349,667

Coastal Water Authority Pension Plan

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

Table A-2

Changes in Coastal Water Authority Pension Plan's Net Assets

	2020	2019
ADDITIONS		
Investment income		
Net appreciation in fair value of investments in U.S. government and agency securities	$ 228,021	$ 405,603
Contributions		
Employer	895,380	834,566
Participants	447,750	424,380
Total contributions	1,343,130	1,258,946
Total additions	1,571,151	1,664,549
DEDUCTIONS		
Benefits paid directly to participants	2,788,408	538,529
Net increase (decrease)	(1,217,257)	1,126,020
NET ASSETS AVAILABLE FOR BENEFITS, beginning of year	15,349,667	14,223,647
NET ASSETS AVAILABLE FOR BENEFITS, end of year	$ 14,132,410	$ 15,349,667

During fiscal year 2020, the decrease in net assets was due to the excess of benefit payments over contributions and investment income. The substantial increase in benefit payments was due to an increased number of participants retiring and/or receiving in-service contribution payments in 2020 compared to 2019.

Independent Auditor's Report

To the Board of Directors of Coastal Water Authority of
Coastal Water Authority Pension Plan
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Coastal Water Authority Pension Plan (the Plan), a component unit of Coastal Water Authority, which comprise the statements of net assets available for benefits as of September 30, 2020 and 2019, and the related statements of changes in net assets available for benefits for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of September 30, 2020 and 2019, and the changes in net assets available for benefits for the years then ended, in accordance with US GAAP.

Weaver and Tidwell, L.L.P.
24 Greenway Plaza, Suite 1800 | Houston, Texas 77046
Main: 713.850.8787

The Board of Directors of Coastal Water Authority of
Coastal Water Authority Pension Plan

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Management's Discussion and Analysis on pages 1 and 2 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by US GAAP. Such information is the responsibility of Plan management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of Plan management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the supplementary information and express no opinion on it.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
February 10, 2021

Coastal Water Authority Pension Plan

Statements of Net Assets Available for Benefits

September 30, 2020 and 2019

	2020	2019
ASSETS		
Investments in U.S. government agency securities, at fair value	$ 14,109,226	$ 15,275,490
Receivables		
Employer's contributions	17,234	16,782
Other receivables	5,950	57,395
Total receivables	23,184	74,177
NET ASSETS AVAILABLE FOR BENEFITS	$ 14,132,410	$ 15,349,667

The Notes to Financial Statements are an integral part of these statements.

Coastal Water Authority Pension Plan

Statements of Changes in Net Assets Available for Benefits

Years Ended September 30, 2020 and 2019

	2020	2019
ADDITIONS		
Investment income		
Net appreciation in fair value of investments in U.S. government and agency securities	$ 228,021	$ 405,603
Contributions		
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NET ASSETS AVAILABLE FOR BENEFITS, beginning of year	15,349,667	14,223,647
NET ASSETS AVAILABLE FOR BENEFITS, end of year	$ 14,132,410	$ 15,349,667

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an integral part of these statements.

Note 1. Description of the Plan

The following description of the Coastal Water Authority Pension Plan (the Plan) provides only general information. Participants should refer to the *Plan document* for a more complete description of the Plan's provisions, which is available from Plan management.

General

The Plan is a single-employer defined contribution pension plan for the benefit of Coastal Water Authority (the Authority) employees. The Authority is the Plan sponsor and a governmental organization. Accordingly, the Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Employees are eligible to participate in the Plan on the entry date coincident with or next following the completion of 90 days of service. The entry date is the first day of the subsequent pay period following eligibility.

Contributions

Participants are required to contribute 4 percent of their annual compensation and may make additional voluntary contributions up to a maximum of 10 percent of compensation. All newly eligible participants may contribute an additional contribution in an amount equal to 4 percent of the compensation received during their initial 90 days of service. Pursuant to the Plan document, the Authority contributed 11.8 percent of a participant's gross compensation to the Plan for Plan years 2020 and 2019. For a participant that reaches the Federal Insurance Contributions Act (FICA) salary limit of $137,700 and $132,900 for 2020 and 2019, respectively, during a Plan year, an additional 6.2 percent of the participant's gross wages in excess of the FICA salary limit is contributed by the Authority to the participant's account. The Plan is not participant directed.

Participant Accounts

At the end of each Plan quarter, earnings on contributions and prior earnings are allocated to participant accounts based on the quarter's beginning account balance for the participant to the quarter's total beginning Plan balance. Each participant's account is credited with the participant's contribution and the Authority's contribution, as well as allocations of the Plan's earnings. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Vesting

Participants are at all times fully vested in their contributions and the appreciation or depreciation thereon. For vesting purposes, a participant must be credited with at least 1,000 hours of service during the Plan year to qualify as one year of service. Vesting in the Authority's contributions plus earnings thereon is based on years of continuous service. Participants vest 20 percent per year after one year of service and are 100 percent vested after five years of service. Participants are immediately vested upon death, retirement, or termination of employment due to permanent disability. Normal retirement age under the Plan is 65.

Payment of Benefits

Benefits are payable to participants or to a designated beneficiary upon the occurrence of a participant's retirement, disability, death, termination of service, or voluntary contribution withdrawal election.

A voluntary contribution withdrawal election is requested from the Plan's administrative committee. Upon approval and disbursement, a participant may not make another voluntary contribution withdrawal election for twenty-four months, but may continue to make voluntary contributions to the Plan.

Distributions, other than voluntary contribution withdrawals, are made in a lump-sum amount or a two to ten year annuity amount equivalent to the vested value of the participant's account.

Forfeited Accounts

Forfeitures of non-vested Authority contributions are used to reduce the Authority's contributions in the pay period subsequent to the date a participant received the distribution of his or her vested interest. There are no outstanding forfeitures at September 30, 2020 and 2019. For the year ended September 30, 2020 and 2019, the Authority's contributions were reduced by $2,596 and $0, respectively, from forfeited nonvested accounts.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared using the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) requires Plan management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Reporting Entity

The Plan is a component unit of the Authority. In evaluating how to define the Plan for financial reporting purposes, management determined there are no component units for which the Plan has financial accountability. As such, these financial statements present only the Plan and are not intended to present the financial position and results of operations of the Authority in conformity with US GAAP.

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded at the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Payment of Benefits

Benefits are recorded when paid.

Expenses

For the years ended September 30, 2020 and 2019, Plan administrative expenses of $27,281 and $24,494, respectively, were paid by the Authority.

Plan Management's Review of Subsequent Events

The Plan has evaluated subsequent events through February 10, 2021, the date the financial statements were available to be issued.

Coastal Water Authority Pension Plan

Notes to Financial Statements

Note 3. Investments

The Plan's investments in U.S., local government and agency securities were held by Frost National Bank. The following tables present the Plan's investments as of September 30, 2020 and 2019:

September 30, 2020	Face Value	Fair Value	Amortized Cost
US Treasury Bill dated 09/10/20, 0.1075% Due 06/17/2021	$ 1,000,000	$ 999,209	$ 999,227
US Treasury Bill dated 10/29/19, 1.5250% Due 10/08/2020	1,500,000	1,499,982	1,499,555
US Treasury Bill daled 09/10/2020, 0. 1000% Due 04/22/21	1,000,000	999,380	999,436
US Treasury Bill daled 02/26/2020, 2.2500% Due 02/15/2021	1,485,000	1,496,776	1,507,531
FAMC Discount Nole dated 9/10/2020, 0.1100% Due 05/28/2021	1,000,000	999,270	999,270
FHLB Discount Nole dated 9/16/2020, 0.1100% Due 09/09/2021	1,000,000	998,857	998,952
FHLB Discount Note dated 9/16/2020, 0.1100% Due 8/l 7 /2021	1,000,000	998,933	999,022
FHLB Discount Note dated 1 .545% Due 1 /22/21	1,520,000	1,519,570	1,512,629
FHLB Discount Note dated 0.100% Due 3/16/2021	1,000,000	999,539	999,539
Federal Farm Credit Coupon Note Dated 6/22/20, 0.2600% Due 6/22/22	1,850,000	1,853,210	1,851,044
Federal Home loan Coupon Note Dated 7/13/2020, 0. 1250% Due 7/13/2021	1,500,000	1,500,479	1,500,036
Cash Equivalents; Invesco Government & Agency Institutional Class	244,021	244,021	244,021
	$ 14,099,021	$ 14,109,226	$ 14,110,262

Coastal Water Authority Pension Plan

Notes to Financial Statements

September 30, 2019	Face Value	Fair Value	Amortized Cost
Federal Farm Credit Banks Dated 4/29/2019 2.40% Due 4/29/2020	$ 1,500,000	$ 1,504,935	$ 1,515,030
Federal Home Loan Banks Dated 2/25/2019 2.50% Due 2/25/2020	1,500,000	1,503,060	1,503,536
Federal Home Loan Banks Dated 3/18/2019 2.50% Due 3/18/2020	1,500,000	1,504,335	1,501,293
Federal Home Loan Banks Dated 8/27/2010 2.875% Due 9/11/2020	1,500,000	1,514,205	1,535,714
Federal Home Loan Mortgage Corp. Dated 4/4/2013 1.375% Due 5/1/2020	1,500,000	1,495,590	1,499,838
Federal National Mortgage Assoc. Dated 1/12/2015 1.625% Due 1/21/2020	1,500,000	1,498,695	1,500,355
Federal National Mortgage Assoc. Dated 10/29/2015 1.40% Due 10/29/2019 Callable Quarterly Starting 4/29/2016 @ 100	2,150,000	2,149,076	2,162,782
Federal National Mortgage Assoc. Dated 4/27/2015 1.50% Due 6/22/2020	1,850,000	1,844,838	1,840,137
Federal Home Loan Banks Discount Note Dated 7/10/2019	1,500,000	1,479,135	1,477,124
Cash Equivalents; SEI Daily Income TR Treasury II	781,621	781,621	781,621
	$ 15,281,621	$ 15,275,490	$ 15,317,430

The Plan is authorized to invest in direct obligations of, or obligations guaranteed by, the United States of America, obligations of certain Federal agencies, certain obligations of public housing authorities and related institutions, and interest bearing time deposits. Any cash balances and time deposits are required to be collateralized and secured by pledges of direct obligations of, or obligations guaranteed by, the United States of America, obligations of such Federal agencies, and certain obligations of public housing authorities and related institutions. Investments typically mature in three years or less, and are held to maturity or to the stated call date if such action is taken by the issuer.

Note 4. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures,* provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2020 and 2019.

U.S. government and agency securities: Invesco Government & Agency Institutional Class Fund is valued at net asset value using the closing price reported on the active market on which the individual securities are traded. The fund invests exclusively in U.S. Treasuries and is categorized as Level 1 in the fair value hierarchy. Callable agency issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. Callable agency issued debt securities and mortgage pass-through certificates are generally categorized in Level 2 of the fair value hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of September 30, 2020 and 2019:

	2020	2019
Level 1:		
U.S. government and agency securities money market fund	$ 244,021	$ 781,621
Level 2:		
U.S. government and agency securities	13,865,205	14,493,869
Investments at fair value	$ 14,109,226	$ 15,275,490

Note 5. Plan Termination

Although it has not expressed any intent to do so, the Authority has the right to terminate the Plan at any time. In the event of Plan termination, all participants become 100 percent vested in their accounts. No part of the Plan's assets will revert to the Authority.

Note 6. Tax Status

The Internal Revenue Service (IRS) has determined and informed the Company by a letter dated June 24, 2014, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC).

US GAAP requires the Plan administrator to evaluate uncertain tax positions taken by the Plan. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the IRS. The Plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of September 30, 2020, there are no uncertain positions taken or expected to be taken. The Plan has recognized no interest or penalties related to uncertain tax positions. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Note 7. Risks and Uncertainties

The Plan invests in various investment securities that are exposed to various risks such as interest rates, market and credit risks. Market values of investments may decline for a number of reasons, including changes in prevailing market and interest rates, increases in defaults and credit rating downgrades. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that some changes could materially affect participant account balances and the amounts reported in the statements of net assets available for benefits.