Coastal Water Authority Pension Plan

Financial Report
September 30, 2021

CONTENTS

Coastal Water Authority Pension Plan

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

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, 2021 and 2020. 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

	2021	2020
ASSETS		
Investments in U.S. government and agency securities, at fair value	$ 10,589,348	$ 14,109,226
Receivables		
Employer's contributions	15,776	17,234
Other receivables	2,072	5,950
Total receivables	17,848	23,184
NET ASSETS AVAILABLE FOR BENEFITS	$ 10,607,196	$ 14,132,410

Coastal Water Authority Pension Plan

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

Table A-2

Changes in Coastal Water Authority Pension Plan's Net Assets

	2021	2020
ADDITIONS		
Investment income		
Net appreciation in fair value of investments in U.S. government and agency securities	$ 15,414	$ 228,021
Contributions		
Employer	948,348	895,380
Participants	460,717	447,750
Total contributions	1,409,065	1,343,130
Total additions	1,424,479	1,571,151
DEDUCTIONS		
Benefits paid directly to participants	4,949,693	2,788,408
Net increase (decrease)	(3,525,214)	(1,217,257)
NET ASSETS AVAILABLE FOR BENEFITS, beginning of year	14,132,410	15,349,667
NET ASSETS AVAILABLE FOR BENEFITS, end of year	$ 10,607,196	$ 14,132,410

During fiscal year 2021, 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 2021 compared to 2020.

Independent Auditor's Report

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

Opinion

We have audited the financial statements of 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, 2021 and 2020, and the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of September 30, 2021 and 2020, and the changes in its net assets available for benefits for the years then ended, in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (US GAAS). 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 Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 US GAAP, 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 Plan's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Management is also responsible for maintaining a current plan instrument, including all plan amendments, administering the Plan, and determining that the Plan's transactions that are presented and disclosed in the financial statements are in conformity with the Plan's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 US GAAS 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 judgement made by a reasonable user based on the financial statements.

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

In performing an audit in accordance with US GAAS, 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 Plan'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 Plan'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.

Other Matter — Supplementary Information

US GAAP requires that the Management's Discussion and Analysis on pages 1 and 2 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 US GAAS, 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
February 9, 2022

Coastal Water Authority Pension Plan

Statements of Net Assets Available for Benefits
September 30, 2021 and 2020

	2021	2020
ASSETS		
Investments in U.S. government agency securities, at fair value	$ 10,589,348	$ 14,109,226
Receivables		
Employer's contributions	15,776	17,234
Other receivables	2,072	5,950
Total receivables	17,848	23,184
NET ASSETS AVAILABLE FOR BENEFITS	$ 10,607,196	$ 14,132,410

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, 2021 and 2020

	2021	2020
ADDITIONS		
Investment income		
Net appreciation in fair value of investments in U.S. government and agency securities	$ 15,414	$ 228,021
Contributions		
Employer	948,348	895,380
Participants	460,717	447,750
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NET ASSETS AVAILABLE FOR BENEFITS, end of year	$ 10,607,196	$ 14,132,410

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

Coastal Water Authority Pension Plan

Notes to Financial 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 2021 and 2020. For a participant that reaches the Federal Insurance Contributions Act (FICA) salary limit of $142,800 and $137,700 for 2021 and 2020, 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, 2021 and 2020. For the year ended September 30, 2021 and 2020, the Authority's contributions were reduced by $0 and $2,596, 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, 2021 and 2020, Plan administrative expenses of $25,847 and $27,281, respectively, were paid by the Authority.

Plan Management's Review of Subsequent Events

The Plan has evaluated subsequent events through February 9, 2022, the date the financial statements were available to be issued.

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, 2021 and 2020:

September 30, 2021	Face Value	Fair Value	Amortized Cost
US Treasury Bill dated 04/28/2021, 0.0200% Due 01/27/2022	$ 2,000,000	$ 1,999,721	$ 1,999,869
US Treasury Bill dated 04/28/2021, 0.0450% Due 04/21/2022	2,000,000	1,999,466	1,999,495
FFCB Coupon Note dated 07/14/2021, 0.0700%, Due 07/14/2022	1,500,000	1,500,131	1,500,227
Federal Farm Credit Coupon Note Dated 10/08/2020, 0.1000% Due 10/08/2021	1,000,000	1,000,004	1,000,477
FFCB Coupon Note dated 06/22/2020, 0.26000% Due 06/22/2022	1,850,000	1,852,664	1,851,211
Cash Equivalents; Invesco Government & Agency Institutional Class	2,237,362	2,237,362	2,237,362
	$ 10,587,362	$ 10,589,348	$ 10,588,641

Coastal Water Authority Pension Plan

Notes to Financial Statements

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 dated 09/10/2020, 0. 1000% Due 04/22/21	1,000,000	999,380	999,436
US Treasury Bill dated 02/26/2020, 2.2500% Due 02/15/2021	1,485,000	1,496,776	1,507,531
FAMC Discount Note dated 9/10/2020, 0.1100% Due 05/28/2021	1,000,000	999,270	999,270
FHLB Discount Note 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

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, 2021 and 2020.

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, 2021 and 2020:

	2021	2020
Level 1:		
U.S. government and agency securities money market fund	$ 2,237,362	$ 244,021
Level 2:		
U.S. government and agency securities	8,351,986	13,865,205
Investments at fair value	$ 10,589,348	$ 14,109,226

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, 2021, 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. Investment securities are exposed to various risks, such as interest rate, market and credit risks. 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.