

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

Financial Statements
(Unaudited)

December 31, 2022

Environment Investment and Capacity Facility
North American Development Bank
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**Environment Investment and Capacity Facility
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**Balance Sheet
As of December 31, 2022**

Assets

Cash	\$ 8,729,539
Grant and other receivable	130,106
Total Assets	<u>\$ 8,859,645</u>

Liabilities and Fund Balance

Due to Ordinary Capital Resources and other payables	\$ 130,106
Undisbursed grant funds	1,229,539
Total Liabilities	<u>1,359,645</u>
Fund balance	<u>7,500,000</u>
Total liabilities and fund balance	<u>\$ 8,859,645</u>

**Statement of Changes in Fund Balance
For the Period December 28, 2022 to December 31, 2022**

Additions

Transfer from Ordinary Capital Resources (Board approved)	\$ 7,500,000
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Change in fund balance

Fund balance, December 28, 2022	7,500,000
Fund balance, December 31, 2022	-
	<u>\$ 7,500,000</u>

**Statement of Cash Flows
For the Period December 28, 2022 to December 31, 2022**

Cash flows from operating activities

Change in fund balance	\$ 7,500,000
Adjustments to reconcile change in fund balance to net cash provided by operating activities:	
Change in other assets and liabilities:	
Increase in grant and other receivable	(130,106)
Increase in Due to Ordinary Capital Resources and other payable	130,106
Net cash provided by operating activities	<u>7,500,000</u>

Cash flows from financing activities

Transfer-in undisbursed grant funds from OCR	1,229,539
Net cash provided by financing activities	<u>1,229,539</u>
Net increase in cash	8,729,539
Beginning cash, December 28, 2022	-
Ending cash, December 31, 2022	<u>\$ 8,729,539</u>

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

Environment Investment and Capacity Facility
North American Development Bank
Notes to Financial Statements (Unaudited)
December 31, 2022

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 (the International Program) and support domestic programs for community adjustment and investment projects throughout the U.S. and Mexico (the Domestic Programs). 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. The operations of the Bank are subject to certain limitations outlined in the Charter. The geographic jurisdiction of the International Program is within 100 kilometers north of the U.S.-Mexico border and within 300 kilometers south of the border. The Bank is headquartered in San Antonio, Texas, and also has an office in Ciudad Juarez, Chihuahua (Juarez Office).

The Bank provides loan and grant financing and technical assistance for environmental infrastructure projects approved by the Board and administers grant funding provided by other entities.

On December 28, 2022, the Board approved the establishment of an Environment Investment and Capacity Facility (EICF) to hold the Bank's grant funds available for construction and technical assistance purposes, including funds provided by third-party donors. These funds will be accounted for separately from those of the Ordinary Capital Resources of the Bank. With the establishment of the EICF, the lending operations of the Bank will be carried out through the Ordinary Capital Resources while grant financing and technical assistance activities will be carried out through the EICF.

As of December 31, 2022, the EICF received a transfer from the Ordinary Capital Resources of \$8,729,539 cash of which \$7,500,000 comes from the Bank's designated retained earnings and \$1,229,539 were undisbursed grant funds from third parties. The transfer of \$7,500,000 to the EICF is reflected as a transfer from Ordinary Capital Resources in the statement of changes in fund balance. The transfer of \$1,229,539 in undisbursed grant funds is reflected on the balance sheet.

Grant Programs

Grants 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 grant receipts and disbursements are reflected in the statement of cash flows, not the statement of changes in fund balance, as these grants are approved and funded by the respective grantors. Undisbursed third-party grant funds are reflected on the balance sheet.

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1. Organization and Purpose (continued)

Community Assistance Program (CAP)

The CAP was established in 2011 to provide grants to support the implementation of public projects in all sectors eligible for Bank financing. 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 Utility Management Institute (UMI) was established 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.

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 also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

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. For the administrative services provided, the Bank receives an allocation of the EPA grant funds for administrative expenses incurred.

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1. Organization and Purpose (continued)

Air Quality Monitoring Fund

Through this program, the Bank administers third-party grants funds from various sources to support air quality monitoring actions in the air basin formed by the Municipality of Juarez, Chihuahua, El Paso County, Texas, and Dona Ana County, New Mexico. For the administrative services provided, the Bank receives an allocation of these grant funds for administrative expenses incurred.

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.

Income Transfers from Ordinary Capital Resources

With the establishment of the EICF, the Board has approved for the Bank to provide transfers to the EICF through a formula-based calculation of its allocable income. Allocable income is an internal management measure that reflects income available for allocation. The Bank defines allocable income on net income of the Ordinary Capital Resources after certain adjustments that relate primarily to non-cash expenses.

Grant operating expenses and reimbursements

All administrative expenses of the EICF are paid by the Bank. Administrative expenses incurred for third-party grants are subject to reimbursement to the Bank. As such, no administrative expenses are reported for the EICF.

Due to Ordinary Capital Resources

Due to Ordinary Capital Resources represents grant administrative expenses incurred by the Bank and pending reimbursement from the third-party grantors. As of December 31, 2022, the amount due from EICF to Ordinary Capital Resources was \$130,106.

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3. Undisbursed Grant Funds

The following is a summary of the changes in undisbursed grants from third-party grantors from December 28, 2022 (establishment of the EICF) to December 31, 2022.

	Beginning Balance 12/28/2022	Receipts ¹	Disbursements	Ending Balance 12/31/22
EPA	\$ -	\$ 1,009	\$ -	\$ 1,009
DOS	-	1,021,205	-	1,021,205
Other	-	207,325	-	207,325
Total	\$ -	\$ 1,229,539	\$ -	\$ 1,229,539

¹ Amounts transferred from the Ordinary Capital Resources to the EICF following its establishment.