

Coastal Water Authority

Financial Report
December 31, 2023



Coastal Water Authority

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Independent Auditor's Report

To the Board of Directors of
Coastal Water Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Coastal Water Authority (CWA), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise CWA'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 financial position of CWA, as of December 31, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (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 CWA 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.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, during the year ended December 31, 2023, CWA implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

CWA's 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 CWA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with 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 CWA'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 CWA'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 and the Required Supplementary Information, as listed in the table of contents, 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.

The Board of Directors of
Coastal Water Authority

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise CWA's basic financial statements. The Information included in Supplemental Schedules I, and II, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The information in Supplemental Schedules I and II 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 in Supplemental Schedules I and II 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 information in Supplemental Schedules I and II is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises Supplemental Schedule III, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

The Woodlands, Texas
April 5, 2024

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Management's Discussion and Analysis

As management of Coastal Water Authority (CWA), we offer readers of CWA's financial statements this narrative overview and analysis of the financial activities of CWA for the fiscal year ended December 31, 2023. Please read this discussion and analysis in conjunction with CWA's basic financial statements which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of CWA exceed its liabilities at the close of the most recent fiscal year by \$257 million.
- CWA's total net position increased by \$4.8 million. This increase is primarily the result of the contributions by the City of Houston (the City). The City subsidizes certain expenses; however, these reimbursements are based on cash basis expenditures, and therefore, the effects of accrual items and non-cash expenses such as depreciation are not matched with cash amounts.
- Operating revenues increased by \$4.2 million.
- Operating expenses increased by \$8.3 million.
- Construction in progress increased by \$2.1 million.
- Long-term liabilities (net of current portion) decreased by \$1 million is mostly due to the net effect of payment and amortization of debt of \$8.8 million, an increase in interest payable of \$5 million, and an increase in other post employment benefit liability of \$3.2 million.

Overview of the Financial Statements

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

The financial statements provide both long-term and short-term information about CWA's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CWA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units on an accrual basis. Under this, revenues are recognized in the period in which they are earned, and expenses are recognized in the period which they are incurred.

The Statement of Net Position includes all assets and liabilities as well as deferred inflows and outflows of resources associated with the operations of CWA. The Statement of Revenues, Expenses and Changes in Fund Net Position (Equity) reports CWA's net position and how it has changed. Net position is the difference between the sum of CWA's assets and any deferred outflows of resources and the sum of liabilities and any deferred inflows of resources.

Financial Analysis of CWA

Coastal Water Authority's Net Position – Table 1

	2023	2022	Change
Current assets	\$ 94,437,899	\$ 93,010,379	\$ 1,427,520
Capital assets, net *	549,961,362	549,745,025	216,337
Other noncurrent assets	79,891,168	75,738,489	4,152,679
Total assets	724,290,429	718,493,893	5,796,536
Total deferred outflows of resources	53,683	58,579	(4,896)
Current liabilities	13,695,932	11,402,619	2,293,313
Long-term liabilities *	453,925,404	455,189,158	(1,263,754)
Total liabilities	467,621,336	466,591,777	1,029,559
Net position:			
Net investment in capital assets	210,562,423	203,084,880	7,477,543
Restricted	23,398,554	21,095,596	2,302,958
Unrestricted	22,761,799	27,780,219	(5,018,420)
Total net position	\$ 256,722,776	\$ 251,960,695	\$ 4,762,081

* Restated to reflect implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.

During 2023, noncurrent assets increased \$4.2 million due to an increase in long-term interest receivables from the City for the Luce Bayou Project. The increase in current liabilities is primarily due to an increase in unearned revenue related to contributions received for future projects. The decrease in long-term liabilities is primarily related to a reduction in retainage payable and scheduled debt payments during the year.

Net position may, over time, serve as a useful indicator of a government's financial position. In the case of CWA, assets plus deferred outflows of resources exceeded the liabilities and any deferred inflows of resources by \$257 million at the close of 2023. By far, the largest portion of CWA's net position (82%) reflects its investment in capital assets (e.g. land, water systems, vehicles, equipment and construction in progress). CWA utilizes these assets to deliver surface water (river water) to its end users, the City and its contracted water customers.

The ratio of current assets to cover current liabilities is a strong indicator of an ability to manage day-to-day expenses. As of December 31, 2023, that ratio was approximately 7:1. The ratio of total assets to total liabilities, in the absence of any deferred outflows and deferred inflows of resources, was approximately 1.5:1. These strong ratios reflect CWA's stable financial condition both in the short-term as well as in the long-term outlook.

Coastal Water Authority's Change in Net Position – Table 2

	2023	2022	Change
Total operating revenues	\$ 39,028,676	\$ 34,785,315	\$ 4,243,361
Total operating expenses	(48,115,019)	(39,784,111)	(8,330,908)
Total non-operating revenues (expenses)	(9,585,544)	(12,728,893)	3,143,349
Deficiency of revenues under expenses	(18,671,887)	(17,727,689)	(944,198)
Capital contributions	23,433,968	23,150,381	283,587
Change in net position	4,762,081	5,422,692	(660,611)
Net position beginning of year	251,960,695	246,538,003	5,422,692
Net position at end of year	\$ 256,722,776	\$ 251,960,695	\$ 4,762,081

During 2023, the increase in operating revenues is due to an increase in water usage for the City of Houston. The increase in operating expenses is due to an increase in general operating and materials and supplies caused by the increase in water usage. The increase in non-operating revenue (expenses) is due mostly to an increase in investment income offset by expenses that did not change significantly. Contributions provided by the City for debt service payments made on CWA's behalf did not change significantly.

Capital Assets and Debt Administration

Capital assets: CWA's capital assets as of December 31, 2023, totaled \$550 million (net of accumulated depreciation). Capital assets include land, intangibles, water systems, vehicles, equipment, other, right-to-use buildings, right-to-use equipment, right-to-use subscriptions, and construction in progress. Major capital asset events during the year included the following:

- Approximately \$4.8 million increase in construction on Luce Bayou Interbasin Transfer Project water systems.
- Approximately \$1.3 million increase in construction on Trinity River Water Conveyance System Project water systems.
- Approximately \$1.2 million increase in construction on Bayport Water System Project water systems.

Additional information on CWA's capital assets can be found in Note 8.

Long-term debt: At the end of 2023, CWA had total long-term debt outstanding of \$386 million. A portion (\$43 million) of this amount is backed by the Trinity River Projects Contract with the City. The bonds are secured by a first lien on, and a pledge of gross revenues of, the City's water and wastewater systems. The remaining \$343 million is backed by the Luce Bayou Project with the City. These bonds (loans) are secured by a pledge on the City's Combined Utility Systems Fund.

Outstanding Debt at Year-End – Bonds and Loans Payable

	2023	2022	Change
Revenue and refunding bonds (net)	\$ 81,402,760	\$ 90,204,727	\$ (8,801,967)
Long-term loans (TWDB)	304,574,000	304,574,000	-
Balance at end of year	\$ 385,976,760	\$ 394,778,727	\$ (8,801,967)

Additional information on CWA's long-term debt can be found beginning with Note 9.

Economic Factors and Next Year's Budget and Rates

The demand for water delivered by the Coastal Water Authority has remained steady during the past few years and is expected to continue at the current rate for the next year. CWA is managing the regional increase inflation factors on parts and materials through its 2024 Operating and Construction Budgets that will begin January 1, 2024.

CWA has completed the first phase of the Luce Bayou Interbasin Transfer Project in 2023. The Project became operational in 2022. A second phase adding an additional four pumps at the Capers Ridge Pump Station was started in 2023. The completion of Phase Two is expected in 2026. This second phase will provide additional water flow into Lake Houston to meet its forecasted additional water demands.

Request for Information

The financial report is designed to provide our residents, customers, investors and creditors with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Coastal Water Authority, 1801 Main Street, Suite 800, Houston, Texas 77002.

Basic Financial Statements

Coastal Water Authority

Statement of Net Position

December 31, 2023

ASSETS

Current assets - unrestricted:

Cash and cash equivalents	\$ 22,923,051
Receivables:	
Accounts receivable from City of Houston	6,364,835
Accounts receivable from other customers	815,134
Compensable absences current portion	120,632
Current portion loan receivable from City of Houston	696,643
	<hr/>
Total receivables	7,997,244
	<hr/>
Total current assets - unrestricted	30,920,295

Current assets - restricted:

Cash and cash equivalents - restricted for contingencies	5,135,027
Cash and cash equivalents - restricted for debt service	8,892,657
Cash and cash equivalents - restricted for capital projects	49,489,920
Total current assets - restricted	63,517,604

Capital assets, net of depreciation and amortization 549,961,362

Other assets:

Interest receivable from City of Houston	64,353,940
Obligation for compensable absences	2,294,948
Long-term loan receivable from City of Houston	13,242,280
	<hr/>

Total other assets 79,891,168

Total assets 724,290,429

Deferred outflows of resources 53,683

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES \$ 724,344,112

Coastal Water Authority

Statement of Net Position – Continued

December 31, 2023

LIABILITIES AND NET POSITION

Current liabilities - unrestricted:

Accounts payable	\$ 1,730,060
Retainage payable	45,278
Unearned revenue	1,991,306
Compensable absences - current	120,632
Current portion of leases payable	213,443
Current portion of subscription payable	70,072

Total current liabilities - unrestricted 4,170,791

Current liabilities - restricted:

Accounts payable	733,606
Current portion of bonds and loans payable	8,660,000
Bond, lease, subscription and interest payable	131,535

Total current liabilities - restricted 9,525,141

Long-term liabilities:

Bonds payable, net	72,742,760
Long-term loans	304,574,000
Leases payable	1,789,097
Subscription payable	114,286
Interest payable	64,736,020
Compensable absences payable	2,294,948
Other postemployment benefits	7,674,293

Total long-term liabilities 453,925,404

Total liabilities 467,621,336

NET POSITION

Net investment in capital assets	210,562,423
Restricted for:	
Contingencies, net of restricted liabilities	5,135,027
Debt service	8,384,007
Operations reserves	9,879,520
Unrestricted	22,761,799

Total net position 256,722,776

TOTAL LIABILITIES AND NET POSITION

\$ 724,344,112

The Notes to the Financial Statements are an integral part of this statement.

Coastal Water Authority

Statement of Revenues, Expenses, and Changes in Fund Net Position Year Ended December 31, 2023

OPERATING REVENUES

Funds provided by City of Houston	\$ 35,078,992
Funds provided by San Jacinto River Authority	98,706
Service revenues	3,850,978
	<hr/>
Total operating revenues	39,028,676

OPERATING EXPENSES

Utilities	8,694,839
Field salaries	7,327,137
Administrative	3,213,198
General operating	6,173,964
Materials and supplies	8,672,172
Engineering, legal, and professional	906,794
Contract labor and equipment	5,788,720
Depreciation and amortization expense	7,338,195
	<hr/>
Total operating expenses	48,115,019
	<hr/>
Operating loss	(9,086,343)

NON-OPERATING REVENUES (EXPENSES)

Investment income	4,110,479
Interest income	582,892
Bond interest expense, net of amortization of bond issues	(2,599,367)
Gain on sale of capital assets	65,855
Loan interest expense	(11,810,130)
Lease interest expense	(27,959)
Subscription interest expense	(4,117)
Other income	96,803
	<hr/>
Net non-operating revenues/(expenses)	(9,585,544)
	<hr/>
Loss before contributions	(18,671,887)

CONTRIBUTIONS PROVIDED BY CITY OF HOUSTON

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Change in net position	4,762,081
Net position - beginning	251,960,695
	<hr/>
NET POSITION - ENDING	<u><u>\$ 256,722,776</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Coastal Water Authority
Statement of Cash Flows
Year Ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from municipalities	\$ 33,608,132
Cash received from customers	5,716,969
Cash payments to employees and suppliers for goods and services	<u>(37,643,358)</u>
Net cash provided by operating activities	1,681,743
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(8,240,433)
Proceeds from sale of capital assets	751,756
Proceeds from subscriptions	104,552
Contributions, net of principal and interest paid on notes and bonds	287,034
Principal and interest paid on leases and subscriptions	(272,724)
Advance to City of Houston	<u>669,913</u>
Net cash used in capital and related financing activities	(6,699,902)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from maturities and sales of investment securities	28,596,784
Purchases of investment securities	(14,400,066)
Investment income	4,925,240
Other income	<u>96,803</u>
Net cash provided by investing activities	<u>19,218,761</u>
Net increase in cash and cash equivalents	14,200,602
Cash and cash equivalents at beginning of year	<u>72,240,053</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 86,440,655</u>
RECONCILIATION TO STATEMENT OF NET POSITION	
Cash and cash equivalents, unrestricted	\$ 22,923,051
Cash and cash equivalents, restricted	<u>63,517,604</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 86,440,655</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (9,086,343)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	7,338,195
Changes in assets and liabilities:	
Receivables, net	(1,694,881)
Prepaid expense	63,611
Accounts payable	364,289
Retainage payable	(493,289)
Unearned revenue	1,991,306
Other postemployment benefits liability	<u>3,198,855</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,681,743</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest and principal payments made by City of Houston	<u>\$ 23,433,968</u>

The Notes to the Financial Statements are an integral part of this statement.

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Coastal Water Authority

Notes to the Financial Statements

Note 1. Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Reporting Entity

In 1967, an act of the State of Texas Legislature (the Act) created Coastal Water Authority (CWA or the Authority) as a conservation and reclamation district and political subdivision of the State of Texas covering a part of southwest Liberty County, southwest Chambers County, and most of Harris County. Under the Act, the primary purpose of creating CWA is to provide an agency to finance and construct a water conveyance and distribution system to transport surface water from Lake Livingston and the Trinity River into the above mentioned counties. CWA is also charged with conveying water to a point where it will be available for Galveston County. CWA is authorized to issue revenue bonds, improvement bonds, and special project bonds for the purpose of constructing or acquiring additional facilities that would enable CWA to distribute water to other customers.

In 2005, the Act was amended. Under the amended legislation, CWA may become involved in desalinization and reclamation projects, create a nonprofit corporation to aid and act on behalf of CWA in implementing a CWA project, and develop and generate electric energy with wind turbines or hydroelectric facilities to be used by CWA or the City of Houston, Texas. CWA may also incur indebtedness, such as bond anticipation notes, or other bonds, for the purpose of improving rivers, creeks, and streams to aid in and prevent overflows.

In 2011, the Act was further amended, clarifying CWA's authority to participate in wetland mitigation under Chapter 221, Natural Resources Code.

B. Related Organizations

The City of Houston, Texas (the City) is incorporated under the laws of the State of Texas and provides governmental services as authorized or required by its charter. The City appoints a voting majority of CWA's board members, but is not financially accountable for the actions of CWA. As a result, the City does not have a financial benefit in CWA and a burden relationship does not exist. All transactions with the City are evidenced by operating and construction project contracts for which the City compensates CWA for their services received pursuant to the contracts.

C. Basis of Accounting

The financial statements of CWA have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted primary standards-setting body for establishing accounting and financial reporting principles for state and local governments.

Under GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — For State and Local Governments*, CWA qualifies as a special-purpose government engaged only in business-type activities, and accordingly, only the financial statements required for an enterprise fund are presented as basic financial statements.

CWA's activities are accounted for on the flow of economic resources measurement focus with the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable. Expenses are recognized in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The fund net position is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

Coastal Water Authority

Notes to the Financial Statements

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates included in the financial statements are depreciation expense which is based on the estimated useful lives of the underlying depreciable assets, annual other postemployment benefits (OPEB) costs and related total OPEB liability, and the assets and liabilities for compensable absences.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, CWA considers all deposits with a maturity of three months or less to be cash equivalents. Cash restricted by purpose is reported separately from unrestricted cash and cash equivalents.

F. Accounts Receivable

Accounts receivable at December 31, 2023 consisted of billings to customers for user charges and reimbursable expenses from the City. No allowance for doubtful accounts has been recorded because management deemed all receivables to be collectible.

G. Capital Assets

Capital expenditures for the acquisition, construction, or improvement of capital assets are recorded at cost. Management estimates water systems to have a 30% salvage value. Depreciation is provided on a straight-line basis over the estimated useful lives. The estimated useful lives of CWA's capital assets are as follows:

<u>Description</u>	<u>Useful Lives</u>
Water systems	15-50 years
Trucks, equipment, and other	5-10 years

Right to use assets are amortized over the duration of the lease term using the straight line method.

The cost of normal maintenance and repairs that do not add value to the asset or materially extend its life are not capitalized. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations for the period. CWA continuously reviews the carrying value of its property and equipment for possible impairment. When applicable, the book amounts are reduced to fair values.

The balance of construction in progress represents costs incurred on the construction of assets which have not been completed or placed in service as of the end of the year (see Note 8).

H. Unamortized Bond Premium

Bond premium represents interest paid in advance to the issuer by the bondholders who receive a return of the premium in the form of larger periodic interest payments. The bond premium is amortized over the life of the bond with the amortized amount decreasing interest expense over each period. The bond premiums arising from issuances have been capitalized and amortized over the life of the bonds in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP) requirements. Balance outstanding as of December 31, 2023 on the premiums in the amount of \$2,602,760 has been recorded in the accompanying financial statements as an addition to the face value of the bonds to arrive at its carrying value.

Coastal Water Authority

Notes to the Financial Statements

I. Leases

CWA is a lessee for noncancellable leases of building and equipment. CWA recognizes a lease liability, reported with long-term debt, and a right-to-use lease asset (lease asset), reported with other capital assets, in the financial statements.

At the commencement of a lease, CWA 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 the shorter of the lease term or its useful life.

Key estimates and judgments related to leases include how CWA determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- CWA uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, CWA 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, variable payments fixed in substance or that depend on an index or a rate, purchase option price that CWA is reasonably certain to exercise, lease incentives receivable from the lessor, and any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

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

J. Subscription-Based Information Technology Arrangements (SBITAs)

CWA has noncancellable contracts with SBITA vendors for the right to use information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets). CWA recognizes a subscription liability, reported with long-term debt, and a right-to-use subscription asset (an intangible asset), reported with other capital assets, in the financial statements. CWA recognizes subscription liabilities with an initial, individual value of \$5,000 or more.

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

Coastal Water Authority

Notes to the Financial Statements

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

- CWA uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, CWA generally uses its estimated incremental borrowing rate as the discount rate for SBITAs.
- The subscription term includes the noncancellable period of the SBITA.
- Subscription payments included in the measurement of the subscription liability are composed of fixed payments, variable payments fixed in substance or that depend on an index or a rate, termination penalties if CWA is reasonably certain to exercise such options, subscription contract incentives receivable from the SBITA vendor, and any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

CWA monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

K. Investments

CWA is authorized to invest in direct obligations of, or obligations guaranteed by, the United States of America, obligations of certain federal agencies, states, counties, cities, and other investment instruments as authorized by CWA's investment policy, certain obligations of public housing authorities and related institutions, fully collateralized repurchase agreements, 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. Repurchase agreements are required to be fully collateralized by such securities held in a safekeeping account subject to the control and custody of CWA. Investments are valued at amortized cost, which approximates fair value, typically mature in one year or less, and are held to maturity. CWA's Board of Directors reviewed and confirmed the investment policy on November 8, 2023.

L. Compensable Absences

CWA maintains two vacation leave plans (A and B). Under vacation leave plan A, applicable to employees hired on or before September 1, 2012, employees receive ten days of vacation and fifteen days of sick leave each year. After five years of service, employees receive one additional vacation day for each additional year of service up to a maximum of fifteen additional days. Employees may accumulate vacation leave from year to year and upon termination or resignation, receive a lump sum vacation accrual payment up to a maximum of 720 hours. Upon termination or resignation, employees with two or more years of service may receive a lump-sum sick leave payment up to a maximum of 700 hours. Paid absences for employee vacation and sick leave are recorded as expenses when used. CWA's obligation for unused employee vacation and sick leave is reported as a long-term liability, net of current portion. Since these expenses are due from the City when incurred by employees, CWA records an equal amount of receivable for these compensable absences.

Under vacation leave plan B, applicable to employees hired after September 1, 2012, employees receive ten working days of vacation and eight days of sick leave each year. Employees who have completed five years of continuous employment receive an additional day of vacation for each additional year of service subject to a maximum of fifteen additional days. Employees are required to utilize their vacation time during the benefit year. Any accrued vacation days not utilized within the benefit year will not be allowed to be carried over to the next benefit year. However, employees may carry over to the next year accrued, unused sick leave hours. Upon termination of employment, employees under this plan will not be paid for any accrued, unused vacation or sick leave.

Coastal Water Authority

Notes to the Financial Statements

M. Revenues and Expenses

Operating revenues are those revenues generated from the primary operations of CWA. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of CWA. All other expenses are reported as non-operating expenses. The principal operating revenues of CWA are revenues generated from transportation of surface water to its customers.

Contributions, which finance either capital or current operations, are reported based on GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In applying GASB Statement No. 33 to contributions, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources that qualify to be recorded by CWA as receivables and revenues, which are transmitted by the provider before the eligibility requirements are met, are reported as liabilities.

N. Restricted Assets

Proceeds of CWA's contract revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited per applicable bond covenants. The investments held for the construction account is used to report those proceeds of revenue bond issuances that are restricted for use in construction projects.

Funds received for CWA's operation and maintenance are set aside to create a reserve for major maintenance, repairs, replacement, and obligatory replacement fund per the Trinity River Water Conveyance System contract and the Lake Houston Pump Station contract between CWA and the City of Houston. These funds are shown as restricted investments in the financial statements.

O. Income Taxes

CWA is an organization described in Internal Revenue Code Section 115. Generally, no tax provision is necessary in regard to its excess revenue. Accordingly, none has been recorded in the accompanying financial statements.

P. Net Position

Sometimes CWA will fund expense for a particular purpose from both restricted (e.g., restricted debt service or contingency) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is CWA's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Q. Implementation of New Accounting Standards

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (GASB 96)*, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement 1) defines a SBITA; 2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset - and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments; and 4) requires note disclosures regarding a SBITA. The requirements of this statement are effective for reporting periods beginning after June 15, 2022, with earlier application encouraged. GASB 96 was implemented in CWA's 2023 financial statements, resulting in recognition of \$172,600 in subscription liabilities and subscription assets as of January 1, 2023.

Coastal Water Authority

Notes to the Financial Statements

Note 2. Trinity River Water Conveyance System Contracts City of Houston

CWA entered into a contract (the Initial Contract) with the City in May 1968. The contract expires on the earlier date of June 15, 2035 or the date on which the debt service requirements have been paid in full. In consideration of CWA's agreement to construct the main water conveyance and distribution systems, the City agreed to pay, solely out of revenues received from the operation of the City's water and wastewater systems, all maintenance and operating costs and all debt service requirements for the Trinity River Water Conveyance System. Upon termination of the contract and upon payment of all bonds and other obligations issued by CWA for the Trinity River Water Conveyance System, CWA must assign and convey to the City, upon request, all of its rights, titles, and interest in the Trinity River Water Conveyance System.

In June 1995, CWA entered into an operating contract (the Operating Contract) and a project financing and construction contract (the Projects Contract) with the City. The Operating Contract expires on the earlier occurrence of the year 2035 or when both the Initial Contract and the Projects Contract terminate. The Projects Contract expires on the earlier occurrence of the year 2035 or when all bonds and other obligations issued by CWA pursuant to the Projects Contract to finance the cost of projects or refinance the cost of such projects are paid.

The Operating Contract amends, restates, and supersedes the Initial Contract relating to CWA's operation for the Trinity River Water Conveyance System. In the Operating Contract, CWA is required to operate and maintain the Trinity River Water Conveyance System and the facilities constructed and/or acquired (Trinity River facilities) pursuant to the Projects Contract and acquire and/or construct improvements to such facilities or other City facilities. In return, the City pays CWA for maintenance, operation, construction, improvement, and repair of the City projects, including reasonable overhead and administrative costs, as set forth in the annual operating budget. The City is entitled to credits against its obligations under the Operating Contract to the extent that excess revenues, including proceeds from third-party insurers and grants from any Federal or state agency, received by CWA from the operation of the Trinity River facilities are available and are used to pay maintenance, operation, construction, improvement, and repair expenses of the facilities pursuant to the terms of the Operating Contract.

Under the Projects Contract, CWA is required to construct and/or acquire, improve, and repair certain water conveyance and distribution facilities. In return, the City pays, solely from the gross revenues received from the operation of the City's water and wastewater systems, all amounts necessary to pay debt service requirements and reserve fund requirements for such facilities. Upon termination of the Projects Contract and upon payment of all bonds and other obligations issued by CWA, CWA may assign and convey to the City, upon request, all of its rights, titles, and interest in and to such facilities.

In accordance with the terms of the various bond resolutions and City contracts, CWA is required to maintain, in the Trinity River Water Conveyance System operations account, an amount equal to three months average operating costs, as applicable to the City, estimated from its annual operating budget. At the beginning of each year, CWA makes an adjustment to the operating reserves to meet the requirements. This adjustment is either paid by or credited to the City. This amount is being shown in the statement of net position as part of line item "restricted net position – operations reserves." As of December 31, 2023, this reserve amounted to \$7,435,173.

Coastal Water Authority

Notes to the Financial Statements

San Jacinto River Authority

Effective February 10, 1998, CWA entered into a water conveyance contract with San Jacinto River Authority (SJRA) whereas SJRA reserved 50 million gallons per day (MGD) of capacity in the CWA main canal system. In 1998, SJRA paid CWA a capital recovery fee of \$3,663,860 for this capacity reservation. SJRA paid \$796,087 for the costs of engineering, design, and construction of a diversion point to accommodate this conveyance of water from CWA's main canal to SJRA's canal. Upon completion of the construction project in February 2000, CWA began operating and maintaining this diversion point structure. In return, SJRA began paying a monthly operating charge to CWA for the conveyance of this water. Termination of the contract will occur on the earlier date of January 1, 2035 or the date the City acquires the CWA main canal system.

In accordance with the terms of the contract with SJRA, CWA is required to maintain, in the Trinity River Water Conveyance System operations account, an amount equal to three months average operating costs, as applicable to SJRA, estimated from its annual operating budget. At the beginning of each year, CWA makes an adjustment to the operating reserves to meet the requirements. This adjustment is either paid by or credited to SJRA. This amount is being shown in the statement of net position as part of the line item "restricted net position - operations reserves." As of December 31, 2023, this reserve amounted to \$28,053.

Note 3. Lake Houston Facilities

Effective January 1, 1996, CWA entered into an operating contract with the City to assume the responsibility of operating, maintaining, and keeping the Lake Houston Pump Station, West Canal, and related facilities (the Facilities) in good repair and to assume the responsibility of transporting water through the Facilities. The City pays, solely out of revenues received from the operation of the City's water and wastewater system, all maintenance and operating costs of the Facilities. The City is entitled to credits against obligations for interest received on Lake Houston Facilities fund investments. The contract has been renewed and will continue to 2025 unless terminated by either party.

In accordance with the terms of this contract, CWA is required to maintain, in the Lake Houston operations account, an amount equal to three months average operating costs as estimated from its annual operating budget. At the beginning of each year, CWA makes an adjustment to the operating reserves to meet the requirements. This adjustment is either paid by or credited to the City. This amount is being shown in the statement of net position as part of the line item "restricted net position - operations reserves." As of December 31, 2023, this reserve amounted to \$970,128.

Effective January 1, 2004, the Operating Contract with the City was amended to extend responsibility for operating, maintaining, performing inspections, and implementing security of Lake Houston and the Lake Houston Dam to CWA. Further, the work under the Operating Contract may be paid by the City either as a capital project or from revenues received from the operation of the City's water and wastewater systems.

Coastal Water Authority

Notes to the Financial Statements

Note 4. Bayport Water System

In 1979, CWA acquired an existing water distribution system, the Bayport Water System, from the Friendswood Development Company and to extend the system to service additional customers. The Bayport Water System is attached to CWA's distribution system and its customers consist primarily of large national company chemical plants.

In 1985, CWA improved the Bayport Water System by the construction of crossover connections to interconnect the three CWA systems and bypass the Bayport reservoir and pump station. This change resulted in a more efficient and reliable system.

A Capital Improvement Fund was established through designation by the board of CWA in the Bayport Water System to provide funds for future renovations, improvements, and repairs to the system. Maintenance and operating costs are paid from revenues received from the operations of the Bayport Water System.

Note 5. Water Treatment Plant

In 1979, CWA acquired an existing water treatment plant (the Plant) from Crown Central Petroleum Company. The Plant is connected to CWA's distribution system and its customers consist of large chemical processing companies.

In November 2002, Air Products and Chemicals, Inc., (Air Products) entered into an agreement with CWA to receive and treat untreated surface water. The termination date for the agreement was December 31, 2017; thereafter, the agreement was renewed for an additional five-years commencing January 1, 2018 and expired December 31, 2022 and has been renewed for an additional five-year period. In return, Air Products will take delivery of the treated surface water and make monthly payments to CWA for water treatment services. As of October 1, 2018, Air Products assigned their contract with CWA to Sekisui Specialty Chemicals America, LLC.

In January 2005, Pasadena Refining Systems, Inc. (PRSI) entered into an agreement with CWA to receive and treat 1.15 to 6.0 million gallons of untreated surface water per day for PRSI's production requirements. In return, PRSI will take delivery of the treated surface water and make monthly payments to CWA for water treatment services. The termination date for the agreement was December 2017. The agreement was renewed for an additional five-years commencing January 1, 2018 and expired December 31, 2022 and has been renewed for an additional five-year period.

Note 6. Luce Bayou Project

In 2009, CWA entered into another project financing and construction contract with the City to plan, design, acquire property, construct and finance a project known as the Luce Bayou Interbasin Transfer Project (the Luce Bayou Project), which includes infrastructure sized to transfer approximately 450,000 acre feet per year of the City's permitted surface water from the Trinity River to Lake Houston. The Preliminary Project Costs of the Luce Bayou Project were financed and paid through the issuance of CWA contract revenue bonds which were purchased by the Texas Water Development Board (the TWDB) through its Water Infrastructure Fund (WIF) loan program, under which the TWDB loaned funds (the WIF Bonds) to CWA in the amount of \$28,000,000 in 2009 and an additional \$5,115,000 in 2010. The WIF Bonds are secured by the City's pledge under the Projects Contract to pay Debt Service on the WIF Bonds from the City's Net Revenues held in the General Purpose Fund.

Coastal Water Authority

Notes to the Financial Statements

Under the Luce Bayou Project, CWA advanced funds in the amount of \$9,705,000 to pay for the City's share of Land and Mitigation Costs. The funds were obtained from CWA's revenues derived from the sale of certain Certificates of Participation, Series 1993A-J with respect to the City of Houston Water Conveyance System Contract. The City shall repay the advance to CWA along with interest, at a rate equal to the prime rate published by the Wall Street Journal on the respective January 1st or July 1st for the period June 15, 2009 through December 15, 2016 and the 10- year Bond Buyer Revenue Bond Index for the period from December 15, 2016 through December 15, 2038. The City's payment schedule will start on June 15, 2019 and its repayment term is 20 years with one principal payment and two interest payments each year.

On March 13, 2012, CWA Board authorized an additional sum amounting to \$5 million to be used for acquisition of right-of-way for the Luce Bayou Project thereby increasing the total estimated costs of the Land and Mitigation project to \$20 million. In accordance with the provisions of the contract agreement, CWA received \$1,765,000 from the City and CWA transferred the amount of \$3,235,000 from its Special Project Equity Fund (SEALS) to cover the City's portion of the acquisition costs. Accordingly, this amount has been recorded as a receivable from the City in the financial statements.

Pursuant to a Master Agreement (the Agreement) dated February 21, 2013, between CWA and TWDB, TWDB during the year, made available to CWA a funding in the amount \$28,754,000. The funding is to enable TWDB to purchase an initial 35% undivided interest in the Luce Bayou Project. In accordance with the provisions of the agreement, TWDB may purchase up to 80% of an undivided interest in the Luce Bayou Project. The proceeds of the fund are held in a construction fund created for such purpose and held by CWA. Funds in the construction fund including interest and investment earnings are to be used only for the Luce Bayou Project costs or for CWA's purchase of TWDB's interest in the Project. In conjunction with the Agreement, CWA and the City entered into a first supplement to the Luce Bayou Project contract to incorporate the City's pledge for payment of debt service of the loan.

Pursuant to a Master Agreement (the Agreement) dated November 20, 2015, between CWA and TWDB, TWDB, during the year, made available to CWA funding in the amount of \$66,565,000. This funding is to enable TWDB to purchase an initial 35% undivided interest in the Luce Bayou Project. In accordance with the provisions of the Agreement, TWDB may purchase up to 80% of an undivided interest in the Luce Bayou Project. The proceeds are held in a construction fund created for such purpose and held by CWA. Funds in this construction fund including interest and investment earnings are to be used only for the Luce Bayou Project costs or for CWA's purchase of TWDB's interest in the Project. In conjunction with the Agreement, CWA and the City entered into a second supplement to the Luce Bayou Project contract to incorporate the City's pledge for payment on debt service of the loan.

An amendment to the Agreement dated October 24, 2016, made available to CWA additional funding in the amount of \$136,460,000. In conjunction with the Agreement, CWA and the City entered in a third supplement to the Luce Bayou Project contract to incorporate the City's pledge for payment on debt service of the loan.

A second amendment to the Agreement dated November 13, 2017, made available to CWA additional funding in the amount of \$72,795,000. In conjunction with the Agreement, CWA and the City entered in a fourth supplement to the Luce Bayou Project contract to incorporate the City's pledge for payment on debt service of the loan.

Coastal Water Authority

Notes to the Financial Statements

The TWDB on July 20, 2017, adopted Texas Water Development Board Resolution No. 17-076 to provide Financial Assistance to the Coastal Water Authority in the amount of \$24,180,000. The proceeds are held in a construction fund created for such purpose and held by CWA. Funds in this construction fund, including interest and investment earnings, are to be used only for the Luce Bayou Project costs. In conjunction with the Agreement, CWA and the City entered into a fifth supplement to the Luce Bayou Project contract to incorporate the City's pledge for payment on debt service of the Contract Revenue Bond, Series 2017.

In accordance with the terms of this contract, CWA is required to maintain, in the Luce Bayou operations account, an amount equal to three months average operating costs as estimated from its annual operating budget. At the beginning of each year, CWA makes an adjustment to the operating reserves to meet the requirements. This adjustment is either paid by or credited to the City. This amount is being shown in the statement of net position as part of the line item "restricted net position - operations reserves." As of December 31, 2023, this reserve amounted to \$1,446,166.

Note 7. Deposits and Investments

As of December 31, 2023, CWA had the following deposits:

Deposits	Value	Average Maturity (in Days)	Rating*
Cash and cash equivalents	\$ 22,923,051	45	AAAm
Restricted cash and cash equivalents	63,517,604	-	
	<u>\$ 86,440,655</u>		

* Standard & Poor's rating

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, CWA's deposits may not be returned to it. As of December 31, 2023, CWA's bank deposits at JP Morgan Chase were undersecured by \$1,818,038.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the CWA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The CWA's investments are held by the CWA's agent in the CWA's name for the benefit of the CWA.

Interest Rate Risk

CWA's formal investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Financial assets are invested only in authorized investments whose maturities do not exceed one year at the time of purchase.

Coastal Water Authority

Notes to the Financial Statements

Texas Short Term Asset Reserve Program Cash Reserve Fund (TexStar) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code (Code), and the Public Funds Investment Act (PFIA), Chapter 2256 of the Code. TexStar was created in April 2002 through a contract among its participating governmental units, and is governed by a board of directors (board), to provide for the joint investment of participant's public funds and funds under their control. It is the policy of TexStar to invest pooled assets in a manner that will provide for preservation and safety of principal and competitive investment returns while meeting the daily liquidity needs of its participants. The Portfolio of TexStar is a government-repo fund, utilizing primarily U.S. treasury securities, U.S. agency securities both fixed and floating, and repurchase agreements collateralized by such obligations. In order to meet the liquidity needs of the pool's shareholder base and limit its exposure to significant market price fluctuations occurring during the periods of volatile interest rate movement, the weighted average maturity of the pool's assets is limited to 60 days or less. J.P. Morgan Asset Management and Hilltop Securities serve as co-administrators for TexStar under an agreement with the TexStar board.

TexStar measures its investments at fair value; therefore, the investment is reported at net asset value in the accompanying financial statements. The investment pool does not have any limitations or restrictions on withdrawals, such as notice periods or maximum transaction amounts, and do not impose any liquidity fees or redemption gates. As of December 31, 2023, investments in TexStar amounted to \$50,576,049.

Note 8. Capital Assets

Capital assets consisted of the following at December 31, 2023:

	Balance December 31, 2022	Additions	Retirements	Reclass and Transfers	Balance December 31, 2023
Land	\$ 27,268,843	\$ -	\$ -	\$ -	\$ 27,268,843
Intangibles	8,669,664	-	-	-	8,669,664
Water systems	412,348,812	-	-	4,214,148	416,562,960
Trucks, equipment, and other	15,374,704	910,185	(581,944)	295,598	15,998,543
Right-to-use assets-buildings	2,247,333	-	-	-	2,247,333
Right-to-use assets-equipment	30,194	-	-	-	30,194
Right-to-use assets-subscriptions*	172,600	104,922	-	(3,008)	274,514
Construction in progress	322,304,798	7,225,326	-	(5,134,697)	324,395,427
Total capital assets, costs	788,416,948	8,240,433	(581,944)	(627,959)	795,447,478
Accumulated depreciation and amortization:					
Water systems	(227,510,154)	(5,925,820)	-	(1,643)	(233,437,617)
Trucks, equipment, and others	(10,951,142)	(1,131,081)	524,989	656	(11,556,578)
Right-to-use assets-buildings	(201,255)	(201,255)	-	-	(402,510)
Right-to-use assets-equipment	(9,372)	(9,372)	-	-	(18,744)
Right-to-use assets-subscriptions	-	(70,667)	-	-	(70,667)
Total accumulated depreciation and amortization	(238,671,923)	(7,338,195)	524,989	(987)	(245,486,116)
Total capital assets, net	\$ 549,745,025	\$ 902,238	\$ (56,955)	\$ (628,946)	\$ 549,961,362

*The beginning balance for right to use subscription assets have been adjusted to reflect the adoption of GASB 96, Subscription-based information technology arrangements.

Depreciation and amortization expense for the year ended December 31, 2023 was \$7,338,195.

Coastal Water Authority
Notes to the Financial Statements

Note 9. Long-term Liabilities

The following is a summary of long-term liabilities for the year ended December 31, 2023:

Descriptions	Balance December 31, 2022	Additions	Reductions	Balance December 31, 2023	Due within One Year
Bonds and Long-Term Loans:					
Series 2009 contract revenue bonds (maturing 12/15/2028)	\$ 17,650,000	\$ -	\$ (2,750,000)	\$ 14,900,000	\$ 2,820,000
Series 2010 contract revenue bonds (maturing 6/15/2030)	3,850,000	-	(440,000)	3,410,000	450,000
Series 2010 contract revenue refunding bonds (maturing 12/15/2025)	14,010,000	-	(3,315,000)	10,695,000	3,480,000
Series 2014 contract revenue refunding bonds (maturing 12/15/2034)	30,560,000	-	(1,200,000)	29,360,000	1,255,000
Texas Water Development Board long-term loan - 2013 (maturing 12/15/2046)	28,754,000	-	-	28,754,000	-
Texas Water Development Board long-term loan - 2015 (maturing 6/15/2050)	66,565,000	-	-	66,565,000	-
Texas Water Development Board long-term loan - 2016 (maturing 6/15/2051)	136,460,000	-	-	136,460,000	-
Texas Water Development Board long-term loan - 2017 (maturing 6/15/2052)	72,795,000	-	-	72,795,000	-
Series 2017 contract revenue bonds (maturing 6/15/2047)	21,080,000	-	(645,000)	20,435,000	655,000
	391,724,000	-	(8,350,000)	383,374,000	8,660,000
Add:					
Unamortized premium	3,054,727	-	(451,967)	2,602,760	-
	394,778,727	-	(8,801,967)	385,976,760	8,660,000
Other liabilities:					
Compensated absences	2,462,534	390,710	(437,664)	2,415,580	120,632
Leases payable	2,150,393	-	(147,853)	2,002,540	213,443
Subscriptions payable *	172,600	104,552	(92,794)	184,358	70,072
Interest payable	59,911,740	4,955,815	-	64,867,555	131,535
Other postemployment benefit liability	4,475,438	6,358,243	(3,159,388)	7,674,293	-
Total long-term liabilities	\$ 463,951,432	\$ 11,809,320	\$ (12,639,666)	\$ 463,121,086	\$ 9,195,682

* Restated to reflect implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.

Coastal Water Authority

Notes to the Financial Statements

The annual debt service requirements for bonds payable and long-term loans as of December 31, 2023 are as follows:

Year Ending December 31,	Principal	Interest
2024	\$ 8,660,000	\$ 14,482,435
2025	13,555,000	14,149,108
2026	6,550,000	13,570,762
2027	6,780,000	13,342,905
2028	7,025,000	13,103,416
2029-2033	22,345,000	63,236,912
2034-2038	43,845,000	57,981,967
2039-2043	96,170,000	43,832,900
2044-2048	109,829,000	23,300,072
2049-2053	68,615,000	4,116,700
Totals	\$ 383,374,000	\$ 261,117,177

Series 2009 Contract Revenue bonds carry a fixed interest rate of 2.13%-2.88%, Series 2010 Contract Revenue Bonds carry a fixed interest rate of 1.64%-2.82%, and Series 2010 Contract Revenue Refunding Bonds carry a fixed interest rate of 2.0%-5.0%. The TWDB 2013 loan carries a fixed interest rate of 4.44%-4.69%. Series 2014 Contract Revenue Refunding Bonds carry a fixed interest rate of 3.0%-5.0% and are payable on June 15 and December 15 of each year. The TWDB 2015 loan carries a fixed interest rate of 3.98%-4.11%. The TWDB 2016 loan carries a fixed interest rate of 3.46%-3.88%. Series 2017 Contract Revenue Bonds carry a fixed interest rate of 0.69%-3.0% and are payable on June 15 and December 15 of each year. The TWDB 2017 loan carries a fixed interest rate of 3.57%-3.86%.

1. Source of Repayment

The Series 2009, 2010 Refunding Bonds, 2014 Refunding Bonds, and 2017 (the Bonds) as well as the 2013, 2015, 2016, and 2017 loans are special limited obligations of CWA which are payable as to principal and interest solely from certain payments to be made by the City of Houston (the City) to CWA under certain project contracts.

2. Prior Defeasance of Debt

CWA has at various times entered into transactions to refund certain issues of its bonded debt. Generally, these transactions involve putting funds in a trust to be used to purchase securities to meet all the debt service requirements of the refunded debt, until that debt either matures or is redeemed. The liability for such refunded bonds and the related securities and escrow accounts were not included in the accompanying financial statements, as CWA defeased its obligations for payment of the refunded debt upon completion of the refunding transactions. At December 31, 2023, no outstanding bonds were considered defeased.

Private Placements (Direct Placements)

The Series 2009, 2010 and 2017 Contract Revenue Bonds (Luce Bayou Project) along with the TWDB long-term loans 2013, 2015, 2016 and 2017 are Direct Placements with the TWDB as funding for the Luce Bayou Project (See Note 6). These direct placement debt service payments are secured by the City's pledge under the Luce Bayou Projects Contract between the Authority and the City on the City's revenue from the Combined Utility System operations. The TWDB maintains certain percentage undivided interest in the Luce Bayou Project. As debt service payments are made the percentage of TWDB's undivided interest diminishes.

Coastal Water Authority

Notes to the Financial Statements

Leases Payable

The CWA has entered into multiple lease agreements as a lessee. The leases allow the right-to-use buildings and equipment over the term of the lease. The CWA is required to make monthly and quarterly payments at its incremental borrowing rate or the interest rate stated or implied within the leases. The lease rate, term and ending lease liability are as follows:

	<u>Interest Rate(s)</u>	<u>Lease Term in Years</u>	<u>Ending Balance</u>
Buildings	1.35%	11	\$ 1,991,244
Copiers and printers	Various	3-5	<u>11,296</u>
Total			<u><u>\$ 2,002,540</u></u>

The future principal and interest lease payments as of fiscal year end are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2024	\$ 213,443	\$ 25,776	\$ 239,219
2025	191,757	23,279	215,036
2026	197,696	20,675	218,371
2027	205,650	17,968	223,618
2028	214,717	15,142	229,859
2029	223,906	12,193	236,099
2030	233,220	9,119	242,339
2031	242,660	5,920	248,580
2032	262,682	2,539	265,221
2033	<u>16,809</u>	<u>75</u>	<u>16,884</u>
Total business-type activities	<u><u>\$ 2,002,540</u></u>	<u><u>\$ 132,686</u></u>	<u><u>\$ 2,135,226</u></u>

Subscription-Based Information Technology Arrangements (SBITA)

CWA has entered into multiple SBITAs that allow the right-to-use the SBITA vendor's information technology software over the subscription term. CWA is required to make quarterly or annual payments at its incremental borrowing rate or the interest rate stated or implied within the SBITAs. The SBITA rate, term and ending subscription liability are as follows:

	<u>Interest Rate(s)</u>	<u>Lease Term in Years</u>	<u>Ending Balance</u>
Subscriptions	Various	Various	<u>\$ 184,358</u>
Total			<u><u>\$ 184,358</u></u>

Coastal Water Authority

Notes to the Financial Statements

The future principal and interest SBITA payments as of fiscal year end are as follows:

Year Ending December 31,	Principal	Interest	Total Requirements
2024	\$ 70,072	\$ 4,343	\$ 74,415
2025	54,295	2,731	57,026
2026	28,460	1,546	30,006
2027	29,236	771	30,007
2028	2,295	17	2,312
Total business-type activities	\$ 184,358	\$ 9,408	\$ 193,766

Note 10. Employee Benefit Plans

CWA has a single-employer defined contribution plan (the Plan) under which all full-time employees are eligible to participate upon completion of 90 days of service. All employees are required to contribute 4% of their annual compensation and may make additional voluntary contributions up to a maximum of 10% of that compensation received during all years of plan participation when added to their prior employee contributions.

CWA contributes 11.8% of each employee's gross compensation, which is 18% less a fixed rate of 6.2%, until eligible compensation is no longer subject to the Federal Insurance Contribution Act (FICA). When CWA is not required to contribute to FICA, with respect to each employee, CWA contributes the additional 6.2% to the employee's account. Maximum annual employee contributions are limited to 100% of the employee's compensation. Participants are 100% vested in their contributions and earnings thereon. For the employer contributions, participants are vested at the rate of 20% per year, beginning subsequent to the completion of one year of service, allowing 100% vesting after five years. Participants also become 100% vested upon death, disability, or reaching 65 years of age. In the event of termination of the plan, the vested interest of each participant shall be 100% and no part of the plan's assets will revert to CWA.

Coastal Water Authority

Notes to the Financial Statements

Total payroll expense for the year ended December 31, 2023 (100% covered by the plan) was \$7,960,599. Accordingly, the 2023 required contributions for employees was \$318,724 and CWA's requirement, net of forfeitures, was \$912,064. Actual contributions from employees and CWA during the plan year ended September 30, 2023 were \$448,218 and \$956,171, respectively. Below is the Statement of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits derived from the Plan's financial statements for the year ended September 30, 2023.

Statement of Net Assets Available for Benefits

Assets:	
Investments in U.S government agency securities at fair value	\$ 10,081,469
Employer's contribution receivable	13,334
Other receivables	29,415
	<hr/>
Net assets available for benefits	\$ 10,124,218
	<hr/> <hr/>

Statement of Changes in Net Assets Available for Benefits

Additions to net assets:	
Investment income:	
Net appreciation in fair value of investments	\$ 383,072
Contributions:	
Employer	956,171
Participants	448,218
	<hr/>
Total contributions	1,404,389
	<hr/>
Total additions to net assets	1,787,461
Deductions from net assets:	
Benefits paid	1,261,801
	<hr/>
Total deductions from net assets	1,261,801
	<hr/>
Change in net assets	525,660
Net assets available for benefits, beginning of year	9,598,558
	<hr/>
Net assets available for benefits, end of year	\$ 10,124,218
	<hr/> <hr/>

Coastal Water Authority
Notes to the Financial Statements

The Plan's investments at September 30, 2023 were as follows:

September 30, 2023	Face Value	Fair Value	Amortized Cash
US Treasury Note dated 10/13/2022, 0.0625% Due 10/15/2024	\$ 1,075,000	\$ 1,023,224	\$ 1,037,271
US Treasury Note dated 07/18/2022, 0.0875% Due 01/31/2024	1,030,000	1,014,668	1,023,815
US Treasury Note dated 02/01/2023, 1.125% Due 01/15/2025	1,060,000	1,004,930	1,022,254
US Treasury Note dated 04/27/2022, 2.00%, Due 04/30/2024	1,000,000	980,391	1,005,691
US Treasury Note dated 06/27/2022, 1.75% Due 07/31/2024	1,020,000	989,201	1,011,914
FHLB Discount Note dated 08/01/2023, 5.23% Due 03/15/2024	500,000	488,347	487,942
FHLB Discount Note dated 04/28/2023, 4.59% Due 04/19/2024	1,000,000	972,401	993,990
FHLB Discount Note dated 08/01/2023, 5.12% Due 07/12/2024	1,000,000	961,499	959,467
FHLB Discount Note dated 10/13/2022, 4.37% Due 10/12/2023	1,000,000	998,577	998,194
FHLB Discount Note dated 02/01/2023, 4.75% Due 02/01/2024	1,000,000	997,313	1,007,460
Cash Equivalents; Invesco Government & Agency Institutional Class	650,918	650,918	650,918
Totals	<u>\$ 10,335,918</u>	<u>\$ 10,081,469</u>	<u>\$ 10,198,916</u>

Employees of CWA may also participate in a deferred compensation plan, created in accordance with Internal Revenue Code Section 457, which permits the deferral of a portion of their salaries until future years. The deferred compensation is not available to employees until retirement, termination, death, or an unforeseeable emergency. All assets and income of the plan shall be held for the exclusive benefit of the plan's participants and their beneficiaries. The plan is administered by an independent contractor using the investment programs selected by the participants.

Coastal Water Authority

Notes to the Financial Statements

Note 11. Postemployment Benefits

A. Plan Description

CWA administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The Retiree Health Plan has no plan assets accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75. The Retiree Health Plan provides healthcare insurance for eligible retirees and their spouses through CWA's group health insurance plan, which covers both active and retired members. Substantially all of CWA's employees become eligible for these benefits if they reach normal retirement age while working for CWA. CWA issues a publicly available financial report that includes financial statements and required supplementary information for the Retiree Health Plan. The report may be obtained by writing to CWA, 1801 Main Street, Suite 800, Houston, Texas 77002.

B. Funding Policy

The contribution requirements of plan members are established and may be amended by the CWA's Board of Directors. These costs are funded on a pay-as-you-go basis. Contributions are recognized in the year paid. CWA paid \$212,072 during the year ended December 31, 2023 for healthcare premiums as they became due.

C. Employees Covered by Benefit Terms

The number of employees covered by the benefit terms is 75. Active employees make up 55 of the total and inactive employees make up 20 of this total.

Coastal Water Authority

Notes to the Financial Statements

D. Total OPEB Liability

The Authority's total OPEB liability of \$7,674,293 was measured as of December 31, 2023 using the alternative measurement method under GASB Statement No. 75.

The total OPEB liability at December 31, 2023 was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Age adjustment factor	1.601878
Average retirement age	65 years
Employer future premium contribution	Remain a level % of the total cost over time
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Assets backing OPEB liability	\$0
Plan asset return	0%
Bond yield	4.250%
Measurement date	12/31/2023
Prior measurement date	12/31/2022
Prior year discount rate	2.050%
Projected salary increases	2.00%
Amortization period	20
Percentage participation	100%
NOL and ADC	Calculated using the Alternative Measurement Method in accordance with GASB methodology.
Mortality table	Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for 10 years.
Turnover assumption	Derived from data maintained by the U.S. Office of Personnel Management regarding the most recent experience of the employee group covered by the Federal Employees Retirement System.

The discount rate used to measure the total OPEB liability was 4.25% and was based on the 20-year tax-exempt municipal bond yield.

The actuarial assumptions used in the December 31, 2023 measurement were based on the results of an actuarial experience study for the period 2008-2013.

Coastal Water Authority
Notes to the Financial Statements

Changes in the total OPEB liability:

	<u>2023</u>
Total beginning OPEB liability	\$ 4,475,438
Service cost	136,141
Interest on total OPEB liability	92,375
Effect of plan changes	-
Effect of economic/demographic gains or losses	6,129,727
Effect of assumptions changes or inputs	(2,947,316)
Benefit payments	(212,072)
Employer contributions	-
Employee contributions	-
Net investment income	-
Administrative expenses	-
	<hr/>
Net change in total OPEB liability	<u>3,198,855</u>
Total ending OPEB liability	<u>\$ 7,674,293</u>

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.250 percent) or 1-percentage-point higher (5.250 percent) than the current discount rate:

	<u>Discount Rate - 1%</u> 3.250%	<u>Baseline</u> 4.250%	<u>Discount Rate + 1%</u> 5.250%
Total OPEB liability	\$ 8,839,456	\$ 7,674,293	\$ 6,726,500

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>Medical</u>	<u>Pharmacy</u>	<u>Dental</u>	<u>Vision</u>
	4.700%	5.200%	3.500%	3.000%
	<u>Baseline Trend - 1%</u>	<u>Baseline</u>	<u>Baseline Trend + 1%</u>	
Total OPEB liability	\$ 6,655,863	\$ 7,674,293	\$ 8,932,061	

Coastal Water Authority

Notes to the Financial Statements

E. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2023, the Authority recognized OPEB expense of \$3,410,927.

Deferred inflows/outflows of resources related to differences between actual and expected experience with regard to economic or demographic factors or changes in assumptions and other inputs should not be used under the Alternative Measurement Method. These items should be recognized in OPEB expense immediately. The difference between projected and actual earnings on OPEB plan investments should be recognized in OPEB expense over a closed 5 year period; the amount not immediately recognized should be reported as deferred inflows and outflows. The Authority's plan does not have OPEB assets in a trust, so deferred inflows and outflows are \$0.

Note 12. Concentrations

The Trinity River Water Conveyance System and Lake Houston Facilities have one major customer, the City of Houston (the City). Revenues from the City represent approximately 100% of total revenues in the Trinity River Water Conveyance System and Lake Houston Facilities combined. The Red Bluff Water Treatment Plant currently has two customers which represents 100% of revenue. In addition, the Bayport Water System has three major customers. Revenues from these customers represent approximately 90% of total revenues in the Bayport Water System. CWA believes that the possibility of losing any one of these customers is remote.

Note 13. Subsequent Events

Management has evaluated subsequent events through April 5, 2024, the date financial statements were available to be issued. No changes were made, or are necessary to be made, to the financial statements, as a result of this evaluation.

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Required Supplementary Information

Coastal Water Authority

Schedule of Changes in the Authority's Total OPEB Liability and Related Ratios (Unaudited) Last Ten Fiscal Years

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
TOTAL BEGINNING OPEB LIABILITY	\$ 4,475,438	\$ 5,145,335	\$ 5,402,916	\$ 5,331,943	\$ 4,921,560	\$ 4,687,332
Service cost	136,141	181,086	146,143	203,689	189,253	368,798
Interest on total OPEB liability	92,375	107,525	153,102	178,290	172,329	125,386
Effect of plan changes	-	-	-	-	-	-
Effect of economic/demographic gains or losses	6,129,727	60,709	(931,427)	(532,755)	33,961	479,744
Effect of assumptions changes or inputs	(2,947,316)	(855,804)	538,014	356,032	100,189	(657,800)
Benefit payments	(212,072)	(163,413)	(163,413)	(134,283)	(85,349)	(81,900)
Employer contributions	-	-	-	-	-	-
Employee contributions	-	-	-	-	-	-
Net investment income	-	-	-	-	-	-
Administrative expenses	-	-	-	-	-	-
Net change in total OPEB liability	<u>3,198,855</u>	<u>(669,897)</u>	<u>(257,581)</u>	<u>70,973</u>	<u>410,383</u>	<u>234,228</u>
TOTAL ENDING OPEB LIABILITY	<u>\$ 7,674,293</u>	<u>\$ 4,475,438</u>	<u>\$ 5,145,335</u>	<u>\$ 5,402,916</u>	<u>\$ 5,331,943</u>	<u>\$ 4,921,560</u>
Covered-employee payroll	\$ 7,960,599	\$ 7,921,499	\$ 7,592,887	\$ 7,277,961	\$ 7,001,888	\$ 6,510,144
Total OPEB Liability as a percentage of covered-employee payroll	96%	56%	68%	74%	76%	76%

There are no assets accumulated in a trust to pay the related benefits to the employees.

*The amounts presented for the fiscal year were determined as of the Plan's fiscal year end, December 31, 2023. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for those years for which information is available.

Other Supplementary Information

Coastal Water Authority

Schedule I - Schedule of Net Position by System December 31, 2023

	Luce Bayou Interbasin Transfer Project	Trinity River Water Conveyance System Project	Lake Houston Facilities Project
ASSETS			
Current assets unrestricted:			
Cash and cash equivalents	\$ 905,575	\$ 14,851,395	\$ 790,369
Receivables:			
Accounts receivable from City of Houston	449,011	3,131,276	2,784,548
Accounts receivable from other customers	-	-	-
Compensable absences current portion	3,900	94,294	15,767
Current portion loan receivable from City of Houston	-	696,643	-
Interfund receivable and payable, net	(45,737)	2,738,958	(2,630,847)
Total current assets unrestricted	1,312,749	21,512,566	959,837
Current assets restricted:			
Cash and cash equivalents - restricted for contingencies	-	3,081,016	2,054,011
Cash and cash equivalents - restricted for debt service	-	8,892,657	-
Cash and cash equivalents - restricted for capital projects	49,489,920	-	-
Total current assets restricted	49,489,920	11,973,673	2,054,011
Capital assets, net of depreciation and amortization	341,275,379	172,791,297	17,563,370
Other assets:			
Interest receivable from City of Houston	64,353,940	-	-
Obligation for compensable absences	74,093	1,791,586	299,578
Long-term loan receivable from City of Houston	-	13,242,280	-
Total other assets	64,428,033	15,033,866	299,578
Total assets	456,506,081	221,311,402	20,876,796
Deferred outflow of resources	-	53,683	-
LIABILITIES			
Current liabilities unrestricted:			
Accounts payable	179,964	1,365,662	46,932
Retainage payable	-	45,278	-
Unearned revenue	-	1,991,306	-
Compensable absences - current	3,900	94,294	15,767
Current portion of leases payable	55,680	92,801	27,840
Current portion of subscription payable	-	70,072	-
Total current liabilities unrestricted	239,544	3,659,413	90,539
Current liabilities restricted:			
Accounts payable	733,606	-	-
Current portion of bonds and loans payable	3,925,000	4,735,000	-
Bond, lease, subscription and interest payable	48,239	82,512	336
Total current liabilities restricted	4,706,845	4,817,512	336
Long-term liabilities:			
Bonds payable, net	34,820,000	37,922,760	-
Long-term loans	304,574,000	-	-
Leases payable	244,701	908,469	272,541
Subscription payable	-	114,286	-
Interest payable	64,736,020	-	-
Compensable absences payable	74,093	1,791,586	299,578
Other postemployment benefits	447,840	4,421,957	1,095,284
Total long-term liabilities	404,896,654	45,159,058	1,667,403
Total liabilities	409,843,043	53,635,983	1,758,278
TOTAL NET POSITION	\$ 46,663,038	\$ 167,729,102	\$ 19,118,518

Bayport Water System Project	Red Bluff Water Treatment Plant Project	Totals
\$ 5,137,354	\$ 1,238,358	\$ 22,923,051
-	-	6,364,835
566,778	248,356	815,134
3,731	2,940	120,632
-	-	696,643
<u>(38,003)</u>	<u>(24,371)</u>	<u>-</u>
5,669,860	1,465,283	30,920,295
-	-	5,135,027
-	-	8,892,657
-	-	49,489,920
-	-	63,517,604
15,130,226	3,201,090	549,961,362
-	-	64,353,940
70,889	58,802	2,294,948
<u>-</u>	<u>-</u>	<u>13,242,280</u>
<u>70,889</u>	<u>58,802</u>	<u>79,891,168</u>
20,870,975	4,725,175	724,290,429
-	-	53,683
84,008	53,494	1,730,060
-	-	45,278
-	-	1,991,306
3,731	2,940	120,632
18,561	18,561	213,443
<u>-</u>	<u>-</u>	<u>70,072</u>
106,300	74,995	4,170,791
-	-	733,606
-	-	8,660,000
<u>224</u>	<u>224</u>	<u>131,535</u>
224	224	9,525,141
-	-	72,742,760
-	-	304,574,000
181,693	181,693	1,789,097
-	-	114,286
-	-	64,736,020
70,889	58,802	2,294,948
<u>854,606</u>	<u>854,606</u>	<u>7,674,293</u>
<u>1,107,188</u>	<u>1,095,101</u>	<u>453,925,404</u>
<u>1,213,712</u>	<u>1,170,320</u>	<u>467,621,336</u>
<u>\$ 19,657,263</u>	<u>\$ 3,554,855</u>	<u>\$ 256,722,776</u>

Coastal Water Authority

Schedule II - Schedule of Revenues, Expenses, and Changes in Net Position by System Year Ended December 31, 2023

	Luce Bayou Interbasin Transfer Project	Trinity River Water Conveyance System Project	Lake Houston Facilities Project
OPERATING REVENUES			
Funds provided by City of Houston	\$ 4,587,907	\$ 27,892,197	\$ 2,598,888
Funds provided by San Jacinto River Authority	-	98,706	-
Service revenues	-	-	-
Total operating revenues	4,587,907	27,990,903	2,598,888
OPERATING EXPENSES			
Utilities	1,247,027	7,106,942	171,249
Field salaries	1,239,703	4,163,319	893,106
Administrative	421,454	1,774,503	449,865
General operating	1,022,562	3,211,396	845,690
Materials and supplies	297,495	7,613,437	84,579
Engineering, legal, and professional	182,985	530,926	112,432
Contract labor and equipment	445,536	4,128,637	504,517
Depreciation and amortization expense	572,597	5,550,088	751,656
Total operating expenses	5,429,359	34,079,248	3,813,094
Operating income (loss)	(841,452)	(6,088,345)	(1,214,206)
NONOPERATING REVENUES (EXPENSES)			
Investment income	2,578,884	1,085,913	136,035
Interest income	-	582,892	-
Bond interest expense, net of amortization of bond issues	(1,108,578)	(1,490,789)	-
Gain on sale of capital assets	-	61,255	2,000
Loan interest expense	(11,810,130)	-	-
Lease interest expense	(4,194)	(13,979)	(4,194)
Subscription interest expense	-	(4,117)	-
Other income	-	96,046	-
Total nonoperating revenues (expenses)	(10,344,018)	317,221	133,841
Income (Loss) before contributions	(11,185,470)	(5,771,124)	(1,080,365)
CONTRIBUTIONS			
Changes in net position	5,500,948	976,426	(1,080,365)
Net position - beginning of year	41,162,090	166,752,676	20,198,883
TOTAL NET POSITION - ENDING	\$ 46,663,038	\$ 167,729,102	\$ 19,118,518

Bayport Water System Project	Red Bluff Water Treatment Plant Project	Totals
\$ -	\$ -	\$ 35,078,992
-	-	98,706
1,968,122	1,882,856	3,850,978
1,968,122	1,882,856	39,028,676
40,905	128,716	8,694,839
515,942	515,067	7,327,137
281,556	285,820	3,213,198
557,975	536,341	6,173,964
193,683	482,978	8,672,172
44,773	35,678	906,794
530,992	179,038	5,788,720
344,097	119,757	7,338,195
2,509,923	2,283,395	48,115,019
(541,801)	(400,539)	(9,086,343)
255,478	54,169	4,110,479
-	-	582,892
-	-	(2,599,367)
2,600	-	65,855
-	-	(11,810,130)
(2,796)	(2,796)	(27,959)
-	-	(4,117)
8	749	96,803
255,290	52,122	(9,585,544)
(286,511)	(348,417)	(18,671,887)
-	-	23,433,968
(286,511)	(348,417)	4,762,081
19,943,774	3,903,272	251,960,695
<u>\$ 19,657,263</u>	<u>\$ 3,554,855</u>	<u>\$ 256,722,776</u>

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Other Information

Coastal Water Authority

Schedule III - Schedule of Revenues, Expenses, and Changes in Net Position –
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited)
 Year Ended December 31, 2023

	Luce Bayou Interbasin Transfer Project		
	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Funds provided by City of Houston	\$ 19,028,900	\$ 17,481,160	\$ (1,547,740)
Interest income	3,000	-	(3,000)
Total operating revenues	19,031,900	17,481,160	(1,550,740)
OPERATING EXPENSES			
Utilities	1,938,400	1,247,027	691,373
Field salaries	1,661,000	1,232,703	428,297
Administrative	673,300	446,850	226,450
General operating	559,400	574,722	(15,322)
Materials and supplies	248,700	296,504	(47,804)
Engineering, legal, and professional	102,100	158,485	(56,385)
Contract labor and equipment	601,900	426,711	175,189
Total operating expenses	5,784,800	4,383,002	1,401,798
Operating income	13,247,100	13,098,158	(148,942)
NONOPERATING REVENUES (EXPENSES)			
Bond interest expense	(1,118,093)	(1,113,076)	5,017
Bond principal retirement	(3,835,000)	(3,835,000)	-
Loan principal expense	(1,252,806)	(1,252,806)	-
Loan interest expense	(6,844,559)	(6,844,559)	-
Total nonoperating revenues (expenses)	(13,050,458)	(13,045,441)	5,017
CHANGE IN NET POSITION	\$ 196,642	\$ 52,717	\$ (143,925)

Coastal Water Authority

Schedule III - Schedule of Revenues, Expenses, and Changes in Net Position –
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited) – Continued
 Year Ended December 31, 2023

	Trinity River Water Conveyance System Project		
	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Funds provided by City of Houston	\$ 37,435,600	\$ 32,957,124	\$ (4,478,476)
Funds provided by San Jacinto River Authority	120,000	76,442	(43,558)
Interest on investments	40,000	146,290	106,290
Other Income	100,000	96,046	(3,954)
	<hr/>	<hr/>	<hr/>
Total operating revenues	37,695,600	33,275,902	(4,419,698)
OPERATING EXPENSES			
Utilities	6,888,300	7,017,355	(129,055)
Field salaries	4,165,500	4,171,579	(6,079)
Administrative	1,840,200	1,858,732	(18,532)
General operating	1,592,700	1,504,433	88,267
Materials and supplies	9,559,200	7,647,020	1,912,180
Engineering, legal, and professional	547,300	443,744	103,556
Contract labor and equipment	5,147,600	4,128,465	1,019,135
	<hr/>	<hr/>	<hr/>
Total operating expenses	29,740,800	26,771,328	2,969,472
	<hr/>	<hr/>	<hr/>
Operating income	7,954,800	6,504,574	(1,450,226)
NONOPERATING REVENUES (EXPENSES)			
Bond interest expense	(1,948,100)	(1,948,081)	19
Bond principal retirement	(4,515,000)	(4,515,000)	-
Paying agent fees	-	(825)	(825)
	<hr/>	<hr/>	<hr/>
Total nonoperating revenues (expenses)	(6,463,100)	(6,463,906)	(806)
	<hr/>	<hr/>	<hr/>
CHANGE IN NET POSITION	\$ 1,491,700	\$ 40,668	\$ (1,451,032)

Coastal Water Authority

Schedule III - Schedule of Revenues, Expenses, and Changes in Net Position –
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited) – Continued
 Year Ended December 31, 2023

	Lake Houston Facilities Project		
	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Funds provided by City of Houston	\$ 3,902,700	\$ 2,577,984	\$ (1,324,716)
Interest on investments	46,800	136,345	89,545
Other Income	30,000	-	(30,000)
	<hr/>	<hr/>	<hr/>
Total operating revenues	3,979,500	2,714,329	(1,265,171)
OPERATING EXPENSES			
Utilities	160,600	171,673	(11,073)
Field salaries	1,349,600	892,107	457,493
Administrative	571,500	476,261	95,239
General operating	378,200	365,863	12,337
Materials and supplies	365,100	86,770	278,330
Engineering, legal, and professional	102,100	112,432	(10,332)
Contract labor and equipment	953,600	528,328	425,272
	<hr/>	<hr/>	<hr/>
Total operating expenses	3,880,700	2,633,434	1,247,266
	<hr/>	<hr/>	<hr/>
Operating loss	98,800	80,895	(17,905)
	<hr/>	<hr/>	<hr/>
CHANGE IN NET POSITION	<u>\$ 98,800</u>	<u>\$ 80,895</u>	<u>\$ (17,905)</u>

Coastal Water Authority

Schedule III - Schedule of Revenues, Expenses, and Changes in Net Position –
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited) – Continued
 Year Ended December 31, 2023

	Bayport Water System Project		
	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Interest on investments	\$ 60,000	\$ 249,587	\$ 189,587
Service revenues	2,389,500	1,993,184	(396,316)
Other Income	-	8	8
	<hr/>	<hr/>	<hr/>
Total operating revenues	2,449,500	2,242,779	(206,721)
OPERATING EXPENSES			
Utilities	55,200	43,768	11,432
Field salaries	767,200	512,242	254,958
Administrative	344,900	283,479	61,421
General operating	251,800	269,180	(17,380)
Materials and supplies	243,800	169,989	73,811
Engineering, legal, and professional	83,400	34,843	48,557
Contract labor and equipment	402,500	552,499	(149,999)
	<hr/>	<hr/>	<hr/>
Total operating expenses	2,148,800	1,866,000	282,800
Operating income	300,700	376,779	76,079
NONOPERATING REVENUES (EXPENSES)			
Construction program	(3,020,000)	(1,656,929)	1,363,071
	<hr/>	<hr/>	<hr/>
Total nonoperating revenues (expenses)	(3,020,000)	(1,656,929)	1,363,071
CHANGE IN NET POSITION	<hr/> \$ (2,719,300)	<hr/> \$ (1,280,150)	<hr/> \$ 1,439,150

Coastal Water Authority

Schedule III - Schedule of Revenues, Expenses, and Changes in Net Position –
 Budgetary and Actual (Cash Basis) – All Systems (Unaudited) – Continued
 Year Ended December 31, 2023

	Red Bluff Water Treatment Plant Project		
	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Interest on investments	\$ 9,400	\$ 54,170	\$ 44,770
Service revenues	2,099,600	1,845,642	(253,958)
Other Income	-	750	750
	<hr/>	<hr/>	<hr/>
Total operating revenues	2,109,000	1,900,562	(208,438)
OPERATING EXPENSES			
Utilities	107,600	131,532	(23,932)
Field salaries	674,000	514,067	159,933
Administrative	306,200	285,990	20,210
General operating	239,200	247,547	(8,347)
Materials and supplies	539,700	465,626	74,074
Engineering, legal, and professional	65,700	34,344	31,356
Contract labor and equipment	600,500	179,038	421,462
	<hr/>	<hr/>	<hr/>
Total operating expenses	2,532,900	1,858,144	674,756
	<hr/>	<hr/>	<hr/>
Operating income	(423,900)	42,418	466,318
	<hr/>	<hr/>	<hr/>
CHANGE IN NET POSITION	<u>\$ (423,900)</u>	<u>\$ 42,418</u>	<u>\$ 466,318</u>