

Coastal Water Authority

Financial Report
December 31, 2025



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, 2025, 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, 2025, 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.

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.

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 8, 2026

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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, 2025. 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 \$282.9 million.
- CWA's total net position increased by \$16.2 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 \$5.9 million.
- Operating expenses increased by \$5.1 million.
- Capital assets, before accumulated depreciation and amortization, increased by \$13.5 million.
- Long-term liabilities (net of current portion) increased by \$39.5 million is primarily due to the net effect of payment and amortization of debt of \$15.6 million and the issuance of contract revenue bonds during the year of \$50.0 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

	2025	2024	Change
Current assets	\$ 169,343,540	\$ 124,288,546	\$ 45,054,994
Capital assets, net	556,177,280	553,222,180	2,955,100
Other noncurrent assets	84,033,803	84,693,259	(659,456)
Total assets	809,554,623	762,203,985	47,350,638
Total deferred outflows of resources	43,877	48,773	(4,896)
Current liabilities	15,859,132	24,271,602	(8,412,470)
Long-term liabilities	510,859,222	471,313,687	39,545,535
Total liabilities	526,718,354	495,585,289	31,133,065
Net position:			
Net investment in capital assets	238,875,578	221,658,546	17,217,032
Restricted	19,746,518	24,504,310	(4,757,792)
Unrestricted	24,258,050	20,504,613	3,753,437
Total net position	\$ 282,880,146	\$ 266,667,469	\$ 16,212,677

During 2025, current assets increased \$45.1 million primarily due to the bond proceeds of contract revenue bonds issued during the year. The \$8.4 million decrease in current liabilities is primarily due to a decrease in the current portion of bonds and loans payable. The \$39.5 million increase in long-term liabilities is mostly due to the net effect of payment and amortization of debt and the issuance of \$50 million of contract revenue bonds 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 \$282.9 million at the close of 2025. The largest portion of CWA's net position (84%) 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, 2025, that ratio was approximately 11:1. 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

	2025	2024	Change
Total operating revenues	\$ 47,573,955	\$ 41,653,813	\$ 5,920,142
Total operating expenses	(53,818,753)	(48,734,970)	(5,083,783)
Total non-operating revenues (expenses)	(9,311,576)	(9,112,373)	(199,203)
Deficiency of revenues under expenses	(15,556,374)	(16,193,530)	637,156
Capital contributions	31,769,051	26,138,223	5,630,828
Change in net position	16,212,677	9,944,693	6,267,984
Net position beginning of year	266,667,469	256,722,776	9,944,693
Net position at end of year	\$ 282,880,146	\$ 266,667,469	\$ 16,212,677

During 2025, the \$5.9 million increase in operating revenues is due to an increase in water usage by the City of Houston. Operating expenses increased \$5.1 million due to the cost of the of increased water usage by the City of Houston. Non-operating revenue (expenses) did not change significantly. Contributions provided by the City increased primarily due to reimbursement of current year costs incurred on the Lynchburg pump station that had been allocated to CWA in the prior year.

Capital Assets and Debt Administration

Capital assets: CWA's capital assets as of December 31, 2025, totaled \$556.2 million (net of accumulated depreciation and amortization). 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 \$1.9 million increase in trucks and equipment
- Approximately \$5.3 million increase in construction on Lynchburg Pump Station Project water systems.

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

Long-term debt: At the end of 2025, CWA had total long-term debt outstanding of \$437.4 million. A portion (\$102.0 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 \$335.4 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

	2025	2024	Change
Revenue and refunding bonds (net)	\$ 132,814,044	\$ 97,289,558	\$ 35,524,486
Long-term loans (TWDB)	304,574,000	304,574,000	-
Balance at end of year	\$ 437,388,044	\$ 401,863,558	\$ 35,524,486

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 2026 Operating and Construction Budgets that will begin January 1, 2026.

A second phase of the Luce Bayou Interbasin Transfer Project was started in 2024. The completion of Phase Two is expected in 2026. 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, 2025

ASSETS

Current assets - unrestricted:

Cash and cash equivalents	\$ 24,630,473
Investments	1,729,622

Receivables:

Accounts receivable from City of Houston	10,148,503
Accounts receivable from other customers	798,914
Compensable absences current portion	430,566
Current portion loan receivable from City of Houston	753,344

Total receivables	<u>12,131,327</u>
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Total current assets - unrestricted	38,491,422
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Current assets - restricted:

Cash and cash equivalents - restricted for contingencies	83,253
Cash and cash equivalents - restricted for debt service	178,138
Cash and cash equivalents - restricted for capital projects	121,966,257
Investments - restricted for contingencies	4,921,587
Investments - restricted for debt service	3,547,873
Investments - restricted for capital projects	155,010

Total current assets - restricted	<u>130,852,118</u>
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Capital assets, net of depreciation and amortization	556,177,280
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Other assets:

Interest receivable from City of Houston	68,394,207
Obligation for compensable absences	3,875,098
Long-term loan receivable from City of Houston	11,764,498

Total other assets	<u>84,033,803</u>
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Total assets	809,554,623
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Deferred outflows of resources	<u>43,877</u>
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TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 809,598,500</u></u>
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Coastal Water Authority

Statement of Net Position – Continued

December 31, 2025

LIABILITIES AND NET POSITION

Current liabilities - unrestricted:

Accounts payable	\$ 3,975,969
Unearned revenue	2,778,500
Compensable absences - current	430,566
Current portion of leases payable	197,696
Current portion of subscription payable	137,954

Total current liabilities - unrestricted 7,520,685

Current liabilities - restricted:

Retainage payable	3,949
Current portion of bonds and loans payable	7,970,000
Bond, lease, subscription and interest payable	364,498

Total current liabilities - restricted 8,338,447

Long-term liabilities:

Bonds payable, net	124,844,044
Long-term loans	304,574,000
Leases payable	1,427,484
Subscription payable	311,719
Interest payable	68,923,144
Compensable absences payable	3,875,098
Other postemployment benefits	6,903,733

Total long-term liabilities 510,859,222

Total liabilities 526,718,354

NET POSITION

Net investment in capital assets	238,875,578
Restricted for:	
Contingencies, net of restricted liabilities	5,004,840
Debt service	2,837,071
Operations reserves	11,904,607
Unrestricted	24,258,050

Total net position 282,880,146

TOTAL LIABILITIES AND NET POSITION

\$ 809,598,500

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

Coastal Water Authority

Statement of Revenues, Expenses, and Changes in Net Position Year Ended December 31, 2025

OPERATING REVENUES

Funds provided by City of Houston	\$ 41,761,274
Funds provided by San Jacinto River Authority	122,307
Service revenues	5,690,374
	<hr/>
Total operating revenues	47,573,955

OPERATING EXPENSES

Utilities	8,730,491
Field salaries	8,325,111
Administrative	3,499,138
General operating	1,255,344
Materials and supplies	10,017,178
Engineering, legal, and professional	1,372,258
Contract labor and equipment	9,078,220
Depreciation and amortization expense	11,541,013
	<hr/>
Total operating expenses	53,818,753

Operating loss (6,244,798)

NON-OPERATING REVENUES (EXPENSES)

Investment income	4,918,683
Interest income	528,367
Bond interest expense, net of amortization of bond issues	(3,190,743)
Gain on sale of capital assets	150,250
Loan interest expense	(11,811,223)
Lease interest expense	(23,069)
Subscription interest expense	(11,908)
Other income	128,067
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Net non-operating revenues/(expenses) (9,311,576)

Loss before contributions (15,556,374)

CONTRIBUTIONS PROVIDED BY CITY OF HOUSTON

31,769,051

Change in net position 16,212,677

Net position - beginning 266,667,469

NET POSITION - ENDING

\$ 282,880,146

Coastal Water Authority
Statement of Cash Flows
Year Ended December 31, 2025

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from municipalities	\$ 35,827,244
Cash received from customers	3,349,709
Cash payments to employees and suppliers for goods and services	(44,211,881)
	<hr/>
Net cash used in operating activities	(5,034,928)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(14,670,861)
Proceeds from sale of capital assets	324,998
Proceeds from bonds	50,000,000
Proceeds from subscriptions	115,761
Contributions, net of principal and interest paid on notes and bonds	2,534,813
Principal and interest paid on leases and subscriptions	(367,668)
Advance from City of Houston	724,438
	<hr/>
Net cash provided by capital and related financing activities	38,661,481

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from maturities and sales of investment securities	25,888,472
Purchases of investment securities	(20,339,073)
Investment income	5,278,690
Other income	128,067
	<hr/>
Net provided by investing activities	10,956,156

Net increase in cash and cash equivalents	44,582,709
Cash and cash equivalents at beginning of year	102,275,412
	<hr/>

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 146,858,121

RECONCILIATION TO STATEMENT OF NET POSITION

Cash and cash equivalents, unrestricted	\$ 24,630,473
Cash and cash equivalents, restricted	122,227,648
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TOTAL CASH AND CASH EQUIVALENTS \$ 146,858,121

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (6,244,798)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	11,541,013
Changes in assets and liabilities:	
Receivables, net	(6,005,620)
Accounts payable	21,296
Retainage payable	3,949
Unearned revenue	(2,391,382)
Other postemployment benefits liability	(1,959,386)
	<hr/>

NET CASH USED IN OPERATING ACTIVITIES \$ (5,034,928)

SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Interest and principal payments made by City of Houston	<u><u>\$ 31,769,051</u></u>
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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 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, 2025 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, 2025 on the premiums in the amount of \$1,709,044 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 non-cancellable 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 September 10, 2025.

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.

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 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 360 hours. Upon termination of employment, employees under this plan will not be paid for any accrued, unused sick leave.

Coastal Water Authority

Notes to the Financial Statements

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.

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.

Coastal Water Authority

Notes to the Financial Statements

Q. Implementation of New Accounting Standards

GASB Statement No. 102, Certain Risk Disclosures (GASB 102), improves financial reporting by providing users of financial statements with essential information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. The requirements of this statement are effective for reporting periods beginning after June 15, 2024, with earlier application encouraged. GASB 102 was implemented in CWA's fiscal year 2025 financial statements with no impact to amounts or disclosures previously reported.

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.

Coastal Water Authority

Notes to the Financial Statements

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, 2025, this reserve amounted to \$8,980,863.

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, 2025, this reserve amounted to \$31,122.

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, 2025, this reserve amounted to \$1,184,268.

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.

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.

Coastal Water Authority

Notes to the Financial Statements

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, 2025, this reserve amounted to \$1,708,354.

Note 7. Deposits and Investments

As of December 31, 2025, CWA had the following deposits and investments:

Deposits	Value	Fair Value	Average Maturity (in Days)	Rating*
		Measurements Using Other Observable Inputs (Level 2)		
Investments measured at fair value:				
U.S. Treasury Bonds/Notes	\$ 10,354,092	\$ 10,354,092	163	N/A
Total investments, including restricted	\$ 10,354,092	\$ 10,354,092		
Cash equivalents measured at net asset value:				
TexStar	\$ 76,553,462		32	AAAm
Cash deposits	70,304,659			
Total cash and cash equivalents, including restricted	\$ 146,858,121			
Portfolio weighted average maturity			48	

* Standard & Poor's rating

Fair Value Measurements

CWA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application*, which provides a framework for measuring fair value establishing a three-level fair value hierarchy that describes the inputs used to measure assets and liabilities:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Coastal Water Authority

Notes to the Financial Statements

U.S. treasury bonds and notes are classified in Level Two of the fair value hierarchy and are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

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, 2025, CWA's bank deposits at JP Morgan Chase were over secured by \$1,264,870.

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.

Texas Short Term Asset Reserve Program Cash Reserve Fund (TexStar)

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.

Coastal Water Authority
Notes to the Financial Statements

Note 8. Capital Assets

Capital assets consisted of the following at December 31, 2025:

	Balance December 31, 2024	Additions	Retirements	Balance December 31, 2025
Land	\$ 27,268,843	\$ -	\$ -	\$ 27,268,843
Intangibles	8,669,664	-	-	8,669,664
Water systems	416,562,960	322,392,710	-	738,955,670
Trucks, equipment, and other	17,144,721	1,934,432	(951,172)	18,127,981
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	690,099	115,761	(165,193)	640,667
Construction in progress	332,954,621	12,620,669	(322,392,710)	23,182,580
Total capital assets, cost	805,568,435	337,063,572	(323,509,075)	819,122,932
Accumulated depreciation and amortization:				
Water systems	(239,363,844)	(9,824,889)	-	(249,188,733)
Trucks, equipment, and others	(12,193,643)	(1,335,405)	788,569	(12,740,479)
Right-to-use assets-buildings	(603,765)	(203,160)	-	(806,925)
Right-to-use assets-equipment	(25,213)	(1,906)	-	(27,119)
Right-to-use assets-subscriptions	(159,790)	(175,653)	153,047	(182,396)
Total accumulated depreciation and amortization	(252,346,255)	(11,541,013)	941,616	(262,945,652)
Total capital assets, net	\$ 553,222,180	\$ 325,522,559	\$ (322,567,459)	\$ 556,177,280

Depreciation and amortization expense for the year ended December 31, 2025 was \$11,541,013.

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, 2025:

Descriptions	Balance December 31, 2024	Additions	Reductions	Balance December 31, 2025	Due within One Year
Bonds and Long-Term Loans:					
Series 2009 contract revenue bonds (maturing 12/15/2028)	\$ 12,080,000	\$ -	\$ (2,900,000)	\$ 9,180,000	\$ 2,975,000
Series 2010 contract revenue bonds (maturing 6/15/2030)	2,960,000	-	(460,000)	2,500,000	475,000
Series 2010 contract revenue refunding bonds (maturing 12/15/2025)	7,215,000	-	(7,215,000)	-	-
Series 2014 contract revenue refunding bonds (maturing 12/15/2034)	28,105,000	-	(2,320,000)	25,785,000	2,430,000
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)	19,780,000	-	(660,000)	19,120,000	670,000
Series 2024 contract revenue bonds (maturing 6/15/2054)	25,000,000	-	(480,000)	24,520,000	550,000
Series 2025 contract revenue bonds (maturing 12/15/2055)	-	50,000,000	-	50,000,000	870,000
	<u>399,714,000</u>	<u>50,000,000</u>	<u>(14,035,000)</u>	<u>435,679,000</u>	<u>7,970,000</u>
Add:					
Unamortized premium	2,149,558	-	(440,514)	1,709,044	-
	<u>401,863,558</u>	<u>50,000,000</u>	<u>(14,475,514)</u>	<u>437,388,044</u>	<u>7,970,000</u>
Other liabilities:					
Compensated absences	5,100,000	-	(794,336)	4,305,664	430,566
Leases payable	1,816,938	-	(191,758)	1,625,180	197,696
Subscriptions payable	474,845	115,761	(140,933)	449,673	137,954
Interest payable	68,342,274	945,368	-	69,287,642	364,498
Other postemployment benefit liability	8,863,119	587,638	(2,547,024)	6,903,733	-
Total long-term liabilities	<u>\$ 486,460,734</u>	<u>\$ 51,648,767</u>	<u>\$ (18,149,565)</u>	<u>\$ 519,959,936</u>	<u>\$ 9,100,714</u>

Coastal Water Authority

Notes to the Financial Statements

The annual debt service requirements for bonds payable and long-term loans as of December 31, 2025 are as follows:

Year Ending December 31,	Principal	Interest	Total Requirements
2026	\$ 7,970,000	\$ 16,272,920	\$ 24,242,920
2027	8,405,000	15,859,919	24,264,919
2028	8,680,000	15,588,227	24,268,227
2029	5,680,000	15,356,949	21,036,949
2030	5,820,000	15,206,530	21,026,530
2031-2035	31,560,000	71,665,456	103,225,456
2036-2040	82,930,000	64,678,403	147,608,403
2041-2045	116,710,000	44,241,581	160,951,581
2046-2050	126,419,000	20,241,953	146,660,953
2051-2055	41,505,000	2,740,864	44,245,864
Totals	\$ 435,679,000	\$ 281,852,802	\$ 717,531,802

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%. Series 2024 Contract Revenue Bonds carry a fixed interest rate of 2.06%-3.82% and are payable on June 15 and December 15 of each year. Series 2025 Contract Revenue Bonds carry a fixed interest rate of 1.99%-4.12% and are payable on June 15 and December 15 of each year.

1. Source of Repayment

The Series 2009, 2010, 2010 Refunding Bonds, 2014 Refunding Bonds, and 2017 (the Bonds) as well as the 2013, 2015, 2016, 2017, 2024, and 2025 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, 2025, no outstanding bonds were considered defeased.

Coastal Water Authority

Notes to the Financial Statements

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.

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:

	Interest Rate(s)	Lease Term in Years	Ending Balance
Buildings	1.35%	11	\$ 1,624,189
Copiers	Various	5	991
Totals			<u><u>\$ 1,625,180</u></u>

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

Year Ending December 31,	Principal	Interest	Total Requirements
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	44,649	75	44,724
Totals	<u><u>\$ 1,625,180</u></u>	<u><u>\$ 83,631</u></u>	<u><u>\$ 1,708,811</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:

	Interest Rate(s)	Lease Term in Years	Ending Balance
Subscriptions	Various	Various	\$ 449,673
Total			<u><u>\$ 449,673</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
2026	\$ 137,954	\$ 11,995	\$ 149,949
2027	150,169	8,291	158,460
2028	161,550	4,302	165,852
Totals	\$ 449,673	\$ 24,588	\$ 474,261

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, 2025 (100% covered by the plan) was \$9,036,342. Accordingly, the 2025 required contributions for employees was \$378,989 and CWA's requirement, net of forfeitures, was \$1,111,292. Actual contributions from employees and CWA during the plan year ended September 30, 2025 were \$493,973 and \$1,129,470, 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, 2025.

Statement of Net Assets Available for Benefits

Assets:	
Investments in U.S government agency securities at fair value	\$ 9,650,421
Employer's contribution receivable	9,874
Other receivables	39,100
	<hr/>
Net assets available for benefits	\$ 9,699,395
	<hr/> <hr/>

Statement of Changes in Net Assets Available for Benefits

Additions to net assets:	
Investment income:	
Net appreciation in fair value of investments	\$ 446,060
Contributions:	
Employer	1,118,245
Participants	493,973
	<hr/>
Total contributions	1,612,218
	<hr/>
Total additions to net assets	2,058,278
Deductions from net assets:	
Benefits paid	3,244,174
	<hr/>
Total deductions from net assets	3,244,174
	<hr/>
Change in net assets	(1,185,896)
Net assets available for benefits, beginning of year	10,885,291
	<hr/>
Net assets available for benefits, end of year	\$ 9,699,395
	<hr/> <hr/>

Coastal Water Authority
Notes to the Financial Statements

The Plan's investments at September 30, 2025 were as follows:

September 30, 2025	Face Value	Fair Value	Amortized Cost
US Treasury Note dated 10/18/2024, 4.25% Due 10/15/2025	\$ 1,000,000	\$ 1,000,000	\$ 1,020,269
US Treasury Note dated 03/04/2025, 2.25% Due 11/15/2025	1,000,000	997,838	1,006,316
US Treasury Bills dated 02/05/2025, 4% Due 01/22/2026	1,000,000	988,104	987,444
US Treasury Bills dated 03/04/2025, 3.8% Due 02/18/2026	1,000,000	985,386	985,180
Federal Home Loan Bank Discount Note dated 08/05/2025, 0% Due 03/13/2026	2,000,000	1,966,517	1,964,683
Cash Equivalents; Invesco Government & Agency Institutional Class	<u>3,712,576</u>	<u>3,712,576</u>	<u>3,712,576</u>
Totals	<u>\$ 9,712,576</u>	<u>\$ 9,650,421</u>	<u>\$ 9,676,468</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.

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 \$274,662 during the year ended December 31, 2025 for healthcare premiums as they became due.

Coastal Water Authority

Notes to the Financial Statements

C. Employees Covered by Benefit Terms

The number of employees covered by the benefit terms is 66. Active employees make up 45 of the total and inactive employees make up 21 of this total.

D. Total OPEB Liability

The Authority's total OPEB liability of \$6,903,733 was measured as of December 31, 2025 using the alternative measurement method under GASB Statement No. 75.

The total OPEB liability at December 31, 2025 was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Age adjustment factor	1.026341
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	4.830%
Measurement date	12/31/2025
Prior measurement date	12/31/2024
Prior year discount rate	4.080%
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 4.830% and was based on the 20-year tax-exempt municipal bond yield.

Coastal Water Authority
Notes to the Financial Statements

Changes in the total OPEB liability:

	<u>2025</u>
Total beginning OPEB liability	\$ 8,863,119
Service cost	222,492
Interest on total OPEB liability	365,146
Effect of plan changes	-
Effect of economic/demographic gains or losses	(1,592,799)
Effect of assumptions changes or inputs	(679,563)
Benefit payments	<u>(274,662)</u>
Net change in total OPEB liability	<u>(1,959,386)</u>
Total ending OPEB liability	<u><u>\$ 6,903,733</u></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 (3.830 percent) or 1-percentage-point higher (5.830 percent) than the current discount rate:

	<u>Discount Rate - 1%</u> 3.830%	<u>Baseline</u> 4.830%	<u>Discount Rate + 1%</u> 5.830%
Total OPEB liability	\$ 7,466,330	\$ 6,903,733	\$ 5,770,885

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>
	5.800%	11.700%	3.500%	3.000%
	<u>Baseline Trend - 1%</u>	<u>Baseline</u>	<u>Baseline Trend + 1%</u>	
Total OPEB liability	\$ 6,081,469	\$ 6,903,733	\$ 7,908,866	

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, 2025, the Authority recognized OPEB revenue of \$1,684,722.

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 83% 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 8, 2026, 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 Eight Fiscal Years

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
TOTAL BEGINNING OPEB LIABILITY	\$ 8,863,119	\$ 7,674,293	\$ 4,475,438	\$ 5,145,335
Service cost	222,492	187,200	136,141	181,086
Interest on total OPEB liability	365,146	329,654	92,375	107,525
Effect of economic/demographic gains or losses	(1,592,799)	685,610	6,129,727	60,709
Effect of assumptions changes or inputs	(679,563)	198,434	(2,947,316)	(855,804)
Benefit payments	(274,662)	(212,072)	(212,072)	(163,413)
Net change in total OPEB liability	<u>(1,959,386)</u>	<u>1,188,826</u>	<u>3,198,855</u>	<u>(669,897)</u>
TOTAL ENDING OPEB LIABILITY	<u>\$ 6,903,733</u>	<u>\$ 8,863,119</u>	<u>\$ 7,674,293</u>	<u>\$ 4,475,438</u>
Covered-employee payroll	\$ 9,036,342	\$ 8,446,753	\$ 7,960,599	\$ 7,921,499
Total OPEB Liability as a percentage of covered-employee payroll	76%	105%	96%	56%

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, 2025. 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.

2021	2020	2019	2018
\$ 5,402,916	\$ 5,331,943	\$ 4,921,560	\$ 4,687,332
146,143	203,689	189,253	368,798
153,102	178,290	172,329	125,386
(931,427)	(532,755)	33,961	479,744
538,014	356,032	100,189	(657,800)
(163,413)	(134,283)	(85,349)	(81,900)
(257,581)	70,973	410,383	234,228
<u>\$ 5,145,335</u>	<u>\$ 5,402,916</u>	<u>\$ 5,331,943</u>	<u>\$ 4,921,560</u>
\$ 7,592,887	\$ 7,277,961	\$ 7,001,888	\$ 6,510,144
68%	74%	76%	76%

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Other Supplementary Information

Coastal Water Authority

Schedule I - Schedule of Net Position by System

December 31, 2025

	Luce Bayou Interbasin Transfer Project	Trinity River Water Conveyance System Project	Lake Houston Facilities Project
ASSETS			
Current assets unrestricted:			
Cash and cash equivalents	\$ 851,592	\$ 17,059,747	\$ 418,033
Investments	-	344,064	-
Receivables:			
Accounts receivable from City of Houston	1,000,310	8,083,453	1,064,740
Accounts receivable from other customers	-	-	-
Compensable absences current portion	38,751	318,619	47,362
Current portion loan receivable from City of Houston	-	753,344	-
Interfund receivable and payable, net	(293,261)	2,388,805	(2,006,993)
Total current assets unrestricted	1,597,392	28,948,032	(476,858)
Current assets restricted:			
Cash and cash equivalents - restricted for contingencies	-	49,952	33,301
Cash and cash equivalents - restricted for debt service	-	178,138	-
Cash and cash equivalents - restricted for capital projects	47,839,511	74,126,746	-
Investments - restricted for contingencies	-	2,952,952	1,968,635
Investments - restricted for debt service	-	3,547,873	-
Investments - restricted for capital projects	154,796	214	-
Total current assets restricted	47,994,307	80,855,875	2,001,936
Capital assets, net of depreciation and amortization	341,340,632	175,695,007	20,538,338
Other assets:			
Interest receivable from City of Houston	68,394,207	-	-
Obligation for compensable absences	348,759	2,867,572	426,261
Long-term loan receivable from City of Houston	-	11,764,498	-
Total other assets	68,742,966	14,632,070	426,261
Total assets	459,675,297	300,130,984	22,489,677
DEFERRED OUTFLOWS OF RESOURCES	-	43,877	-
LIABILITIES			
Current liabilities unrestricted:			
Accounts payable	118,126	3,664,915	54,805
Unearned revenue	-	2,778,500	-
Compensable absences - current	38,751	318,619	47,362
Current portion of leases payable	29,654	98,848	29,654
Current portion of subscription payable	-	137,954	-
Total current liabilities unrestricted	186,531	6,998,836	131,821
Current liabilities restricted:			
Retainage payable	-	3,949	-
Current portion of bonds and loans payable	4,120,000	3,850,000	-
Bond, lease, subscription and interest payable	39,252	324,608	274
Total current liabilities restricted	4,159,252	4,178,557	274
Long-term liabilities:			
Bonds payable, net	26,680,000	98,164,044	-
Long-term loans	304,574,000	-	-
Leases payable	214,123	713,742	214,123
Subscription payable	-	311,719	-
Interest payable	68,923,144	-	-
Compensable absences payable	348,759	2,867,572	426,261
Other postemployment benefits	324,550	4,036,677	979,700
Total long-term liabilities	401,064,576	106,093,754	1,620,084
Total liabilities	405,410,359	117,271,147	1,752,179
TOTAL NET POSITION	\$ 54,264,938	\$ 182,903,714	\$ 20,737,498

Bayport Water System Project	Red Bluff Water Treatment Plant Project	Totals
\$ 4,959,467	\$ 1,341,634	\$ 24,630,473
1,172,945	212,613	1,729,622
-	-	10,148,503
361,388	437,526	798,914
12,917	12,917	430,566
-	-	753,344
(56,254)	(32,297)	-
6,450,463	1,972,393	38,491,422
-	-	83,253
-	-	178,138
-	-	121,966,257
-	-	4,921,587
-	-	3,547,873
-	-	155,010
-	-	130,852,118
15,601,896	3,001,407	556,177,280
-	-	68,394,207
116,253	116,253	3,875,098
-	-	11,764,498
116,253	116,253	84,033,803
22,168,612	5,090,053	809,554,623
-	-	43,877
65,511	72,612	3,975,969
-	-	2,778,500
12,917	12,917	430,566
19,770	19,770	197,696
-	-	137,954
98,198	105,299	7,520,685
-	-	3,949
-	-	7,970,000
182	182	364,498
182	182	8,338,447
-	-	124,844,044
-	-	304,574,000
142,748	142,748	1,427,484
-	-	311,719
-	-	68,923,144
116,253	116,253	3,875,098
777,550	785,256	6,903,733
1,036,551	1,044,257	510,859,222
1,134,931	1,149,738	526,718,354
\$ 21,033,681	\$ 3,940,315	\$ 282,880,146

Coastal Water Authority

Schedule II - Schedule of Revenues, Expenses, and Changes in
 Net Position by System
 Year Ended December 31, 2025

	Luce Bayou Interbasin Transfer Project	Trinity River Water Conveyance System Project	Lake Houston Facilities Project
OPERATING REVENUES			
Funds provided by City of Houston	\$ 5,728,286	\$ 32,233,644	\$ 3,799,344
Funds provided by San Jacinto River Authority	-	122,307	-
Service revenues	-	-	-
Total operating revenues	5,728,286	32,355,951	3,799,344
OPERATING EXPENSES			
Utilities	1,707,905	6,653,024	195,485
Field salaries	1,469,246	4,403,745	1,186,713
Administrative	582,176	1,776,860	471,275
General operating	400,294	597,082	106,044
Materials and supplies	207,381	8,686,496	377,270
Engineering, legal, and professional	103,214	985,387	86,674
Contract labor and equipment	799,248	6,826,428	1,055,983
Depreciation and amortization expense	4,643,578	5,617,692	724,756
Total operating expenses	9,913,042	35,546,714	4,204,200
Operating income (loss)	(4,184,756)	(3,190,763)	(404,856)
NONOPERATING REVENUES (EXPENSES)			
Investment income	2,011,789	2,555,950	112,034
Interest income	-	528,367	-
Bond interest expense, net of amortization of bond issues	(920,462)	(2,270,281)	-
Gain on sale of capital assets	-	110,098	(536)
Loan interest expense	(11,811,223)	-	-
Lease interest expense	(3,462)	(11,533)	(3,460)
Subscription interest expense	-	(11,908)	-
Other income	-	127,741	193
Total nonoperating revenues (expenses)	(10,723,358)	1,028,434	108,231
Income (Loss) before contributions	(14,908,114)	(2,162,329)	(296,625)
CONTRIBUTIONS			
Changes in net position	1,775,414	10,335,856	2,290,713
Net position - beginning of year	52,489,524	172,567,858	18,446,785
TOTAL NET POSITION - ENDING	\$ 54,264,938	\$ 182,903,714	\$ 20,737,498

Bayport Water System Project	Red Bluff Water Treatment Plant Project	Totals
\$ -	\$ -	\$ 41,761,274
-	-	122,307
2,983,249	2,707,125	5,690,374
<hr/>	<hr/>	<hr/>
2,983,249	2,707,125	47,573,955
40,527	133,550	8,730,491
679,353	586,054	8,325,111
335,149	333,678	3,499,138
55,858	96,066	1,255,344
131,969	614,062	10,017,178
55,251	141,732	1,372,258
308,016	88,545	9,078,220
431,004	123,983	11,541,013
<hr/>	<hr/>	<hr/>
2,037,127	2,117,670	53,818,753
<hr/>	<hr/>	<hr/>
946,122	589,455	(6,244,798)
191,985	46,925	4,918,683
-	-	528,367
-	-	(3,190,743)
40,688	-	150,250
-	-	(11,811,223)
(2,307)	(2,307)	(23,069)
-	-	(11,908)
133	-	128,067
<hr/>	<hr/>	<hr/>
230,499	44,618	(9,311,576)
<hr/>	<hr/>	<hr/>
1,176,621	634,073	(15,556,374)
<hr/>	<hr/>	<hr/>
-	-	31,769,051
<hr/>	<hr/>	<hr/>
1,176,621	634,073	16,212,677
19,857,060	3,306,242	266,667,469
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<u>\$ 21,033,681</u>	<u>\$ 3,940,315</u>	<u>\$ 282,880,146</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, 2025

	Luce Bayou Interbasin Transfer Project		
	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Funds provided by City of Houston	\$ 24,065,100	\$ 19,807,469	\$ (4,257,631)
Interest income	35,000	-	(35,000)
Total operating revenues	24,100,100	19,807,469	(4,292,631)
OPERATING EXPENSES			
Utilities	2,559,000	1,708,143	850,857
Field salaries	1,777,550	1,514,667	262,883
Administrative	730,100	621,390	108,710
General operating	809,800	713,796	96,004
Materials and supplies	268,910	208,350	60,560
Engineering, legal, and professional	166,300	103,214	63,086
Contract labor and equipment	521,677	821,262	(299,585)
Total operating expenses	6,833,337	5,690,822	1,142,515
Operating income (loss)	17,266,763	14,116,647	(3,150,116)
NONOPERATING REVENUES (EXPENSES)			
Bond interest expense	(925,187)	(925,186)	1
Bond principal retirement	(4,020,000)	(4,020,000)	-
Loan interest expense	(11,031,319)	(11,031,318)	1
Special project equity loan payment	(1,252,806)	(1,252,806)	-
Total nonoperating revenues (expenses)	(17,229,312)	(17,229,310)	2
CHANGE IN NET POSITION	\$ 37,451	\$ (3,112,663)	\$ (3,150,114)

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, 2025

	Trinity River Water Conveyance System Project		
	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Funds provided by City of Houston	\$ 44,598,700	\$ 39,718,078	\$ (4,880,622)
Funds provided by San Jacinto River Authority	120,000	122,307	2,307
Interest on investments	140,000	311,836	171,836
Other Income	90,000	127,741	37,741
	<hr/>	<hr/>	<hr/>
Total operating revenues	44,948,700	40,279,962	(4,668,738)
OPERATING EXPENSES			
Utilities	7,836,790	6,710,783	1,126,007
Field salaries	4,655,060	4,399,781	255,279
Administrative	2,106,600	1,885,379	221,221
General operating	1,870,400	1,576,772	293,628
Materials and supplies	9,396,550	8,772,900	623,650
Engineering, legal, and professional	730,300	932,773	(202,473)
Contract labor and equipment	9,327,810	7,509,272	1,818,538
	<hr/>	<hr/>	<hr/>
Total operating expenses	35,923,510	31,787,660	4,135,850
	<hr/>	<hr/>	<hr/>
Operating income (loss)	9,025,190	8,492,302	(532,888)
NONOPERATING REVENUES (EXPENSES)			
Bond interest expense	(2,339,400)	(2,339,301)	99
Bond principal retirement	(5,693,675)	(10,015,000)	(4,321,325)
	<hr/>	<hr/>	<hr/>
Total nonoperating revenues (expenses)	(8,033,075)	(12,354,301)	(4,321,226)
	<hr/>	<hr/>	<hr/>
CHANGE IN NET POSITION	\$ 992,115	\$ (3,861,999)	\$ (4,854,114)

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, 2025

	Lake Houston Facilities Project		
	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Funds provided by City of Houston	\$ 4,757,900	\$ 3,201,739	\$ (1,556,161)
Interest on investments	35,000	113,894	78,894
Other Income	25,000	193	(24,807)
	<hr/>	<hr/>	<hr/>
Total operating revenues	4,817,900	3,315,826	(1,502,074)
OPERATING EXPENSES			
Utilities	158,000	194,152	(36,152)
Field salaries	1,439,480	1,178,712	260,768
Administrative	640,300	500,530	139,770
General operating	446,800	399,951	46,849
Materials and supplies	334,570	377,270	(42,700)
Engineering, legal, and professional	171,000	86,672	84,328
Contract labor and equipment	1,547,110	1,181,753	365,357
	<hr/>	<hr/>	<hr/>
Total operating expenses	4,737,260	3,919,040	818,220
	<hr/>	<hr/>	<hr/>
Operating income (loss)	80,640	(603,214)	(683,854)
	<hr/>	<hr/>	<hr/>
CHANGE IN NET POSITION	<u>\$ 80,640</u>	<u>\$ (603,214)</u>	<u>\$ (683,854)</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, 2025

	Bayport Water System Project		
	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Interest on investments	\$ 105,000	\$ 200,596	\$ 95,596
Service revenues	3,219,325	2,901,438	(317,887)
Other Income	-	33	33
	<hr/>	<hr/>	<hr/>
Total operating revenues	3,324,325	3,102,067	(222,258)
OPERATING EXPENSES			
Utilities	65,800	47,671	18,129
Field salaries	817,700	754,353	63,347
Administrative	399,300	378,260	21,040
General operating	317,000	259,364	57,636
Materials and supplies	265,780	147,623	118,157
Engineering, legal, and professional	95,000	46,333	48,667
Contract labor and equipment	477,450	319,282	158,168
	<hr/>	<hr/>	<hr/>
Total operating expenses	2,438,030	1,952,886	485,144
Operating income	886,295	1,149,181	262,886
NONOPERATING REVENUES (EXPENSES)			
Construction program	(3,020,000)	(708,146)	2,311,854
	<hr/>	<hr/>	<hr/>
Total nonoperating revenues (expenses)	(3,020,000)	(708,146)	2,311,854
	<hr/>	<hr/>	<hr/>
CHANGE IN NET POSITION	\$ (2,133,705)	\$ 441,035	\$ 2,574,740

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, 2025

	Red Bluff Water Treatment Plant Project		
	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Interest on investments	\$ 17,500	\$ 43,591	\$ 26,091
Service revenues	2,121,000	2,684,617	563,617
Total operating revenues	2,138,500	2,728,208	589,708
OPERATING EXPENSES			
Utilities	126,200	129,979	(3,779)
Field salaries	719,820	582,054	137,766
Administrative	356,200	357,128	(928)
General operating	272,900	272,404	496
Materials and supplies	685,760	604,836	80,924
Engineering, legal, and professional	92,000	140,377	(48,377)
Contract labor and equipment	88,170	89,720	(1,550)
Total operating expenses	2,341,050	2,176,498	164,552
Operating income (loss)	(202,550)	551,710	754,260
CHANGE IN NET POSITION	\$ (202,550)	\$ 551,710	\$ 754,260