

ANNUAL FINANCIAL REPORT

of the

**BAYTOWN AREA
WATER AUTHORITY**

(A Component Unit of the City of Baytown, Texas)

For the Year Ended
September 30, 2023

Prepared by the

**CITY OF BAYTOWN, TEXAS
FINANCE DEPARTMENT**

**GENERAL MANAGER
Jason Reynolds**

**PLANT MANAGER
Frank Simoneaux**

**DIRECTOR OF FINANCE
Teresa McKenzie**

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BAYTOWN AREA WATER AUTHORITY

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BAYTOWN AREA WATER AUTHORITY

7425 Thompson Rd
Baytown, TX 77521
(281) 420-5310

Transmittal Letter

January 31, 2024

To the President and Members of
the Baytown Area Water Authority Board and
Baytown Area Water Authority:

The financial statements of the Baytown Area Water Authority (the “Authority”) for the year ended September 30, 2023 are hereby submitted. The Authority is presented as a discrete component unit of the City of Baytown, Texas (the “City”) in the City’s Annual Comprehensive Financial Report. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with management. We believe the information, as presented, is accurate in all material respects. It is presented in a manner designed to set forth fairly, in all material respects, the financial position and results of operations of the Authority as measured and reported by its financial activity. All disclosures necessary to enable the reader to gain an adequate understanding of the Authority’s financial affairs have been included.

Belt Harris Pechacek, LLLP has audited the financial records of the Authority for the fiscal year ended September 30, 2023, and their opinion is included in this report. The financial statements are the responsibility of the Authority. The responsibility of the independent certified public accountants is to express an opinion on the Authority’s financial statements based on their audit. An audit is conducted in accordance with generally accepted auditing standards. Those standards require that the audit be planned and performed in a manner to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

The timely preparation of this report could not have been accomplished without the efforts and dedication of the staff. We would like to express our appreciation to our staff and other personnel who assisted in its preparation. In addition, we would like to thank the Board of Directors for their interest and support in planning and conducting the financial operations of the Authority in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "J. Reynolds".

Jason Reynolds
General Manager

A handwritten signature in blue ink, appearing to read "Teresa McKenzie".

Teresa McKenzie
Director of Finance

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Baytown Area Water Authority of the
City of Baytown, Texas:

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Baytown Area Water Authority (the "Authority"), a component unit of the City of Baytown, Texas, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the Authority's 2022 financial statements and, in our report dated February 8, 2023 we expressed an unmodified opinion on the respective financial statements of the business-type activities.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of September 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibility of Management for the Financial Statements

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

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

Auditors' 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 auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information, identified as Required Supplementary Information on 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 opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Texas Supplementary Information schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Texas Supplementary Information schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the transmittal letter and other supplementary information but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do 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 basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2024 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 31, 2024

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

To the Board of Directors of the
Baytown Area Water Authority of the
City of Baytown, Texas:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the business-type activities of the Baytown Area Water Authority (the "Authority"), a component unit of the City of Baytown, Texas, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents and have issued our report thereon dated January 31, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 31, 2024

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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BAYTOWN AREA WATER AUTHORITY

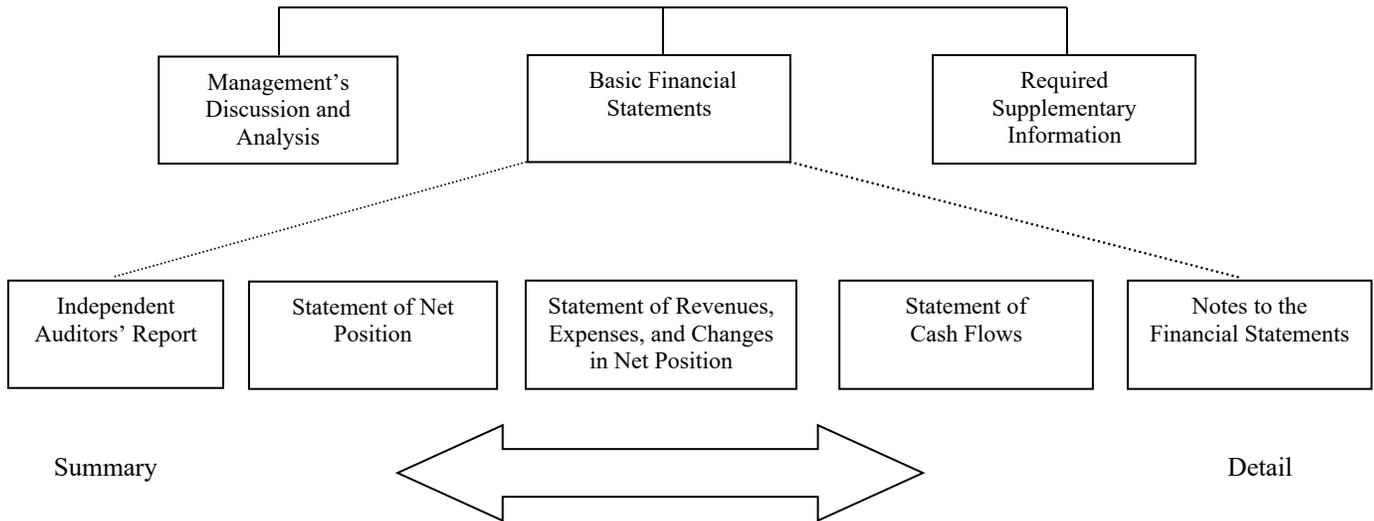
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2023

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the Baytown Area Water Authority's (the "Authority") financial activities for the year. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the Authority's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the Authority's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



The Authority's basic financial statements include the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; Statement of Cash Flows; and notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Basic Financial Statements

The basic financial statements report information for the Authority as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the Authority as an economic entity. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position, which appear first in the Authority's financial statements, report information on the Authority's activities that enable the reader to understand the financial condition of the Authority. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

BAYTOWN AREA WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

The Statement of Net Position presents information on all of the Authority's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Other nonfinancial factors, such as the Authority's customer base and the condition of the Authority's infrastructure, need to be considered to assess the overall health of the Authority.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method.

The Statement of Cash Flows presents information about the Authority's cash receipts and cash payments during the reporting period. It reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The basic financial statements can be found after the MD&A within this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI) concerning the Authority's budgetary comparison schedule. RSI can be found after the notes to the basic financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. The Authority's total net position increased from \$66,214,551 to \$72,125,733 (8.9 percent).

Key elements of this increase are as follows:

- Operating revenues increased \$3,175,389 or 21.2 percent primarily due to an increase in rates.
- Capital assets, net of accumulated depreciation, increased \$1,007,043 or 1.0 percent primarily due to the addition of construction in progress.

Unrestricted net position increased \$1,770,651 from a balance of \$7,099,981 to \$8,870,632 (24.9 percent) at the end of this year. Unrestricted net position can be used to finance day-to-day operations without constraints established by debt covenants and enabling legislation.

BAYTOWN AREA WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

Condensed Statement of Net Position

	<u>2023</u>	<u>2022</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Current and other assets	\$ 9,949,496	\$ 8,458,552	\$ 1,490,944	17.6%
Restricted assets	4,231,861	3,271,984	959,877	29.3%
Capital assets, net	100,797,875	99,790,832	1,007,043	1.0%
Total Assets	<u>114,979,232</u>	<u>111,521,368</u>	<u>3,457,864</u>	<u>3.1%</u>
Current liabilities	1,078,864	1,358,571	(279,707)	(20.6%)
Current liabilities - restricted	2,642,081	2,642,206	(125)	(0.0%)
Noncurrent liabilities	39,132,554	41,306,040	(2,173,486)	(5.3%)
Total Liabilities	<u>42,853,499</u>	<u>45,306,817</u>	<u>(2,453,318)</u>	<u>(5.4%)</u>
Net investment in capital assets	59,660,321	56,514,792	3,145,529	5.6%
Restricted for:				
Debt service	3,594,780	2,599,778	995,002	38.3%
Unrestricted	8,870,632	7,099,981	1,770,651	24.9%
Total Net Position	<u>\$ 72,125,733</u>	<u>\$ 66,214,551</u>	<u>\$ 5,911,182</u>	<u>8.9%</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>2023</u>	<u>2022</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues	\$ 18,161,488	\$ 14,986,099	\$ 3,175,389	21.2%
Nonoperating revenues	333,100	161,436	171,664	106.3%
Total Revenues	<u>18,494,588</u>	<u>15,147,535</u>	<u>3,347,053</u>	<u>22.1%</u>
Depreciation expense	3,213,190	3,209,926	3,264	0.1%
Operating expenses	7,955,033	8,904,041	(949,008)	(10.7%)
Nonoperating expenses	1,415,183	1,504,030	(88,847)	(5.9%)
Total Expenses	<u>12,583,406</u>	<u>13,617,997</u>	<u>(1,034,591)</u>	<u>(7.6%)</u>
Change in Net Position	5,911,182	1,529,538	4,381,644	286.5%
Beginning net position	66,214,551	64,685,013	1,529,538	2.4%
Ending Net Position	<u>\$ 72,125,733</u>	<u>\$ 66,214,551</u>	<u>\$ 5,911,182</u>	<u>8.9%</u>

BUDGETARY HIGHLIGHTS

- Operating revenues were \$2,940,659 over the budget estimate due to more than expected water sales in the City.
- Operating expenses were \$2,777,984 under budget due primarily to lower than anticipated raw water purchases and other supplies.
- Nonoperating expenses were \$476,458 under budget due primarily to the Authority not recognizing contingency costs, as well as certain budgeted capital outlay expense and transfers.

BAYTOWN AREA WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2023

CAPITAL ASSETS

The Authority's plant operates at an average of 12.3 million gallons per day (MGD). The average capacity of the plant is 22.2 MGD, and the peak capacity is 32.0 MGD. During the past 30 years, there has not been an interruption in service. The Authority is in compliance with all rules and regulations of the Environmental Protection Agency, Texas Commission on Environmental Quality, and Texas Department of State Health Services applicable to surface water treatment, analysis, and operations.

At year end, the Authority had invested \$100,797,875 in capital assets, net of accumulated depreciation. More detailed information about the Authority's capital assets is presented in Note 5 to the financial statements.

LONG-TERM DEBT

The Authority has sufficient reserves established for debt service requirements. The Authority's revenue bonds carry the rating of "Aa3" with Moody's Investors Service and "AA-" with Standard & Poor's. At year end, the Authority had \$38,580,000 in revenue bonds outstanding versus \$40,550,000 last year. More detailed information about the Authority's long-term liabilities is presented in Note 6 to the financial statements.

ECONOMIC FACTORS

The 2022-2023 budget projected sales of \$15,220,829 for 13.5 MGD based upon an average annual rainfall. Fluctuations in rainfall can significantly impact system water sales. The existing rate structure for the Authority is \$3.08 per 1,000 gallons for the City of Baytown and \$3.12 per 1,000 gallons for customers outside the city. The rates consisted of a 6% increase to cover the cost of operations, including debt service, the purchase of raw water, and provide funds for future capital projects. The City of Houston adjusts its rates by any increase in the Producers Price Index over the prior year. Rate changes are effective April 1 of each year. A schedule of the City of Houston rate increases over the years follows:

<u>City of Houston Purchased Water</u>		
<u>Effective April 1</u>		
<u>Year</u>	<u>Rate</u>	<u>%</u>
2013	\$ 0.61580	3.60%
2014	\$ 0.62320	1.20%
2015	\$ 0.65060	4.40%
2016	\$ 0.65970	1.40%
2017	\$ 0.68210	3.40%
2018	\$ 0.70120	2.80%
2019	\$ 0.72080	2.80%
2020	\$ 0.74600	3.50%
2021	\$ 0.75730	1.50%
2022	\$ 0.90000	1.88%
2023	\$ 0.98020	0.89%

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Baytown Finance Department, 2401 Market Street, Baytown, Texas 77522. A copy of the budget is available to the public at the Sterling Municipal Library and at the City of Baytown's City Clerk office.

BASIC FINANCIAL STATEMENTS

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BAYTOWN AREA WATER AUTHORITY
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2023

	Business-Type Activities	
	Enterprise Fund	
	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 9,793,030	\$ 8,341,087
Receivables	156,466	117,465
Total Current Assets	9,949,496	8,458,552
Restricted Assets		
Cash and cash equivalents - debt service	4,231,861	3,271,984
Total Restricted Assets	4,231,861	3,271,984
Noncurrent Assets		
Nondepreciable capital assets:		
Land	2,877,960	2,877,960
Construction in progress	6,009,060	2,124,256
Depreciable capital assets:		
Plant and equipment	125,293,812	124,958,383
Less accumulated depreciation	(33,382,957)	(30,169,767)
Total Noncurrent Assets	100,797,875	99,790,832
Total Assets	114,979,232	111,521,368
Liabilities		
Current Liabilities Payable from Unrestricted Assets		
Accounts payable	793,547	1,265,068
Retainage payable	285,317	93,503
Total Current Liabilities Payable From Unrestricted Assets	1,078,864	1,358,571
Current Liabilities Payable from Restricted Assets		
Accrued interest payable	637,081	672,206
Bonds payable due within one year	2,005,000	1,970,000
Total Current Liabilities Payable From Restricted Assets	2,642,081	2,642,206
Total Current Liabilities	3,720,945	4,000,777
Noncurrent Liabilities		
Bonds payable due in more than one year	39,132,554	41,306,040
Total Liabilities	42,853,499	45,306,817
Net Position		
Net investment in capital assets	59,660,321	56,514,792
Restricted for:		
Debt service	3,594,780	2,599,778
Unrestricted	8,870,632	7,099,981
Total Net Position	\$ 72,125,733	\$ 66,214,551

See Notes to Financial Statements.

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BAYTOWN AREA WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND

For the Year Ended September 30, 2023

	Business-Type Activities	
	Enterprise Fund	
	2023	2022
<u>Operating Revenues</u>		
Sale of treated water:		
City of Baytown	\$ 16,466,818	\$ 13,511,028
Municipal utility districts	1,694,670	1,475,071
Total Operating Revenues	18,161,488	14,986,099
<u>Operating Expenses</u>		
Raw water purchases and other supplies	3,931,863	5,448,723
Contracted personnel costs	1,950,242	1,720,147
Maintenance	480,397	506,836
Services	1,592,531	1,228,335
Depreciation	3,213,190	3,209,926
Total Operating Expenses	11,168,223	12,113,967
Operating Income	6,993,265	2,872,132
<u>Nonoperating Revenues (Expenses)</u>		
Interest income	209,842	18,178
Intergovernmental	123,258	123,258
Interest expense and fiscal agent fees	(1,415,183)	(1,504,030)
Miscellaneous	-	20,000
Total Nonoperating (Expenses)	(1,082,083)	(1,342,594)
Change in Net Position	5,911,182	1,529,538
Beginning net position	66,214,551	64,685,013
Ending Net Position	\$ 72,125,733	\$ 66,214,551

See Notes to Financial Statements.

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BAYTOWN AREA WATER AUTHORITY

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2023

	Business-Type Activities	
	Enterprise Fund	
	2023	2022
<u>Cash Flows from Operating Activities</u>		
Cash received from customers for sale of treated water	\$ 18,122,487	\$ 13,428,010
Cash payments to suppliers for goods and services	(6,319,623)	(9,823,039)
Cash payments to contract personnel for services	(1,950,242)	(1,720,147)
Net Cash Provided by Operating Activities	9,852,622	1,884,824
<u>Cash Flows from Noncapital Financing Activities</u>		
Intergovernmental revenues received	123,258	123,258
Miscellaneous revenues received	-	20,000
Net Cash Provided by Noncapital Financing Activities	123,258	143,258
<u>Cash Flows from Capital and Related Financing Activities</u>		
Construction of capital assets	(4,220,233)	(2,724,241)
Principal paid on capital debt	(1,970,000)	(1,835,000)
Interest and fiscal agent fees paid, net	(1,583,669)	(1,672,515)
Net Cash (Used) by Capital and Related Financing Activities	(7,773,902)	(6,231,756)
<u>Cash Flows from Investing Activities</u>		
Interest received	209,842	18,178
Net Cash Provided from Investing Activities	209,842	18,178
Net Increase (Decrease) in Cash and Cash Equivalents	2,411,820	(4,185,496)
Beginning cash and cash equivalents	11,613,071	15,798,567
Ending Cash and Cash Equivalents	\$ 14,024,891	\$ 11,613,071
Unrestricted cash and cash equivalents	\$ 9,793,030	\$ 8,341,087
Restricted cash and cash equivalents	4,231,861	3,271,984
Ending Cash and Cash Equivalents	\$ 14,024,891	\$ 11,613,071
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating income	\$ 6,993,265	\$ 2,872,132
Depreciation	3,213,190	3,209,926
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Current Assets:		
Receivables, net	(39,001)	(2,953)
Increase (Decrease) in Current Liabilities:		
Accounts payable	(471,521)	(2,722,958)
Restricted payables	(35,125)	(9,690)
Retainage payable	191,814	93,503
Due to primary government	-	(1,555,136)
Net Cash Provided by Operating Activities	\$ 9,852,622	\$ 1,884,824

See Notes to Financial Statements.

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BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2023

NOTE 1 – CREATION OF AUTHORITY

The Baytown Area Water Authority (the “Authority”) was created by House Bill No. 967 of the Texas Legislature on June 15, 1973. The Authority was created to purchase and distribute surface and/or underground water supplies to persons, corporations, municipal corporations, political subdivisions, and others. The boundaries of the Authority include all of the City of Baytown, Texas (the “City”) and most of the City’s extraterritorial jurisdiction in East Harris County, Texas. Presently, the Authority provides water to eight municipal entities which in turn service a total population area of 81,000 people. Administration of the Authority is vested in the Board of Directors (the “Board”), which held its first meeting on September 20, 1973. The Board is appointed by the City Council. The first Authority bonds were sold in May 1977. The water treatment plant and a portion of the water transmission lines were completed in 1981 and actual operations and sale of treated water began in April 1981.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements and accounting policies of the Authority are prepared in conformity with generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board, which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority’s significant accounting policies are described below.

A. Reporting Entity

The City exercises significant influence over the operations of the Authority and, as a result, the Authority is a discretely presented component unit of the City. The Authority’s financial statements are included as a discrete component unit in the government-wide financial statements of the City. The Authority has no component units and is presented on a stand-alone basis. The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental entities and are presented as a proprietary fund type.

The Authority has no employees. Personnel employed by the City are responsible for the physical operation and maintenance of the water treatment plant. The City’s personnel perform the purchasing and accounting functions of the Authority. The Authority reimburses the City for payroll costs and related fringe benefits of personnel assigned to the water treatment plant operations and for goods and services purchased on its behalf.

B. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the Authority’s funds. Separate statements for each fund category, proprietary, are presented. The emphasis of fund financial statements is on major enterprise funds, each displayed in a separate column.

The Authority reports the following enterprise fund:

The *enterprise fund* is used to account for water operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The enterprise fund is considered a major fund for reporting purposes.

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

D. Budget

The general manager for the Authority formulates a budget for the Authority's fiscal year beginning on October 1 and ending on September 30. Both the Authority's Board and the City Council approve the annual budget.

E. Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the Authority's financial position and operations.

F. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

Investments, except for certain investment pools and commercial paper, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost.

The Authority has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the Authority is authorized to invest in the following:

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit
- Fully collateralized repurchase agreements
- Bankers' acceptances that meets certain criteria
- Commercial paper that meet certain criteria
- Mutual funds of specific type
- Collateralized guaranteed investment contract
- Statewide investment pools

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

G. Receivables and Payables

All receivables are shown at full value and are expected to be 100 percent collected. The Authority reports payables as obligations that are expected to be financed with current, available financial resources.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water lines), have been recorded at cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the Authority are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings	25 to 50 years
Improvements other than buildings	10 to 50 years
Machinery and equipment	5 to 30 years

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Authority did not recognize deferred items as of fiscal year end.

J. Long-Term Obligations

The Authority reports long-term debt as a liability on the Statement of Net Position. Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

K. Leases

The Authority is a lessee for a noncancellable lease of equipment. The Authority would recognize a lease liability and an intangible, right-to-use lease asset (the "lease asset") in the financial statements. The Authority's leases are immaterial to the financial statements as a whole and are not recognized as a lease liability or a lease asset.

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

L. Subscription-Based Information Technology Arrangements

The Authority has noncancellable subscription-based information technology arrangements (SBITAs) to finance the use of information technology software. The Authority would recognize a liability (the “subscription liability”) and an intangible, right-to-use subscription asset (the “subscription asset”) in the financial statements. The Authority’s SBITAs are immaterial to the financial statements as a whole and are not recognized as a subscription liability or a subscription asset.

M. Net Position Flow Assumption

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

N. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

O. Proprietary Fund Operating and Nonoperating Revenues

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of the state of Texas (the “State”) or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The Authority’s deposits were fully insured or collateralized as required by the state statutes at year end. The City consolidates cash to maximize investment earnings and streamline operations. The City’s deposits were fully insured or collateralized as required by state statutes at year end.

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

The Authority held the following investments as of September 30, 2023:

Investment Type	Value	Weighted Average Maturity (Years)	Credit Rating
Government pool (TexPool)	\$ 4,133,605	0.07	AAA-m
Portfolio Weighted Average Maturity		0.07	

Interest Rate Risk – In compliance with the Authority’s investment policy and as of year end, the Authority minimized the interest rate risk related to the decline in market value of securities due to rising interest rates in the portfolio by limiting the weighted average maturity not to exceed five years; structuring the investment portfolio so that securities matured to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity; monitoring credit ratings of portfolio positions to ensure compliance with rating requirements imposed by the Public Funds Investment Act; and investing operating funds primarily in shorter term securities or similar government investment pools.

Credit Risk – As of year end and in compliance with the Authority’s investment policy, the Authority minimized credit risk losses due to default of a security issuer or backer by limiting investments to the safest types of securities; prequalifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the Authority will do business; and diversifying the investment portfolio so that potential losses on individual securities were minimized.

TexPool

TexPool was established as a trust company with the Treasurer of the State as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rates TexPool ‘AAAm’. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool’s liquidity.

NOTE 4 – RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents include proceeds from the sale of bonds issued for construction and reserves held to satisfy the debt service reserve requirements of the Authority’s bond ordinances.

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

The restricted cash and cash equivalents at year end are as follows:

Bond reserve funds	\$ 4,231,861
Total	<u>\$ 4,231,861</u>

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2023 is as follows:

	Beginning Balance	Increases	(Decreases)	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,877,960	\$ -	\$ -	\$ 2,877,960
Construction in progress	2,124,256	3,884,804	-	6,009,060
Total Capital Assets Not Being Depreciated	5,002,216	3,884,804	-	8,887,020
Capital asset being depreciated:				
Buildings	58,944,489	271,553	-	59,216,042
Improvements other than buildings	58,914,226	-	-	58,914,226
Machinery and equipment	7,099,668	63,876	-	7,163,544
Total Capital Assets Being Depreciated	124,958,383	335,429	-	125,293,812
Total Capital Assets	129,960,599	4,220,233	-	134,180,832
Less accumulated depreciation for:				
Buildings	(2,425,415)	(1,201,479)	-	(3,626,894)
Improvements other than buildings	(22,836,805)	(1,553,964)	-	(24,390,769)
Machinery and equipment	(4,907,547)	(457,747)	-	(5,365,294)
Total Accumulated Depreciation	(30,169,767)	(3,213,190)	-	(33,382,957)
Total Capital Assets Being Depreciated, Net	94,788,616	(2,877,761)	-	91,910,855
Total Business-Type Activities Capital Assets, Net	\$ 99,790,832	\$ 1,007,043	\$ -	100,797,875
			Less associated debt	(41,137,554)
			Net Investment in Capital Assets	\$ 59,660,321

NOTE 6 – REVENUE BONDS PAYABLE

Outstanding bonds are payable using revenues generated from the sale of treated water to the City and other entities. The City also guarantees payment of bonds and such bonds may be redeemed prior to their scheduled maturity. The Authority is in compliance with all bond resolutions. The resolutions provide that reserves are sufficient to pay the current portion of the principal and interest payments.

Redemption Provisions

2012 Series Baytown Area Water Authority Water Supply Contract Revenue and Refunding Bonds issued for \$8,315,000. The Authority reserves the right, at its option, to redeem bonds having stated maturities on or after May 1, 2023, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof; on May 1, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

2018 Series Baytown Area Water Authority Water Supply Contract Revenue Bonds issued for \$22,040,000. The Authority reserves the right, at its option, to redeem bonds having stated maturities on

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

or after May 1, 2028, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof; on May 1, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

2019 Series Baytown Area Water Authority Water Supply Contract Revenue Bonds issued for \$17,315,000. The Authority reserves the right, at its option, to redeem bonds having stated maturities on or after May 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof; on May 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

The following is a summary of changes in bonds payable for the year ended September 30, 2023:

Series	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2012	2.00 - 3.50%	\$ 3,440,000	\$ -	\$ (300,000)	\$ 3,140,000	\$ 310,000
2018	4.00 - 5.00%	21,700,000	-	(1,000,000)	20,700,000	1,000,000
2019	3.00 - 4.00%	15,410,000	-	(670,000)	14,740,000	695,000
	Total Bonds	<u>40,550,000</u>	<u>-</u>	<u>(1,970,000)</u>	<u>38,580,000</u> *	<u>2,005,000</u>
Plus net (discount) and premium		<u>2,726,040</u>	<u>-</u>	<u>(168,486)</u>	<u>2,557,554</u> *	<u>-</u>
Total Business-Type Activities		<u>\$ 43,276,040</u>	<u>\$ -</u>	<u>\$ (2,138,486)</u>	<u>\$ 41,137,554</u>	<u>\$ 2,005,000</u>
Debt associated with payable in more than one year					<u>\$ 39,132,554</u>	
*Long-term debt related to capital assets					<u>\$ 41,137,554</u>	

As of year end, the debt service requirements on bonds outstanding for the next five years and thereafter are as follows:

Fiscal Year	Principal	Interest	Total
2024	\$ 2,005,000	\$ 1,528,994	\$ 3,533,994
2025	2,040,000	1,442,669	3,482,669
2026	2,080,000	1,354,219	3,434,219
2027	2,120,000	1,264,269	3,384,269
2028	2,160,000	1,172,400	3,332,400
2029-2033	12,215,000	4,422,801	16,637,801
2034-2038	14,810,000	1,830,450	16,640,450
2039	1,150,000	34,500	1,184,500
Total	<u>\$ 38,580,000</u>	<u>\$ 13,050,302</u>	<u>\$ 51,630,302</u>

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

NOTE 7 – NET POSITION

The Authority’s net position has been reported net of related outstanding debt. The three components of net position (net investment in capital assets, restricted net position for debt service, and unrestricted net position) are detailed below:

	<u>2023</u>	<u>2022</u>
Net Investment in Capital Assets:		
Capital assets, net of accumulated depreciation	\$ 100,797,875	\$ 99,790,832
Outstanding debt that applies to capital assets	<u>(41,137,554)</u>	<u>(43,276,040)</u>
Net Investment in Capital Assets	<u>59,660,321</u>	<u>56,514,792</u>
Restricted for Debt Service:		
Debt service restricted assets	4,231,861	3,271,984
Accrued interest	<u>(637,081)</u>	<u>(672,206)</u>
Restricted Net Position for Debt Service	<u>3,594,780</u>	<u>2,599,778</u>
Unrestricted Net Position:		
Current assets	9,949,496	8,458,552
Current liabilities	<u>(1,078,864)</u>	<u>(1,358,571)</u>
Unrestricted Net Position	<u>8,870,632</u>	<u>7,099,981</u>
Total Net Position	<u>\$ 72,125,733</u>	<u>\$ 66,214,551</u>

NOTE 8 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Authority cooperatively purchases commercial insurance and participates in a public entity risk pool with the City. The Authority and the City participate along with 2,617 other entities in the Texas Municipal League’s Intergovernmental Risk Pool (the “Pool”). The Pool purchases commercial insurance at group rates for participants in the Pool. The Authority has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The Authority has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

NOTE 9 – CONTINGENT LIABILITIES

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the Authority could result. The Authority periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

On October 24, 1994, the Authority entered into a 26-year agreement with the City of Houston (the “Agreement”) to purchase raw water for treatment. The Agreement was amended in January 2005 to

BAYTOWN AREA WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2023

increase the maximum obligation of the City of Houston to provide water from 11.9 MGD to 15.8 MGD and to extend the termination date to December 31, 2040. A second amendment was approved in February 2007 to increase the maximum obligation of the City of Houston to provide water from 15.8 MGD to 20.0 MGD. A third amendment was approved in December 2015 to increase the maximum obligation of the City of Houston to provide water from 20.0 MGD to 26.0 MGD. A fourth amendment was approved in September 2023 to increase the maximum obligation of the City of Houston to provide water from 26.0MGD to 32.0 MGD. The Authority may reserve additional monthly quantities of untreated water by giving 30 days' notice to the City of Houston. Should the consumption exceed the contract quantity by ten percent, a five percent surcharge shall be charged against that portion of the consumption that exceeds the contract quantity.

The Authority is contractually obligated to provide treated water to the City. As with the City of Houston Agreement, the Authority increased the maximum obligation to provide treated water to the City from 10.71 MGD to 14.22 MGD and extended the term of the contract through calendar year 2040. The Authority is also obligated to provide 1.58 MGD to other municipal entities, making the total obligation 15.8 MGD.

NOTE 11 – RELATED PARTIES, CONCENTRATIONS, AND ECONOMIC DEPENDENCY

The Authority is a discretely presented component unit of the City. In addition, approximately 90.67 percent of the Authority's operating revenues are attributable to the sale of treated water to the City.

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REQUIRED SUPPLEMENTARY INFORMATION

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BAYTOWN AREA WATER AUTHORITY

BUDGET TO ACTUAL (BUDGET BASIS) COMPARISON

For the Year Ended September 30, 2023

	Original Budget	Final Budget	2023 (Budget Basis)	Variance Positive (Negative)
<u>Operating Revenues</u>				
Sale of treated water:				
City of Baytown	\$ 13,491,632	\$ 13,491,632	\$ 16,466,818	\$ 2,975,186
Municipal utility districts	1,729,197	1,729,197	1,694,670	(34,527)
Total Operating Revenues	15,220,829	15,220,829	18,161,488	2,940,659
<u>Operating Expenses</u>				
Raw water purchase and other supplies	6,346,472	5,976,714	3,931,863	2,044,851
Contract personnel costs	2,048,060	2,048,060	1,950,242	97,818
Maintenance	376,850	494,021	480,397	13,624
Services	1,911,517	2,214,222	1,592,531	621,691
Total Operating Expenses	10,682,899	10,733,017	7,955,033	2,777,984
<u>Nonoperating Revenue (Expenses)</u>				
Interest income	1,073	1,073	93,640 *	92,567
Intergovernmental	123,258	123,258	123,258	-
Other expenses	(5,806,294)	(5,959,752)	(5,483,294)	476,458
Total Nonoperating (Expenses)	(5,681,963)	(5,835,421)	(5,266,396)	569,025
Changes in Net Position - Budgetary Basis	\$ (1,144,033)	\$ (1,347,609)	4,940,059	\$ 6,287,668
Reconciliation of Budget Basis to GAAP				
Depreciation			(3,213,190)	
Interest expense and fiscal agent fees			(1,415,183)	
Interest income from restricted bonds			116,202	
Adjustment to remove net effect of combined funds			5,483,294	
Change in Net Position			\$ 5,911,182	

* Interest income does not include restricted interest income on bond funds.

Notes to Required Supplementary Information

- The annual budget is adopted on a basis consistent with generally accepted accounting principles (GAAP), with the exception of the reconciling items noted above.

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TEXAS SUPPLEMENTARY INFORMATION

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BAYTOWN AREA WATER AUTHORITY

TSI-1 SERVICES AND RATES

For the Year Ended September 30, 2023

1. **Services Provided by the Authority:** Wholesale Water

2. a. **Retail Rates Based on 5/8" Meter:** Retail Rates Not Applicable

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons over Minimum</u>	<u>Usage Levels</u>
WATER:					
City of Baytown	\$3.08 per 1000 gallons	N/A	N	N/A	N/A
Other districts	\$3.12 per 1000 gallons	N/A	N	N/A	N/A

SURCHARGE:

City of Baytown 5% on that portion that exceeds contract quantity
 Other districts Surcharge varies per municipal entity

b. **Retail Service Providers:** Number of wholesale water connections within the Authority as of the fiscal year end. Provide actual numbers and single family equivalents (ESFC) as noted:

	<u>Active Connections</u>	<u>Active ESFC</u>	<u>Inactive Connections (ESFC)</u>
<u>Wholesale</u>			
Cities and MUD's	8	-	-
Total	<u>8</u>	<u>-</u>	<u>-</u>

3. **Total Water Consumption During the Fiscal Year:**

Gallons pumped into system:	5,546,015,653	Water Accountability Ratio:
Gallons billed to customers:	5,546,015,653	1.000

4. **Standby Fees: Does the Authority assess standby fees?** No

5. **Location of the Authority:**

Counties in which the Authority is located: Harris and Chambers Counties

Is the Authority located entirely within one county? No

Is the Authority located within a city? Partially

City in which the Authority is located: Baytown

Is the Authority located within a city's extraterritorial jurisdiction (ETJ)? Partially

ETJs in which the Authority is located: Baytown

Is the general membership of the Board appointed by an office outside the Authority? Yes

If Yes, by whom? City of Baytown City Council

BAYTOWN AREA WATER AUTHORITY

TSI-2 SCHEDULE OF OPERATING EXPENSES

For the Year Ended September 30, 2023

Professional Fees	\$	20,037
Other Services		981,912
Purchases of Raw Water		1,868,560
Contracted Personnel Services		1,950,242
Utilities		590,582
Repairs and Maintenance		480,397
Chemicals		1,906,626
Administrative Expenses		156,677
Depreciation		3,213,190
Total Expenses	\$	<u>11,168,223</u>

The Authority has no employees; however, 25 full-time City of Baytown employees are contracted to the Authority.

BAYTOWN AREA WATER AUTHORITY

TSI-3 SCHEDULE OF TEMPORARY INVESTMENTS

For the Year Ended September 30, 2023

	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
JPMorgan Chase	Checking Acct	N/A	N/A	\$ 5,859	\$ -
Cadence	Checking Acct	N/A	N/A	5,653,566	-
TexPool	N/A	N/A	N/A	4,133,605	-
Total Cash and Investments				<u>\$ 9,793,030</u>	

BAYTOWN AREA WATER AUTHORITY
TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
(ALL BONDED DEBT SERVICES)
For the Year Ended September 30, 2023

Due During Fiscal Year Ending	Annual Requirements for All Series			
	Principal Due 5/01	Interest Due 5/01	Interest Due 11/01	Total
2024	\$ 2,005,000	\$ 764,497	\$ 764,497	\$ 3,533,994
2025	2,040,000	721,335	721,335	3,482,669
2026	2,080,000	677,110	677,110	3,434,219
2027	2,120,000	632,135	632,135	3,384,269
2028	2,160,000	586,200	586,200	3,332,400
2029	2,250,000	539,294	539,294	3,328,588
2030	2,345,000	490,444	490,444	3,325,888
2031	2,440,000	443,625	443,625	3,327,250
2032	2,540,000	394,613	394,613	3,329,225
2033	2,640,000	343,425	343,425	3,326,850
2034	2,755,000	287,075	287,075	3,329,150
2035	2,855,000	236,950	236,950	3,328,900
2036	2,960,000	184,975	184,975	3,329,950
2037	3,065,000	131,050	131,050	3,327,100
2038	3,175,000	75,175	75,175	3,325,350
2039	1,150,000	17,250	17,250	1,184,500
	<u>\$ 38,580,000</u>	<u>\$ 6,525,151</u>	<u>\$ 6,525,151</u>	<u>\$ 51,630,302</u>

Due During Fiscal Year Ending	Series 2012			
	Principal Due 5/01	Interest Due 5/01	Interest Due 11/01	Total
2024	\$ 310,000	\$ 50,447	\$ 50,447	\$ 410,894
2025	315,000	46,185	46,185	407,369
2026	325,000	41,460	41,460	407,919
2027	335,000	36,585	36,585	408,169
2028	345,000	31,350	31,350	407,700
2029	360,000	25,744	25,744	411,488
2030	370,000	19,894	19,894	409,788
2031	385,000	13,650	13,650	412,300
2032	395,000	6,913	6,913	408,825
	<u>\$ 3,140,000</u>	<u>\$ 272,226</u>	<u>\$ 272,226</u>	<u>\$ 3,684,452</u>

BAYTOWN AREA WATER AUTHORITY
TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
(ALL BONDED DEBT SERVICES) (Continued)
For the Year Ended September 30, 2023

Series 2018

Due During Fiscal Year Ending	Principal Due 5/01	Interest Due 5/01	Interest Due 11/01	Total
2024	\$ 1,000,000	\$ 469,825	\$ 469,825	\$ 1,939,650
2025	1,000,000	444,825	444,825	1,889,650
2026	1,000,000	419,825	419,825	1,839,650
2027	1,000,000	394,825	394,825	1,789,650
2028	1,000,000	369,825	369,825	1,739,650
2029	1,040,000	344,825	344,825	1,729,650
2030	1,095,000	318,825	318,825	1,732,650
2031	1,145,000	291,450	291,450	1,727,900
2032	1,210,000	262,825	262,825	1,735,650
2033	1,675,000	232,575	232,575	2,140,150
2034	1,760,000	190,700	190,700	2,141,400
2035	1,830,000	155,500	155,500	2,141,000
2036	1,905,000	118,900	118,900	2,142,800
2037	1,980,000	80,800	80,800	2,141,600
2038	2,060,000	41,200	41,200	2,142,400
	\$ 20,700,000	\$ 4,136,725	\$ 4,136,725	\$ 28,973,450

Series 2019

Due During Fiscal Year Ending	Principal Due 5/01	Interest Due 5/01	Interest Due 11/01	Total
2024	\$ 695,000	\$ 244,225	\$ 244,225	\$ 1,183,450
2025	725,000	230,325	230,325	1,185,650
2026	755,000	215,825	215,825	1,186,650
2027	785,000	200,725	200,725	1,186,450
2028	815,000	185,025	185,025	1,185,050
2029	850,000	168,725	168,725	1,187,450
2030	880,000	151,725	151,725	1,183,450
2031	910,000	138,525	138,525	1,187,050
2032	935,000	124,875	124,875	1,184,750
2033	965,000	110,850	110,850	1,186,700
2034	995,000	96,375	96,375	1,187,750
2035	1,025,000	81,450	81,450	1,187,900
2036	1,055,000	66,075	66,075	1,187,150
2037	1,085,000	50,250	50,250	1,185,500
2038	1,115,000	33,975	33,975	1,182,950
2039	1,150,000	17,250	17,250	1,184,500
	\$ 14,740,000	\$ 2,116,200	\$ 2,116,200	\$ 18,972,400

BAYTOWN AREA WATER AUTHORITY

TSI-6 CHANGES IN LONG-TERM BONDED DEBT

For the Year Ended September 30, 2023

Revenue Bonds	Interest Rate	Amount of Issue	Bonds Outstanding October 2022	Requirements Fiscal Year 2022-2023	
				Principal Due 05/01	Interest Due 05/01
Series 2012	2.00 - 3.50%	\$ 8,315,000	\$ 3,440,000	\$ 300,000	\$ 54,197
Series 2018	4.00 - 5.00%	\$ 22,040,000	21,700,000	1,000,000	494,825
Series 2019	3.00 - 4.00%	\$ 17,315,000	15,410,000	670,000	257,625
			<u>\$ 40,550,000</u>	<u>\$ 1,970,000</u>	<u>\$ 806,647</u>

Paying Agent's Name and City:

Series 2012 Bank of New York Mellon Trust Company, Dallas, Texas

Series 2018 Bank of New York Mellon Trust Company, Dallas, Texas

Series 2019 Bank of New York Mellon Trust Company, Dallas, Texas

Debt service cash and investment balances as of September 30, 2023 \$ 4,231,861

Average annual debt service payment (principal and interest) for remaining term of all debt \$ 3,226,894

Requirements		Bonds
Fiscal Year 2022-2023		Outstanding
Interest Due	Total	September 2023
11/01		
\$ 54,197	\$ 408,394	\$ 3,140,000
494,825	1,989,650	20,700,000
257,625	1,185,250	14,740,000
<u>\$ 806,647</u>	<u>\$ 3,583,294</u>	<u>\$ 38,580,000</u>

BAYTOWN AREA WATER AUTHORITY
TSI-7 COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
For the Year Ended September 30, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating Revenues:					
Sale of treated water:					
City of Baytown	\$ 16,466,818	\$ 13,511,028	\$ 12,472,111	\$ 12,559,655	\$ 11,923,502
Municipal utility districts	1,694,670	1,475,071	1,394,136	1,479,575	1,639,432
Total Operating Revenues	<u>18,161,488</u>	<u>14,986,099</u>	<u>13,866,247</u>	<u>14,039,230</u>	<u>13,562,934</u>
Operating Expenses:					
Raw water purchases and other supplies	3,931,863	5,448,723	5,595,282	4,898,337	4,172,186
Contracted personnel costs	1,950,242	1,720,147	1,603,278	1,534,472	1,381,420
Maintenance	480,397	506,836	410,984	235,491	290,002
Services	1,592,531	1,228,335	1,320,303	1,081,417	957,718
Depreciation	3,213,190	3,209,926	2,242,403	1,481,436	1,470,598
Total Operating Expenses	<u>11,168,223</u>	<u>12,113,967</u>	<u>11,172,250</u>	<u>9,231,153</u>	<u>8,271,924</u>
Operating Income	<u>6,993,265</u>	<u>2,872,132</u>	<u>2,693,997</u>	<u>4,808,077</u>	<u>5,291,010</u>
Nonoperating Revenues:					
(Expenses):					
Interest income	209,842	18,178	7,465	269,397	827,203
Intergovernmental	123,258	123,258	117,227	111,036	112,970
Interest expense and fiscal agent fees	(1,415,183)	(1,504,030)	(1,548,535)	(1,594,184)	(1,513,747)
Miscellaneous	-	20,000	-	244	779
Total Nonoperating (Expenses)	<u>(1,082,083)</u>	<u>(1,342,594)</u>	<u>(1,423,843)</u>	<u>(1,213,507)</u>	<u>(572,795)</u>
Change in Net Position	<u>\$ 5,911,182</u>	<u>\$ 1,529,538</u>	<u>\$ 1,270,154</u>	<u>\$ 3,594,570</u>	<u>\$ 4,718,215</u>
Total Active Wholesale Water Connections	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>

2023	2022	2021	2020	2019
90.7%	90.2%	89.9%	89.5%	87.9%
9.3	9.8	10.1	10.5	12.1
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
21.6	36.4	40.4	34.9	30.8
10.7	11.5	11.6	10.9	10.2
2.6	3.4	3.0	1.7	2.1
8.8	8.2	9.5	7.7	7.1
17.7	21.4	16.2	10.6	10.8
<u>61.5</u>	<u>80.8</u>	<u>80.6</u>	<u>65.8</u>	<u>61.0</u>
<u>38.5</u>	<u>19.2</u>	<u>19.4</u>	<u>34.2</u>	<u>39.0</u>
1.2	0.1	0.1	1.9	6.1
0.7	0.8	0.8	0.8	0.8
(7.8)	(10.0)	(11.2)	(11.4)	(11.2)
<u>-</u>	<u>0.1</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(6.0)</u>	<u>(9.0)</u>	<u>(10.3)</u>	<u>(8.6)</u>	<u>(4.2)</u>
<u>32.5%</u>	<u>10.2%</u>	<u>9.1%</u>	<u>25.6%</u>	<u>34.8%</u>

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BAYTOWN AREA WATER AUTHORITY
TSI-8 BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
For the Year Ended September 30, 2023

Complete Authority Mailing Address:	2401 Market Street, Baytown, Texas, 77522
Authority Business Telephone Number:	(281) 420-5310
Submission Date of the Most Recent Authority Registration form (TWC Sections 36.054 and 49.054):	Not Applicable
Limit on Fees of Office that a Director May Receive During a Year:	Not Applicable

	Term of Office or Date Hired	Elected/ Appointed	Fees of Office Paid 09/30/23	Expenses Reimbursed 09/30/23	Title at Year End
Board Members:					
Brenda Bradley-Smith	9/1/22-8/31/24	Appointed	N/A	N/A	President
Mike Wilson	9/1/21-8/31/23 *	Appointed	N/A	N/A	Vice President
Frank McKay III	9/1/21-8/31/23 *	Appointed	N/A	N/A	Secretary
City Clerk, Angela Jackson	9/1/21-8/31/23 *	Appointed	N/A	N/A	Non-member/ City Staff
Jimmy Smith	9/1/21-8/31/23 *	Appointed	N/A	N/A	Director
Alyssa Linares	9/1/22-8/31/24	Appointed	N/A	N/A	Director

Note: No Board member is disqualified from serving on this Board under the Texas Water Code. The Board members do not receive any form of compensation for their services.

Key Administration (contracted through the City of Baytown):

Jason Reynolds	01/13/23	N/A	N/A	\$ -	General Manager
Frank Simoneaux	11/05/15	N/A	N/A	\$ -	Plant Manager
Scott Lemond	06/20/22	N/A	N/A	\$ -	City Attorney
Teresa McKenzie	11/22/21	N/A	N/A	\$ -	Director of Finance

Consultants:

Belt Harris Pechacek, LLLP	10/01/04	N/A	\$ 20,037	\$ -	Auditor
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*Member's term has expired but will hold position until new appointment on February 22, 2023

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OTHER SUPPLEMENTARY INFORMATION

BAYTOWN AREA WATER AUTHORITY
ANALYSIS OF CHANGES IN PROPERTY, PLANT, AND EQUIPMENT
For the Year Ended September 30, 2023

	Beginning Balances	Additions	Deletions and Reclassifications	Ending Balances
Physical Facilities:				
Land	\$ 2,877,960	\$ -	\$ -	\$ 2,877,960
Building	58,944,489	271,553	-	59,216,042
Basins	3,614,845	-	-	3,614,845
Pump station	12,999,541	-	-	12,999,541
Mixing chamber	1,084,986	-	-	1,084,986
Distribution system	38,624,537	-	-	38,624,537
Office furniture and equipment	602,809	-	-	602,809
Machinery and implements	6,320,811	63,876	-	6,384,687
Motor vehicles	174,118	-	-	174,118
Radio and testing equipment	1,930	-	-	1,930
Other	966,172	-	-	966,172
Total Physical Facilities	<u>126,212,198</u>	<u>335,429</u>	<u>-</u>	<u>126,547,627</u>
Capitalized interest	1,624,145	-	-	1,624,145
Construction in progress	2,124,256	3,884,804	-	6,009,060
Total Property, Plant, and Equipment	<u>\$ 129,960,599</u>	<u>\$ 4,220,233</u>	<u>\$ -</u>	<u>\$ 134,180,832</u>
Amounts Provided By:				
Revenue bond proceeds	\$ 90,873,901	\$ -	\$ -	\$ 90,873,901
Revenues	39,056,298	4,220,233	-	43,276,531
Grants	30,400	-	-	30,400
Total Amounts Provided	<u>\$ 129,960,599</u>	<u>\$ 4,220,233</u>	<u>\$ -</u>	<u>\$ 134,180,832</u>

BAYTOWN AREA WATER AUTHORITY

REVENUE BOND COVERAGE

For the Last Ten Years

<u>Fiscal Year</u>	<u>Gross Revenues</u>	<u>Operating Expenses (1)</u>	<u>Available for Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage</u>
2014	\$ 11,780,550	\$ 5,570,297	\$ 6,210,253	\$ 1,860,000	\$ 567,132	\$ 2,427,132	2.56
2015	\$ 12,205,494	\$ 6,179,948	\$ 6,025,546	\$ 1,915,000	\$ 511,402	\$ 2,426,402	2.48
2016	\$ 13,192,165	\$ 6,256,498	\$ 6,935,667	\$ 1,980,000	\$ 453,572	\$ 2,433,572	2.85
2017	\$ 13,411,387	\$ 7,033,852	\$ 6,377,535	\$ 2,030,000	\$ 393,392	\$ 2,423,392	2.63
2018	\$ 14,315,866	\$ 7,094,523	\$ 7,221,343	\$ 2,090,000	\$ 694,694	\$ 2,784,694	2.59
2019	\$ 14,503,886	\$ 6,801,326	\$ 7,702,560	\$ 2,165,000	\$ 1,131,356	\$ 3,296,356	2.34
2020	\$ 14,419,907	\$ 7,749,717	\$ 6,670,190	\$ 1,930,000	\$ 1,745,515	\$ 3,675,515	1.81
2021	\$ 13,990,939	\$ 8,929,847	\$ 5,061,092	\$ 1,780,000	\$ 1,735,370	\$ 3,515,370	1.44
2022	\$ 15,147,535	\$ 8,904,041	\$ 6,243,494	\$ 1,835,000	\$ 1,676,706	\$ 3,511,706	1.78
2023	\$ 18,494,588	\$ 7,955,033	\$ 10,539,555	\$ 1,970,000	\$ 1,613,294	\$ 3,583,294	2.94

(1) Total operating expenses do not include depreciation expense.

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