

Baytown Area Water Authority

Annual Financial Report

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

For the Fiscal Year Ended September 30, 2025

Baytown Area Water Authority
 Annual Financial Report
 For the Fiscal Year Ended September 30, 2025
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BAYTOWN AREA WATER AUTHORITY

7425 Thompson Rd
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(281) 420-5310

Transmittal Letter

February 11, 2026

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, 2025 are hereby submitted. The Authority is presented as a discrete component unit of the City of Baytown (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.

Weaver & Tidwell, LLP, has audited the financial records of the Authority for the fiscal year ended September 30, 2025, and their opinion is included in this report. The financial statements are the responsibility of the Authority. The responsibility of the independent public accountant 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 its planning and conducting the financial operations of the Authority in a responsible and progressive manner.

Respectfully submitted,



Jason Reynolds
General Manager



Teresa McKenzie
Director of Finance

Financial Section

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Independent Auditor's Report

The Board of Directors of the
Baytown Area Water Authority of the
City of Baytown, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Baytown Area Water Authority (the "Authority"), a component unit of the City of Baytown, Texas, as of and for the years ended September 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of September 30, 2025 and 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the years 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) 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 opinion.

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 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 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 GAAS 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 the Schedule of Revenues, Expenses and Changes in Net Position – Budget to Actual – Budgetary Basis 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Board of Directors of the
Baytown Area Water Authority of the
City of Baytown, Texas

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, as listed in the table of contents, are presented for purposes of additional analysis and are not required part of the basic financial statements.

The Texas Supplementary Information Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 GAAS. In our opinion, the Texas Supplementary Information Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information Included in the Annual Financial Report

Management is responsible for the other information included in the annual financial report. The other information comprises the transmittal letter and other supplementary information, as listed in the table of contents, but does not include the financial statements and our auditors' 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2026 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

The Woodlands, Texas
February 11, 2026

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Management's Discussion and Analysis

As management of Baytown Area Water Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended September 30, 2025 and 2024. Please read the discussion and analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The assets exceeded liabilities at the close of the most recent fiscal year by \$80,243,680 (net position). The unrestricted net position of \$15,784,152 may be used to meet the Authority's ongoing obligations to citizens and creditors.
- The Authority's total net position increased by \$4,020,525. The increase is due primarily to an increase in sales of treated water.
- Operating revenues increased by \$917 thousand.
- Operating expenses increased by \$1.1 million.
- Construction in progress increased by \$ 8.2 million.
- Long-term liabilities (net of current portion) decreased by \$2.8 million (4.6%) during the current fiscal year due to the payment of bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements include the financial statements and notes to the financial statements. This report also contains required supplementary information, supplementary information, and other information in addition to the basic financial statements themselves.

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

The Authority'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 in which they are incurred.

The Statement of Net Position includes all of the Authority's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. The Statement of Revenues, Expenses, and Changes in Net Position reports the Authority's net position and how it has changed. Net position is the difference between the sum of the Authority's assets and any deferred outflows of resources and the sum of liabilities and any deferred inflows of resources.

The Statement of Cash Flows presents the Authority's cash receipts, cash disbursements and net changes in cash resulting from operating, investing, and financing activities. This statement provides answers to such questions as where cash came from, what cash was used for, and what the changes in cash balances were during the reporting period.

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 to the financial statements can be found as noted in the table of contents of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to the comparison of the original adopted budget, the amended budget, and the actual amounts for the fiscal year. The required supplementary information can be found as noted in the table of contents of this report.

Financial Analysis of the Authority

Net position may serve over time as a useful indicator of the Authority's financial position. In the fiscal year 2025, the Authority's total net position increased from \$76,223,155 to \$80,243,680. (5.3 percent). In fiscal year 2024, the Authority's total net position increased from \$72,125,733 to \$76,223,155. (5.7 percent).

Unrestricted net position increased \$2,490,035 from a balance of \$13,294,117 to \$15,784,152 (18.7 percent) at the end of the fiscal 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's Net Position

	2025	2024	2023
Current and other assets	\$ 19,380,513	\$ 16,657,497	\$ 9,949,496
Restricted assets	22,123,417	28,828,142	4,231,861
Capital assets, net	103,565,232	98,487,316	100,797,875
Total assets	145,069,162	143,972,955	114,979,232
Current liabilities	7,955,040	8,015,825	3,720,945
Noncurrent liabilities	56,870,442	59,733,975	39,132,554
Total liabilities	64,825,482	67,749,800	42,853,499
Net position:			
Net investment in capital assets	60,351,802	58,955,612	59,660,321
Restricted	4,107,726	3,973,426	3,594,780
Unrestricted	15,784,152	13,294,117	8,870,632
Total net position	\$ 80,243,680	\$ 76,223,155	\$ 72,125,733

Baytown Area Water Authority's Change in Net Position

	2025	2024	2023
Operating revenues	\$ 21,083,649	\$ 20,165,789	\$ 18,161,488
Operating expenses	(16,215,850)	(15,070,575)	(11,168,223)
Nonoperating revenues (expenses)	(847,274)	(997,792)	(1,082,083)
Change in net position	4,020,525	4,097,422	5,911,182
Beginning net position	76,223,155	72,125,733	66,214,551
Ending net position	\$ 80,243,680	\$ 76,223,155	\$ 72,125,733

Key elements of the change in net position for fiscal year 2025 are as follows:

- Operating revenues increased \$917,860 or 4.6 percent primarily due to a 6% increase in rates.
- Operating expense increased \$1,145,275 or 7.6 percent primarily due to increases in raw water and chemical costs.
- Nonoperating revenues (expenses) remained comparable to the prior year.

Key elements of the change in net position for fiscal year 2024 are as follows:

- Operating revenues increased \$2,004,301 or 11.0 percent primarily due to a 6% increase in rates and an increase in consumption.
- Operating expense increased \$3,902,352 or 34.9 percent primarily due to an increase in raw water purchases from the City of Houston.
- Nonoperating revenues (expenses) remained comparable to the prior year.

Budgetary Highlights

- Operating revenues were \$68,181 under budget due primarily to lower than expected water sales of treated water to municipal utility district customers.
- Operating expenses were \$1,706,473 under budget due primarily to lower than anticipated raw water purchases and other supplies.

Capital Assets

The Authority's plants operate at an average demand flow of 15.99 million gallons per day (MGD). The peak capacity of the plant is 32.0 MGD. 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 \$103,565,232 in capital assets, net of accumulated depreciation. Major capital asset events during the year included the following:

- Approximately \$5.9 million increase in construction on East Surface Water Treatment Plant Phase 2 Expansion.
- Approximately \$2.2 million increase in construction on raw water rehabilitation.

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 \$55,055,000 in revenue bonds outstanding versus \$58,100,000 last year. The decrease is due to the retirement of \$3.045 million of Water Supply Contract Revenue Bonds. More detailed information about the Authority's long-term liabilities is presented in Note 6 to the financial statements.

On November 1, 2025, the Authority privately placed with the Texas Water Development Board \$69,000,000 of Water Supply Contract Revenue Bonds, Series 2025 under its State Water Implementation Fund for Texas (SWIFT) program to fund the expansion of the Authority's East Surface Water Treatment Plant and related infrastructure. The interest rate on the bonds is 1.94% to 4.12% and the maturity date is May 1, 2055.

Economic Factors and Next Year's Budget

The demand for water delivery by the Authority has remained steady during the past few years and is expected to continue at the current rate for the next year. The Authority is managing regional inflation factors on parts and materials through its capital projects budget for its existing and anticipated projects. The 2025-2026 proposed budget estimates sales of \$22,074,336 for an average of 15.47 million gallons per day. The rates will consist of a 6% increase to \$3.87 per 1,000 gallons for the City of Baytown and \$4.14 per 1,000 gallons for customers outside the City. Total operating expenditures for the proposed 2025-2026 budget are \$13,964,249 which is an increase from the 2024-2025 budget. The increase is largely driven by estimated costs of raw water and chemical purchases.

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

Baytown Area Water Authority

Statement of Net Position September 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,163,920	\$ 16,452,691
Receivables	216,593	204,806
	<hr/>	<hr/>
Total current assets - unrestricted	19,380,513	16,657,497
Current assets - restricted:		
Cash and cash equivalents	22,123,417	28,828,142
	<hr/>	<hr/>
Total current assets - restricted	22,123,417	28,828,142
Noncurrent assets:		
Nondepreciable capital assets:		
Land	2,877,960	2,877,960
Construction in progress	9,178,071	969,838
Depreciable capital assets:		
Plant and equipment	131,619,116	131,382,661
Less accumulated depreciation	(40,109,915)	(36,743,143)
	<hr/>	<hr/>
Total noncurrent assets	103,565,232	98,487,316
	<hr/>	<hr/>
TOTAL ASSETS	\$ 145,069,162	\$ 143,972,955
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 3,827,333	\$ 4,028,329
Retainage payable	108,105	-
Accrued interest payable	989,602	942,496
Bonds payable due within one year	3,030,000	3,045,000
	<hr/>	<hr/>
Total current liabilities	7,955,040	8,015,825
Noncurrent liabilities:		
Bonds payable due in more than one year	56,420,994	59,733,975
Arbitrage liability due in more than one year	449,448	-
	<hr/>	<hr/>
Total noncurrent liabilities	56,870,442	59,733,975
	<hr/>	<hr/>
Total liabilities	64,825,482	67,749,800
NET POSITION		
Net investment in capital assets	60,351,802	58,955,612
Restricted for:		
Debt service	4,107,726	3,973,426
Unrestricted	15,784,152	13,294,117
	<hr/>	<hr/>
TOTAL NET POSITION	\$ 80,243,680	\$ 76,223,155

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

Baytown Area Water Authority

Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended September 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
OPERATING REVENUES		
Sales of treated water:		
City of Baytown	\$ 19,472,129	\$ 18,401,642
Municipal utility districts	1,611,520	1,764,147
	<u>21,083,649</u>	<u>20,165,789</u>
OPERATING EXPENSES		
Raw water purchases and other supplies	8,566,316	7,844,514
Contracted personnel costs	2,030,741	2,021,979
Maintenance	565,278	330,049
Services	1,686,743	1,492,968
Depreciation	3,366,772	3,381,065
	<u>16,215,850</u>	<u>15,070,575</u>
Operating income	4,867,799	5,095,214
NONOPERATING REVENUES (EXPENSES)		
Interest income	1,207,215	883,121
Intergovernmental	126,106	100,000
Interest expense and fiscal agent fees	(2,181,008)	(1,980,913)
Miscellaneous	413	-
	<u>(847,274)</u>	<u>(997,792)</u>
Change in net position	4,020,525	4,097,422
Net position - beginning	<u>76,223,155</u>	<u>72,125,733</u>
NET POSITION - ENDING	<u>\$ 80,243,680</u>	<u>\$ 76,223,155</u>

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

Baytown Area Water Authority

Statement of Cash Flows

For the Fiscal Years Ended September 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for sale of treated water	\$ 21,071,862	\$ 20,117,449
Cash payments to suppliers for goods and services	(10,911,228)	(6,718,066)
Cash payments to contract personnel for services	(2,030,741)	(2,021,979)
Net cash provided by (used for) operating activities	8,129,893	11,377,404
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Intergovernmental revenues received	126,106	100,000
Net cash provided by (used for) noncapital financing activities	126,106	100,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction of capital assets	(8,444,688)	(1,070,506)
Proceeds from issuance of bonds	-	23,929,401
Principal paid on capital debt	(3,045,000)	(2,005,000)
Bond issuance costs	-	(429,401)
Interest and bank fees	(2,416,883)	(1,529,077)
Net cash provided by (used for) by capital and related financing activities	(13,906,571)	18,895,417
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,657,076	883,121
Net cash provided by (used for) investing activities	1,657,076	883,121
Net increase (decrease) in cash and cash equivalents	(3,993,496)	31,255,942
Cash and cash equivalents at beginning of year	45,280,833	14,024,891
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 41,287,337</u>	<u>\$ 45,280,833</u>
RECONCILIATION TO STATEMENT OF NET POSITION		
Unrestricted cash and cash equivalents	\$ 19,163,920	\$ 16,452,691
Restricted cash and cash equivalents	22,123,417	28,828,142
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 41,287,337</u>	<u>\$ 45,280,833</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income	\$ 4,867,799	\$ 5,095,214
Depreciation	3,366,772	3,381,065
Changes in assets and liabilities:		
(Increase) decrease in current assets:		
Receivables, net	(11,787)	(48,340)
Increase (decrease) in current liabilities:		
Accounts payable	(200,996)	3,234,782
Retainage payable	108,105	(285,317)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 8,129,893</u>	<u>\$ 11,377,404</u>

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

Baytown Area Water Authority

Notes to the Financial Statements

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 106,801 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 (GASB), 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 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 Accounting

Under GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — For State and Local Governments*, the Authority 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.

The Authority'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.

Baytown Area Water Authority

Notes to the Financial Statements

C. 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.

D. Comparative Data

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

E. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, equity in the City's pooled cash account, 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 Authority considers 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 meet certain criteria
- Commercial paper that meets certain criteria
- Mutual funds of specific type
- Collateralized guaranteed investment contract
- Statewide investment pools

F. 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.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water lines), have been recorded at cost. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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.

Baytown Area Water Authority
 Notes to the Financial Statements

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

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

H. 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 assets that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) 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 assets 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 outflows or inflows for the years ended 2025 and 2024.

I. 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. Bond issuance costs are expensed in the period incurred.

J. 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 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.

K. 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 expenses during the reporting period. Actual results could differ from those estimates.

L. Operating and Nonoperating Revenues

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses for the Authority 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 non operating revenues and expenses.

Baytown Area Water Authority

Notes to the Financial Statements

M. Implementation of New Accounting Standards

GASB Statement No. 101, Compensated Absences (GASB 101), improves the information needs of financial statements users by updating the recognition and measurement guidance for compensated absences under a unified model and amending certain previously required disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2023, with earlier application encouraged. These requirements for GASB 101 were implemented in the Authority's fiscal year 2025 financial statements with no impact to amounts previously reported.

GASB Statement No. 102, Certain Risk Disclosures (GASB 102), improves financial reporting by providing users of financial statements with essential information regarding certain concentrations of 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. These requirements for GASB 102 were implemented in the Authority's fiscal year 2025 financial statements with no impact to amounts previously reported.

N. Recent Accounting Pronouncements

GASB Statement No. 103, Financial Reporting Model Improvements (GASB 103), improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues. The requirements of this statement are effective for reporting periods beginning after June 15, 2025, with earlier application encouraged. GASB 103 will be implemented in the Authority's fiscal year 2026 financial statements and the impact has not yet been determined.

GASB Statement No. 104, Disclosure of Certain Capital Assets (GASB 104), establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note disclosures. It also establishes requirements for capital assets held for sale, including additional disclosures for those capital assets. The requirements of this statement are effective for reporting periods beginning after June 15, 2025, with earlier application encouraged. GASB 104 will be implemented in the Authority's fiscal year 2026 financial statements and the impact has not yet been determined.

GASB Statement No. 105, Subsequent Events (GASB 105), improves financial reporting related to subsequent events by 1) clarifying the subsequent events time frame and the subsequent events that constitute recognized and non-recognized events and 2) specifies the information items that are required to be disclosed about subsequent events. The requirements of this statement are effective for reporting periods beginning after June 15, 2026, with earlier application encouraged. GASB 105 will be implemented in the Authority's fiscal year 2027 financial statements and the impact has not yet been determined.

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, including those held in the City's depository in the City's name as agent for the Authority, were fully insured or collateralized as required by the state statutes at year end.

Baytown Area Water Authority
 Notes to the Financial Statements

The Authority held the following deposits and investments as of September 30, 2025:

Type	Value	Weighted Average Maturity (Days)	Credit Rating
Investments measured at amortized cost:			
Investment pool:			
TexPool	\$ 11,412,522	44	AAAm
Investments measured at net asset value:			
Investment pool:			
Texas Class	<u>17,630,833</u>	<u>84</u>	AAAm
Total investments	29,043,355		
Equity in the City's pooled cash and investments	11,686,498		
Other cash deposits	<u>557,484</u>		
Total cash and cash equivalents	<u>\$ 41,287,337</u>		
Portfolio weighted average maturity		68	

Interest Rate Risk – In compliance with the Authority's investment policy, 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 – 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. The credit rating for each investment is noted in the preceding table.

TexPool

The TexPool investment pool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool.

TexPool is duly chartered and overseen by the State Comptroller's Office, administered and managed by Federated Investors, Inc. State Street Bank serves as the custodial bank. The portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; and AAA rated money market mutual funds.

Baytown Area Water Authority
Notes to the Financial Statements

TexPool transacts at a net asset value of \$1.00 per share, has a weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by a nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. The investment pool has a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

Texas CLASS

Texas CLASS is an external investment pool measured at fair value, i.e. net asset value. The investment pool's strategy is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short term marketable securities. There are no unfunded commitments related to the investment pool. Texas CLASS has a redemption notice period of one day and may redeem daily. The investment pool's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pool's liquidity. The Texas CLASS portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; AAA rated money market mutual funds; and commercial paper.

Note 4. Restricted Cash and Cash Equivalents

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

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

Bond reserve funds	\$ 5,097,328
Construction funds	<u>17,026,089</u>
Total	<u>\$ 22,123,417</u>

Note 5. Capital Assets

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,877,960	\$ -	\$ -	\$ 2,877,960
Construction in progress	<u>969,838</u>	<u>8,208,233</u>	-	<u>9,178,071</u>
Total capital assets, not being depreciated	3,847,798	8,208,233	-	12,056,031
Capital assets, being depreciated:				
Buildings	59,216,042	-	-	59,216,042
Improvements other than buildings	64,925,462	-	-	64,925,462
Machinery and equipment	<u>7,241,157</u>	<u>236,455</u>	-	<u>7,477,612</u>
Total capital assets, being depreciated	131,382,661	236,455	-	131,619,116
Less accumulated depreciation for:				
Buildings and improvements	(30,954,705)	(2,937,774)	-	(33,892,479)
Machinery and equipment	<u>(5,788,438)</u>	<u>(428,998)</u>	-	<u>(6,217,436)</u>
Total accumulated depreciation	<u>(36,743,143)</u>	<u>(3,366,772)</u>	-	<u>(40,109,915)</u>
Total capital assets, being depreciated, net	<u>94,639,518</u>	<u>(3,130,317)</u>	-	<u>91,509,201</u>
Total capital assets, net	<u>\$ 98,487,316</u>	<u>\$ 5,077,916</u>	<u>\$ -</u>	<u>\$ 103,565,232</u>

Baytown Area Water Authority

Notes to the Financial Statements

Construction Commitments

The Authority has active construction projects as of September 30, 2025. At year-end, the Authority's significant commitments with contractors include the construction of the East Surface Water Treatment Plant Phase 2 Expansion and raw water rehabilitation, with a remaining commitment balance of \$12,502,780. The remaining construction commitments will be provided by the proceeds of revenue bonds and operating revenues.

Note 6. Long-term Liabilities

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 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.

2024 Series Baytown Area Water Authority Water Supply Contract Revenue Bonds issued for \$21,525,000. The Authority reserves the right, at its option, to redeem bonds having stated maturities on or after May 1, 2035, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof; on May 1, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

Baytown Area Water Authority
Notes to the Financial Statements

The following is a summary of changes in long-term liabilities for the year ended September 30, 2025:

Series	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2012	2.00 - 3.50%	\$ 2,830,000	\$ -	\$ (315,000)	\$ 2,515,000	\$ 325,000
2018	4.00 - 5.00%	19,700,000	-	(1,000,000)	18,700,000	1,000,000
2019	3.00 - 4.00%	14,045,000	-	(725,000)	13,320,000	755,000
2024	5.00%	21,525,000	-	(1,005,000)	20,520,000	950,000
Total bonds		58,100,000	-	(3,045,000)	55,055,000	3,030,000
Plus net (discount) and premium		4,678,975	-	(282,981)	4,395,994	-
Total bonds payable		62,778,975	-	(3,327,981)	59,450,994	3,030,000
Plus arbitrage liability		-	449,448	-	449,448	-
Total long-term liabilities		\$ 62,778,975	\$ 449,448	\$ (3,327,981)	\$ 59,900,442	\$ 3,030,000

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
2026	\$ 3,030,000	\$ 2,380,220	\$ 5,410,220
2027	3,120,000	2,242,770	5,362,770
2028	3,210,000	2,100,900	5,310,900
2029	3,350,000	1,954,588	5,304,588
2030	3,500,000	1,801,888	5,301,888
2031 - 2035	19,940,000	6,589,126	26,529,126
2036 - 2040	18,905,000	2,141,650	21,046,650
Totals	\$ 55,055,000	\$ 19,211,142	\$ 74,266,142

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage legislation 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 (IRS) 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 IRS rules and regulations. As of September 30, 2025, the Authority reported an arbitrage liability of \$449,448.

Baytown Area Water Authority
Notes to the Financial Statements

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>2025</u>	<u>2024</u>
Net investment in capital assets:		
Capital assets, net of accumulated depreciation	\$ 103,565,232	\$ 98,487,316
Outstanding debt that applies to capital assets	(59,450,994)	(62,778,975)
Unspent bond proceeds	17,026,089	23,912,220
Capital asset related payables	<u>(788,525)</u>	<u>(664,949)</u>
Net investment in capital assets	60,351,802	58,955,612
Restricted debt service:		
Debt service restricted assets	5,097,328	4,915,922
Accrued interest	<u>(989,602)</u>	<u>(942,496)</u>
Restricted net position for debt service	4,107,726	3,973,426
Unrestricted net position:	<u>15,784,152</u>	<u>13,294,117</u>
Total net position	<u><u>\$ 80,243,680</u></u>	<u><u>\$ 76,223,155</u></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. 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 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. A fifth amendment was approved in May 2025 to extend the termination date of the agreement to December 31, 2055.

Baytown Area Water Authority

Notes to the Financial Statements

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. On May 9, 2024, the sixth amendment was brought into effect, increasing contract quantity to 28.6 MGD. The Authority is also obligated to provide 2.55 MGD to other municipal entities, making the total obligation 31.15 MGD.

Note 10. Related Parties, Concentrations, and Economic Dependency

The Authority is a discretely presented component unit of the City. In addition, approximately 92.36 percent of the Authority's operating revenues are attributable to the sale of treated water to the City.

Note 11. Subsequent Event

On November 1, 2025, the Authority privately placed with the Texas Water Development Board \$69,000,000 of Water Supply Contract Revenue Bonds, Series 2025 under its State Water Implementation Fund for Texas (SWIFT) program. The interest rate on the bonds is 1.94% to 4.12% and the maturity date is May 1, 2055.

Required Supplementary Information

Baytown Area Water Authority

Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual - Budgetary Basis For the Fiscal Year Ended September 30, 2025

	<u>Original</u>	<u>Final</u>	<u>2025 (Budget Basis)</u>	<u>Variance Positive (Negative)</u>
OPERATING REVENUES				
Sale of treated water:				
City of Baytown	\$ 19,197,497	\$ 19,197,497	\$ 19,472,129	\$ 274,632
Municipal utility districts	1,954,333	1,954,333	1,611,520	(342,813)
Total operating revenues	21,151,830	21,151,830	21,083,649	(68,181)
OPERATING EXPENSES				
Raw water purchases and other supplies	5,854,530	9,924,381	8,566,316	1,358,065
Contracted personnel costs	2,292,451	2,292,451	2,030,741	261,710
Maintenance	429,350	637,831	565,278	72,553
Services	1,639,046	1,769,069	1,686,743	82,326
Total operating expenses	10,215,377	14,623,732	12,849,078	1,774,654
Operating income	10,936,453	6,528,098	8,234,571	1,706,473
NONOPERATING REVENUE (EXPENSES)				
Interest income*	90,000	90,000	635,266	545,266
Intergovernmental	-	-	126,106	126,106
Other expenses	(9,827,573)	(9,827,773)	(9,827,773)	-
Total nonoperating revenues (expenses)	(9,737,573)	(9,737,773)	(9,066,401)	671,372
CHANGE IN NET POSITION - BUDGETARY BASIS	<u>\$ 1,198,880</u>	<u>\$ (3,209,675)</u>	<u>\$ (831,830)</u>	<u>\$ 2,377,845</u>
RECONCILIATION OF BUDGET BASIS TO GAAP				
Depreciation			(3,366,772)	
Interest expense and fiscal agent fees			(2,181,008)	
Interest income from restricted bonds			572,362	
Adjustment to remove net effect of combined funds			9,827,773	
CHANGE IN NET POSITION			<u>\$ 4,020,525</u>	

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

Notes to Required Supplementary Information

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

Supplementary Information

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Baytown Area Water Authority
Texas Supplementary Information Schedules
September 30, 2025

Page

(Schedules included are checked or explanatory notes provided for omitted schedules.)

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<input type="checkbox"/> TSI-4 Taxes Levied and Receivable (Omitted – no tax levy)	
<input checked="" type="checkbox"/> TSI-5 Long-Term Debt Service Requirements by Years (All Bonded Debt Services)	33
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Baytown Area Water Authority

TSI-1 Services and Rates

For the Fiscal Year Ended September 30, 2025

1. **Service 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	\$3.65 per 1000 gallons	N/A	N	N/A	N/A
Other districts	\$3.88 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 BAWA 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>
Wholesale			
Cities and MUD's	8	-	-
Total	8	-	-

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

Gallons pumped into system:	5,766,077,740	Water Accountability Ratio:
Gallons billed to customers:	5,766,077,740	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 Fiscal Year Ended September 30, 2025

Professional Fees	\$ 20,037
Other Services	1,144,909
Purchases of Raw Water	6,363,870
Contracted Personnel Services	2,030,741
Utilities	519,671
Repairs and Maintenance	565,278
Chemicals	2,085,202
Administrative Expenses	119,370
Depreciation	<u>3,366,772</u>
Total Expenses	<u>\$ 16,215,850</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 Fiscal Year Ended September 30, 2025

	<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	Various	N/A	\$ 557,484	\$ -
Texas Class	Investment	Various	N/A	17,630,833	-
TexPool	Investment	Various	N/A	<u>23,099,020</u>	-
Total Cash and Investments				<u>\$ 41,287,337</u>	

Baytown Area Water Authority

TSI-5 Long-Term Debt Service Requirements by
 Years (All Bonded Debt Services)
 For the Fiscal Year Ended September 30, 2025

Annual Requirements for All Series

Due During Fiscal Year Ending	Principal Due 5/01	Interest Due 5/01	Interest Due 11/01	Total
2026	\$ 3,030,000	\$ 1,190,110	\$ 1,190,110	\$ 5,410,220
2027	3,120,000	1,121,385	1,121,385	5,362,770
2028	3,210,000	1,050,450	1,050,450	5,310,900
2029	3,350,000	977,294	977,294	5,304,588
2030	3,500,000	900,944	900,944	5,301,888
2031	3,655,000	825,250	825,250	5,305,500
2032	3,815,000	745,863	745,863	5,306,726
2033	3,980,000	662,800	662,800	5,305,600
2034	4,160,000	572,950	572,950	5,305,900
2035	4,330,000	487,700	487,700	5,305,400
2036	4,510,000	398,850	398,850	5,307,700
2037	4,690,000	306,175	306,175	5,302,350
2038	4,880,000	209,675	209,675	5,299,350
2039	2,945,000	109,125	109,125	3,163,250
2040	1,880,000	47,000	47,000	1,974,000
	<u>\$ 55,055,000</u>	<u>\$ 9,605,571</u>	<u>\$ 9,605,571</u>	<u>\$ 74,266,142</u>

Series 2012

Due During Fiscal Year Ending	Principal Due 5/01	Interest Due 5/01	Interest Due 11/01	Total
2026	\$ 325,000	\$ 41,460	\$ 41,460	\$ 407,920
2027	335,000	36,585	36,585	408,170
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	408,826
	<u>\$ 2,515,000</u>	<u>\$ 175,596</u>	<u>\$ 175,596</u>	<u>\$ 2,866,192</u>

Baytown Area Water Authority

TSI-5 Long-Term Debt Service Requirements by
 Years (All Bonded Debt Services) - Continued
 For the Fiscal Year Ended September 30, 2025

Series 2018

Due During Fiscal Year Ending	Principal Due 5/01	Interest Due 5/01	Interest Due 11/01	Total
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
	\$ 18,700,000	\$ 3,222,075	\$ 3,222,075	\$ 25,144,150

Series 2019

Due During Fiscal Year Ending	Principal Due 5/01	Interest Due 5/01	Interest Due 11/01	Total
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
	\$ 13,320,000	\$ 1,641,650	\$ 1,641,650	\$ 16,603,300

Baytown Area Water Authority

TSI-5 Long-Term Debt Service Requirements by
 Years (All Bonded Debt Services) - Continued
 For the Fiscal Year Ended September 30, 2025

Series 2024

Due During Fiscal Year Ending	Principal Due 5/01	Interest Due 5/01	Interest Due 11/01	Total
2026	\$ 950,000	\$ 513,000	\$ 513,000	\$ 1,976,000
2027	1,000,000	489,250	489,250	1,978,500
2028	1,050,000	464,250	464,250	1,978,500
2029	1,100,000	438,000	438,000	1,976,000
2030	1,155,000	410,500	410,500	1,976,000
2031	1,215,000	381,625	381,625	1,978,250
2032	1,275,000	351,250	351,250	1,977,500
2033	1,340,000	319,375	319,375	1,978,750
2034	1,405,000	285,875	285,875	1,976,750
2035	1,475,000	250,750	250,750	1,976,500
2036	1,550,000	213,875	213,875	1,977,750
2037	1,625,000	175,125	175,125	1,975,250
2038	1,705,000	134,500	134,500	1,974,000
2039	1,795,000	91,875	91,875	1,978,750
2040	1,880,000	47,000	47,000	1,974,000
	<u>\$ 20,520,000</u>	<u>\$ 4,566,250</u>	<u>\$ 4,566,250</u>	<u>\$ 29,652,500</u>

Baytown Area Water Authority
 TSI-6 Changes in Long-Term Bonded Debt
 For the Fiscal Year Ended September 30, 2025

<u>Revenue Bonds</u>	<u>Interest Rate</u>	<u>Amount of Issue</u>	<u>Bonds Outstanding October 2024</u>	<u>Bonds Sold During the Fiscal Year</u>	<u>Bonds Retired During the Fiscal Year</u>	<u>Bonds Outstanding September 2025</u>
Series 2012	2.00 - 3.50%	\$ 8,315,000	\$ 2,830,000	\$ -	\$ 315,000	\$ 2,515,000
Series 2018	4.00 - 5.00%	22,040,000	19,700,000	-	1,000,000	18,700,000
Series 2019	3.00 - 4.00%	17,315,000	14,045,000	-	725,000	13,320,000
Series 2024	5.00%	21,525,000	21,525,000	-	1,005,000	20,520,000
			<u>\$ 58,100,000</u>	<u>\$ -</u>	<u>\$ 3,045,000</u>	<u>\$ 55,055,000</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
Series 2024	BOK Financial, Dallas, Texas

Debt service cash and investment balances as of September 30, 2025 \$ 5,097,328

Average annual debt service payment (principal and interest) for remaining term of all debt \$ 4,951,076

Interest Due 05/01	Interest Due 11/01	Total Interest Paid During the Fiscal Year
\$ 46,184	\$ 46,184	\$ 92,368
444,825	444,825	889,650
230,325	230,325	460,650
485,807	485,807	971,614
<u>\$ 1,207,141</u>	<u>\$ 1,207,141</u>	<u>\$ 2,414,282</u>

Baytown Area Water Authority

TSI-7 Comparative Schedule of Revenues and Expenses

For the Fiscal Year Ended September 30, 2025

	AMOUNTS				
	2025	2024	2023	2022	2021
OPERATING REVENUES					
Sale of treated water:					
City of Baytown	\$ 19,472,129	\$ 18,401,642	\$ 16,466,818	\$ 13,511,028	\$ 12,472,111
Municipal utility districts	1,611,520	1,764,147	1,694,670	1,475,071	1,394,136
Total operating revenues	21,083,649	20,165,789	18,161,488	14,986,099	13,866,247
OPERATING EXPENSES					
Raw water purchases and other supplies	8,566,316	7,844,514	3,931,863	5,448,723	5,595,282
Contracted personnel costs	2,030,741	2,021,979	1,950,242	1,720,147	1,603,278
Maintenance	565,278	330,049	480,397	506,836	410,984
Services	1,686,743	1,492,968	1,592,531	1,228,335	1,320,303
Depreciation	3,366,772	3,381,065	3,213,190	3,209,926	2,242,403
Total operating expenses	16,215,850	15,070,575	11,168,223	12,113,967	11,172,250
Operating income (loss)	4,867,799	5,095,214	6,993,265	2,872,132	2,693,997
NONOPERATING REVENUES					
(EXPENSES)					
Interest income	1,207,215	883,121	209,842	18,178	7,465
Intergovernmental	126,106	100,000	123,258	123,258	117,227
Interest expense and fiscal agent fees	(2,181,008)	(1,980,913)	(1,415,183)	(1,504,030)	(1,548,535)
Miscellaneous	413	-	-	20,000	-
Total nonoperating revenues (expenses)	(847,274)	(997,792)	(1,082,083)	(1,342,594)	(1,423,843)
CHANGE IN NET POSITION	\$ 4,020,525	\$ 4,097,422	\$ 5,911,182	\$ 1,529,538	\$ 1,270,154
Total active wholesale water connections	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>

PERCENTAGE OF TOTAL OPERATING REVENUES

2025	2024	2023	2022	2021
%	%	%	%	%
92.4	91.3	90.7	90.2	89.9
7.6	8.7	9.3	9.8	10.1
100.0	100.0	100.0	100.0	100.0
40.6	38.9	21.6	36.4	40.4
9.6	10.0	10.7	11.5	11.6
2.7	1.6	2.6	3.4	3.0
8.0	7.4	8.8	8.2	9.5
16.0	16.8	17.7	21.4	16.2
76.9	74.7	61.4	80.9	80.7
23.1	25.3	38.5	19.2	19.4
5.7	4.4	1.2	0.1	0.1
0.6	0.5	0.7	0.8	0.8
(10.3)	(9.8)	(7.8)	(10.0)	(11.2)
0.0	-	-	0.1	-
(4.0)	(4.9)	(5.9)	(9.0)	(10.3)
19.1	20.4	32.5	10.2	9.1

Baytown Area Water Authority

TSI-8 Board Members and Administrative Personnel For the Fiscal Year Ended September 30, 2025

Complete Authority Mailing Address: 2401 Market Street, Baytown, Texas, 77520
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 9/30/2025	Expenses Reimbursed 9/30/2025	Title at Year End
Board Members:					
Brenda Bradley-Smith	09/01/24 - 08/31/26	Appointed	N/A	N/A	President
Frank McKay III	09/01/25 - 08/31/27	Appointed	N/A	N/A	Vice President
Alyssa Linares	09/01/24 - 08/31/26	Appointed	N/A	N/A	Director
Vacant	N/A	N/A	N/A	N/A	Secretary
David Start, Jr.	09/01/25 - 08/31/27	Appointed	N/A	N/A	Director
City Clerk, Angela Jackson	09/01/25 - 08/31/27	Appointed	N/A	N/A	Non-member/ City Staff

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	08/01/22	N/A	N/A	\$ -	General Manager	General Manager
Frank Simoneaux	11/09/15	N/A	N/A	\$ -	Plant Manager	Plant Manager
Scott Lemond	06/20/22	N/A	N/A	\$ -	City Attorney	City Attorney
Teresa McKenzie	11/22/21	N/A	N/A	\$ -	Director of Finance	Director of Finance

Consultants:

Weaver and Tidwell, LLP	09/12/24	N/A	N/A	\$ -		Auditor
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Other Information

Baytown Area Water Authority

Analysis of Changes in Property, Plant, and Equipment
For the Fiscal Year Ended September 30, 2025

	Beginning Balances	Additions	Deletions and Reclassifications	Ending Balances
PHYSICAL FACILITIES				
Land	\$ 2,877,960	\$ -	\$ -	\$ 2,877,960
Building	59,216,042	-	-	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	44,635,773	-	-	44,635,773
Office furniture and office equipment	602,809	-	-	602,809
Machinery and equipment	6,462,300	236,455	-	6,698,755
Motor vehicles	174,118	-	-	174,118
Radio and testing equipment	1,930	-	-	1,930
Other	966,172	-	-	966,172
	<u>132,636,476</u>	<u>236,455</u>	<u>-</u>	<u>132,872,931</u>
Total physical facilities				
Capitalized interest	1,624,145	-	-	1,624,145
Construction in progress	969,838	8,208,233	-	9,178,071
	<u>135,230,459</u>	<u>8,444,688</u>	<u>-</u>	<u>143,675,147</u>
TOTAL PROPERTY, PLANT, AND EQUIPMENT				
AMOUNTS PROVIDED BY				
Revenue bond proceeds	\$ 91,517,972	\$ 8,031,517	\$ -	\$ 99,549,489
Revenues	43,682,087	413,171	-	44,095,258
Grants	30,400	-	-	30,400
	<u>135,230,459</u>	<u>8,444,688</u>	<u>-</u>	<u>143,675,147</u>
TOTAL AMOUNTS PROVIDED				

Baytown Area Water Authority

Revenue Bond Coverage

For the Last Ten Fiscal 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>
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
2024	21,148,910	11,689,510	9,459,400	2,005,000	1,528,994	3,533,994	2.68
2025	22,417,383	12,849,078	9,568,305	3,045,000	2,414,282	5,459,282	1.75

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

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Compliance Section

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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

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 financial statements 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, 2025, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 11, 2026.

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*.

The Board of Directors of the
Baytown Area Water Authority of the
City of Baytown, Texas

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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

The Woodlands, Texas
February 11, 2026