



**NORTH AMERICAN DEVELOPMENT BANK
ENVIRONMENT INVESTMENT AND CAPACITY FACILITY**

Audited Financial Statements

December 31, 2023

North American Development Bank
Environment Investment and Capacity Facility
Financial Statements
December 31, 2023

Contents

Report of the Independent Auditors 1

Financial Statements

Balance Sheet 3
Statement of Changes in Fund Balance..... 4
Statement of Cash Flows 5
Notes to Financial Statements 6



Ernst & Young LLP
The Frost Tower
Suite 1901
111 West Houston Street
San Antonio, TX 78205

Tel: +1 210 228 9696
Fax: +1 210 242 7252
ey.com

Report of Independent Auditors

Those Charged with Governance
North American Development Bank
Environment Investment and Capacity Facility

Opinion

We have audited the financial statements of North American Development Bank - Environment Investment and Capacity Facility (EICF), which comprise the balance sheet as of December 31, 2023, and the related statements of changes in fund balance and statement of cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the EICF at December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the EICF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 of 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 EICF’s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance

and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the EICF'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 EICF'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.

Ernst & Young LLP

August 21, 2024

North American Development Bank
Environment Investment and Capacity Facility
Balance Sheet
As of December 31, 2023

Assets

| | | |
|---|----|--------------------------|
| Cash and cash equivalents | | |
| Held at other financial institutions | \$ | 24,069 |
| Repurchase agreements | | 12,700,000 |
| Total cash and cash equivalents | | <u>12,724,069</u> |
| Due from Ordinary Capital Resources | | 2,000,000 |
| Interest receivable | | 5,609 |
| Grants receivable: | | |
| U.S. Environmental Protection Agency (EPA): | | |
| Border Environment Infrastructure Fund (BEIF) | | 62,855 |
| Project Development Assistance Program (PDAP) | | 23,323 |
| U.S.-Mexico Environmental Border 2025 Program (B2025) | | 7,896 |
| Total grants receivable | | <u>94,074</u> |
| Total assets | \$ | <u><u>14,823,752</u></u> |

Liabilities and Fund Balance

| | | |
|------------------------------------|----|--------------------------|
| Due to Ordinary Capital Resources | \$ | 291,485 |
| Undisbursed grant funds: | | |
| U.S. Department of State (DOS) | | 1,457,280 |
| Air Quality Fund (AQ Fund) | | 132,768 |
| Total undisbursed grant funds | | <u>1,590,048</u> |
| Total liabilities | | <u>1,881,533</u> |
| Fund balance | | <u>12,942,219</u> |
| Total liabilities and fund balance | \$ | <u><u>14,823,752</u></u> |

The accompanying notes are an integral part of these financial statements.

**North American Development Bank
Environment Investment and Capacity Facility
Statement of Changes in Fund Balance
For the Year Ended December 31, 2023**

Additions

| | | |
|--|----|------------------|
| Transfer from Ordinary Capital Resources | \$ | 5,101,424 |
| Interest income | | <u>340,795</u> |
| | | <u>5,442,219</u> |

Change in fund balance

| | | |
|---------------------------------|----|-------------------|
| | | 5,442,219 |
| Fund balance, beginning balance | | <u>7,500,000</u> |
| Fund balance, ending balance | \$ | <u>12,942,219</u> |

The accompanying notes are an integral part of these financial statements.

**North American Development Bank
Environment Investment and Capacity Facility
Statement of Cash Flows
For the Year Ended December 31, 2023**

Cash flows from operating activities

| | |
|---|-------------------|
| Change in fund balance | \$ 5,442,219 |
| Adjustments to reconcile change in fund balance to net cash provided by operating activities: | |
| Change in other assets and liabilities: | |
| Increase in interest receivable | (5,609) |
| Decrease in grants receivable | 36,032 |
| Decrease in due from Ordinary Capital Resources | 6,729,539 |
| Increase in due to Ordinary Capital Resources | 161,379 |
| Net cash provided by operating activities | <u>12,363,560</u> |

Cash flows from financing activities

| | |
|---|----------------|
| Grant funds received from: | |
| EPA: | |
| BEIF | 13,628,700 |
| PDAP | 2,011,869 |
| Border 2025 | 1,016,556 |
| Other | 43,316 |
| DOS | 3,000,000 |
| AQ Fund | 74,363 |
| Grant disbursements: | |
| EPA: | |
| BEIF | (13,629,709) |
| PDAP | (2,011,869) |
| Border 2025 | (1,016,556) |
| Other | (43,316) |
| DOS | (2,563,925) |
| AQ Fund | (148,920) |
| Net cash provided by financing activities | <u>360,509</u> |

| | |
|---|----------------------|
| Net increase in cash and cash equivalents | 12,724,069 |
| Cash and cash equivalents, beginning of period | <u>-</u> |
| Cash and cash equivalents, end of period | <u>\$ 12,724,069</u> |

The accompanying notes are an integral part of these financial statements.

North American Development Bank
Environment Investment and Capacity Facility

Notes to Financial Statements
December 31, 2023

1. Organization and Purpose

The North American Development Bank (NADBank or the Bank) was established on January 1, 1994 by an agreement between the Governments of the United States of America (the United States or U.S.) and the United Mexican States (Mexico) that was signed by their respective Presidents on November 16 and 18, 1993 (the Charter). The Bank was created to finance environmental infrastructure projects in the U.S.-Mexico border region. On March 16, 1994, the President of the United States issued an Executive Order designating the Bank as an international organization under the International Organization Immunities Act.

The Bank is governed by a Board of Directors (the Board) appointed by the two countries. Its operations are subject to certain limitations outlined in the Charter. The geographic jurisdiction is within 100 kilometers north and 300 kilometers south of the U.S.-Mexico border. The primary activities of the Bank are providing loans, grant financing and technical assistance for environmental infrastructure projects approved by the Board, as well as administering grant funding provided by other entities. The Bank is headquartered in San Antonio, Texas, and also has an office in Ciudad Juarez, Chihuahua (Juarez Office).

On December 28, 2022, the Board approved the establishment of the Environment Investment and Capacity Facility (EICF) to hold the Bank's grant funds available for project implementation and technical assistance purposes, including funds provided by third-party donors. With the establishment of the grant facility, the activities of the Bank are conducted through either Ordinary Capital Resources or the EICF, which are accounted for separately. All grant and technical assistance activities are reported under the EICF, while all other operations of the Bank are reported under Ordinary Capital Resources.

Grant activity may be financed by the Bank with its own funds or by third parties. In some cases, the Bank receives third-party pass-through grants, meaning that the funds are not drawn until needed for disbursement. In other cases, the third-party grantors entrust the funds to the Bank, which are held in custody for the programs.

Grant Programs

Community Assistance Program (CAP)

Established in 2011, the CAP provides grants to support the implementation of infrastructure projects in the water and solid waste sectors. Disbursements for CAP are funded with fund balance or with grants from the U.S. Department of State (DOS).

Technical Assistance Program (TAP)

The TAP was established in 2009 to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure. As part of its technical assistance program, the Bank created the Utility Management Institute (UMI) to provide water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. Disbursements for TAP and UMI are funded with fund balance or with grants from DOS.

1. Organization and Purpose (continued)

Border Environment Infrastructure Fund (BEIF)

Through this program, the Bank administers third-party grant funds from U.S. Environmental Protection Agency (EPA) to support the implementation of priority water and wastewater infrastructure projects. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA. EPA approves the projects, which are subsequently certified for financing by the Board of Directors. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

Project Development Assistance Program (PDAP)

The Bank administers grant funding from EPA to provide technical assistance to communities for the development of water and wastewater projects that have been prioritized by EPA to receive a BEIF grant. The Bank provides administrative services to identify, contract and manage technical assistance projects.

U.S.-Mexico Environmental Border 2025 Program

The Bank administers grant funding from EPA to support the joint efforts of the two governments to improve the environment and protect the health of residents within 100 kilometers of the U.S.-Mexico border. The Bank provides logistical and administrative services to identify, contract and manage technical assistance projects and workshops funded through the program.

Air Quality Monitoring Fund

Through this fund, the Bank manages funds from the Texas Commission on Environmental Quality (TCEQ) and the Paso del Norte Community Foundation to improve air quality monitoring in the Paso del Norte air basin, formed by the Municipality of Juarez, Chihuahua, El Paso County, Texas, and Dona Ana County, New Mexico.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions from fund balance during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash and cash equivalents include cash deposits with a financial institution and overnight repurchase agreements. As of December 31, 2023, cash deposits with the financial institution totaled \$24,069.

2. Summary of Significant Accounting Policies (continued)

Repurchase Agreements

The Bank has entered into repurchase agreements with other financial institutions. Repurchases, which are included in cash and cash equivalents, occur daily involving U.S. government and federally sponsored agency securities. The underlying securities related to the repurchase transactions are held in the possession of the respective financial institution.

Grant Recognition

Bank-funded grants: Grant commitments are recognized at the date the Bank becomes obligated under the terms of the grant agreements, and associated costs are recognized as incurred. Grant disbursements from fund balance are reflected in the statement of changes in fund balance.

Third-party grants: These grants are funded by third-party grantors and disbursed in accordance with their respective agreements. Third-party grants are recognized upon receipt and reflected on the balance sheet as undisbursed grant funds until disbursed. Grant receipts and disbursements are reflected in the statement of cash flows. Additional information on undisbursed third-party grant funds is provided in Note 3.

Grant Operating Expenses and Reimbursements

All operating expenses associated with the EICF are paid through the Ordinary Capital Resources and are subject to reimbursement to the Ordinary Capital Resources when incurred for third-party grants. As such, no operating expenses are reported under the EICF.

Income Transfers from Ordinary Capital Resources

As part of the establishment of the EICF, the Board agreed to continue providing support to the EICF by transferring a portion of allocable income from the Ordinary Capital Resources. For the year ended December 31, 2023, EICF received transfers of \$5,101,424, which is reflected in the statement of changes in fund balance.

Taxation

Pursuant to the NADBank Charter, as further implemented in the U.S. in the International Organizations Immunities Act, the Bank, its property, other assets, income, and the operations it carries out pursuant to the Charter, are immune from all taxation and customs duties.

North American Development Bank
Environment Investment and Capacity Facility

Notes to Financial Statements
December 31, 2023

3. Undisbursed Third-party Grant Funds

The following table summarizes the changes in undisbursed grants from third-party grantors as of December 31, 2023.

| | Beginning Balance January 1, 2023 | Grant Receipts | Grant Disbursements for | | Ending Balance December 31, 2023 |
|------------------|--------------------------------------|----------------------|-------------------------|---------------------------|-------------------------------------|
| | | | Projects ¹ | Expense Reimbursements | |
| EPA: | | | | | |
| BEIF | \$ 1,009 | \$ 13,628,700 | \$ 12,472,492 | \$ 1,157,217 | \$ - |
| PDAP | - | 2,011,869 | 1,197,131 | 814,738 | - |
| Border 2025 | - | 1,016,556 | 726,390 | 290,166 | - |
| Other | - | 43,316 | 42,500 | 816 | - |
| | <u>1,009</u> | <u>16,700,441</u> | <u>14,438,513</u> | <u>2,262,937</u> | <u>-</u> |
| DOS | 1,021,205 | 3,000,000 | 2,563,925 | - | 1,457,280 |
| Air Quality Fund | 207,325 | 74,363 | 143,765 | 5,155 | 132,768 |
| Total | <u>\$ 1,229,539</u> | <u>\$ 19,774,804</u> | <u>\$ 17,146,203</u> | <u>\$ 2,268,092</u> | <u>\$ 1,590,048</u> |

¹ Includes funds disbursed for project financing and technical assistance.

4. Disbursements by Program and Source

The following table summarizes disbursements for project implementation and technical assistance by program and source for the year ended December 31, 2023.

| | Year Ended December 31, 2023 |
|-------------------|---------------------------------|
| By Program | |
| BEIF | \$ 12,472,492 |
| PDAP | 1,197,131 |
| Border 2025 | 726,390 |
| CAP | 1,191,055 |
| TAP | 1,372,870 |
| Air Quality Fund | 143,765 |
| Other | 42,500 |
| | <u>\$ 17,146,203</u> |
| By Source | |
| Bank-funded | \$ - |
| Third-party: | |
| EPA | 14,438,513 |
| DOS | 2,563,925 |
| Air Quality Fund | 143,765 |
| | <u>\$ 17,146,203</u> |

North American Development Bank
Environment Investment and Capacity Facility

Notes to Financial Statements
December 31, 2023

5. Fund Balance

The following table summarizes the changes in fund balance for the year ended December 31, 2023.

| | CAP | TAP | Undesignated | Total |
|--|---------------------|---------------------|-------------------|----------------------|
| Beginning balance, January 1, 2023 | \$ 5,685,234 | \$ 1,814,766 | \$ - | \$ 7,500,000 |
| Interest income | - | - | 340,795 | 340,795 |
| Transfers-in from Ordinary Capital Resources | 1,654,484 | 3,446,940 | - | 5,101,424 |
| Disbursements | - | - | - | - |
| Ending balance, December 31, 2023 | <u>\$ 7,339,718</u> | <u>\$ 5,261,706</u> | <u>\$ 340,795</u> | <u>\$ 12,942,219</u> |

6. Undisbursed Commitments

Undisbursed commitments are signed grant agreements less disbursements. The following table summarizes the changes in undisbursed commitments by program for the year ended December 31, 2023.

| | CAP | TAP | Total |
|--|-------------------|---------------------|---------------------|
| Undisbursed commitments, January 1, 2023 | \$ 899,883 | \$ 1,024,720 | \$ 1,924,603 |
| Commitments | 917,539 | 1,587,855 | 2,505,394 |
| Disbursements: | | | |
| Bank-funded | - | - | - |
| DOS-funded | (1,191,055) | (1,372,870) | (2,563,925) |
| Undisbursed commitments, December 31, 2023 | <u>\$ 626,367</u> | <u>\$ 1,239,705</u> | <u>\$ 1,866,072</u> |

The following table summarizes the grant funds available for commitment as of December 31, 2023.

| | CAP | TAP | Undesignated Funds | Total |
|--------------------------------|---------------------|---------------------|--------------------|----------------------|
| December 31, 2023 | | | | |
| Total fund balance | \$ 7,339,718 | \$ 5,261,706 | \$ 340,795 | \$ 12,942,219 |
| Undisbursed commitments | (626,367) | (1,239,705) | - | (1,866,072) |
| Approved, pending commitment | - | (622,000) | - | (622,000) |
| Total available for commitment | <u>\$ 6,713,351</u> | <u>\$ 3,400,001</u> | <u>\$ 340,795</u> | <u>\$ 10,454,147</u> |

In addition to the fund balance available for commitment in the above table, \$1,457,280 in undisbursed grant funds from DOS were available as of December 31, 2023, to cover disbursements under those programs.

North American Development Bank
Environment Investment and Capacity Facility

Notes to Financial Statements
December 31, 2023

7. Subsequent Event

The Bank has evaluated subsequent events for potential recognition and/or disclosure through August 21, 2024, the date these financial statements were issued.