

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

Financial Statements
(Unaudited)

September 30, 2023

North American Development Bank
Environment Investment and Capacity Facility
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North American Development Bank
Environment Investment and Capacity Facility
Balance Sheets (unaudited)
As of September 30, 2023 and December 31, 2022

	September 30, 2023	December 31, 2022
Assets		
Cash and cash equivalents		
Held at other financial institutions	\$ 6,521	\$ -
Repurchase agreements	11,500,000	-
Total cash and cash equivalents	<u>11,506,521</u>	<u>-</u>
Due from Ordinary Capital Resources	2,000,000	8,729,539
Interest receivable	3,386	-
Grants receivable:		
U.S. Environmental Protection Agency (EPA):		
Border Environment Infrastructure Fund (BEIF)	87,863	61,698
Project Development Assistance Program (PDAP)	60,943	48,315
U.S.-Mexico Environmental Border 2025 Program (B2025)	13,173	20,093
Other	78	-
Total grants receivable	<u>162,057</u>	<u>130,106</u>
Total assets	<u>\$ 13,671,964</u>	<u>\$ 8,859,645</u>
Liabilities and Fund Balance		
Due to Ordinary Capital Resources	\$ 639,155	\$ 130,106
Undisbursed grant funds:		
EPA:		
BEIF	-	1,009
U.S. Department of State (DOS)	2,125,832	1,021,205
Air Quality Fund (AQ Fund)	132,768	207,325
Total undisbursed grant funds	<u>2,258,600</u>	<u>1,229,539</u>
Total liabilities	<u>2,897,755</u>	<u>1,359,645</u>
Fund balance	<u>10,774,209</u>	<u>7,500,000</u>
Total liabilities and fund balance	<u>\$ 13,671,964</u>	<u>\$ 8,859,645</u>

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

North American Development Bank
Environment Investment and Capacity Facility
Statements of Changes in Fund Balance (unaudited)
For the Nine Months Ended September 30, 2023 and from December 28, 2022 to December 31, 2022

	Nine Months Ended September 30, 2023	December 28, 2022 to December 31, 2022
Additions		
Transfer from Ordinary Capital Resources	\$ 3,101,424	\$ 7,500,000
Interest income	172,785	-
	<u>3,274,209</u>	<u>7,500,000</u>
Change in fund balance		
Fund balance, beginning balance	3,274,209	7,500,000
	<u>7,500,000</u>	<u>-</u>
Fund balance, ending balance	<u>\$ 10,774,209</u>	<u>\$ 7,500,000</u>

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

North American Development Bank
Environment Investment and Capacity Facility
Statements of Cash Flows (unaudited)
For the Nine Months Ended September 30, 2023 and December 28, 2022 to December 31, 2022

	Nine Months Ended September 30, 2023	December 28, 2022 to December 31, 2022
Cash flows from operating activities		
Change in fund balance	\$ 3,274,209	\$ 7,500,000
Adjustments to reconcile change in fund balance to net cash provided by operating activities:		
Transfer-in from Ordinary Capital Resources	(2,000,000)	(7,500,000)
Change in other assets and liabilities:		
(increase) decrease in interest receivable	(3,386)	-
(Increase) decrease in grants receivable	(31,951)	(130,106)
(Increase) decrease in due from Ordinary Capital Resources	8,729,539	-
Increase (decrease) in due to Ordinary Capital Resources	509,049	130,106
Net cash provided by operating activities	<u>10,477,460</u>	<u>-</u>
Cash flows from financing activities		
Grant funds received from:		
EPA:		
BEIF	8,357,160	-
PDAP	1,404,629	-
Border 2025	680,753	-
Other	43,238	-
DOS	3,000,000	-
AQ Fund	74,363	-
Grant disbursements:		
EPA:		
BEIF	(8,358,169)	-
PDAP	(1,404,629)	-
Border 2025	(680,753)	-
Other	(43,238)	-
DOS	(1,895,373)	-
AQ Fund	(148,920)	-
Net cash provided by financing activities	<u>1,029,061</u>	<u>-</u>
Net increase in cash and cash equivalents	11,506,521	-
Cash and cash equivalents, beginning of period	<u>-</u>	<u>-</u>
Cash and cash equivalents, end of period	<u>\$ 11,506,521</u>	<u>\$ -</u>

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

North American Development Bank
Environment Investment and Capacity Facility
Notes to Financial Statements (Unaudited)
September 30, 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. The operations of the Bank 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 (OCR) or the EICF, which are accounted for separately.

Beginning January 1, 2023, all grant and technical assistance activities are reported under the EICF, while lending operations of the Bank are reported under the OCR.

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.

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

Third-party grants - The Bank receives grants from the U.S. Environmental Protection Agency (EPA), the U.S. Department of State (DOS), the Texas Commission on Environmental Quality (TCEQ), the Paso del Norte Community Foundation, and other sources for project financing and technical assistance activities. Grant receipts and disbursements from third parties are reflected in the statements of cash flows. These grants are funded by the respective grantors and may be separately approved by them.

North American Development Bank
Environment Investment and Capacity Facility
Notes to Financial Statements (Unaudited)
September 30, 2023

1. Organization and Purpose (continued)

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.

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.

North American Development Bank
Environment Investment and Capacity Facility
Notes to Financial Statements (Unaudited)
September 30, 2023

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 September 30, 2023, cash deposits with the financial institution in demand deposit accounts and interest-bearing accounts totaled \$0 and \$6,521, respectively. As of December 31, 2022, cash and cash equivalents totaled \$0.

Repurchase Agreements

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

Grant Recognition

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 grant receipts and disbursements are reflected in the statement of cash flows. Undisbursed third-party grant funds are reflected on the balance sheet. Additional information on undisbursed third-party grant funds is provided in Note 3.

Grant Operating Expenses and Reimbursements

All administrative expenses incurred under the EICF are paid through the OCR and subject to reimbursement to the OCR when incurred for third-party grants. As such, no administrative 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 through transfers of a portion of the OCR's allocable income using a formula-based approach. For the nine months ended September 30, 2023, EICF received a transfer-in from Ordinary Capital Resources of \$3,101,424, which is reflected in the statements of changes in fund balance. Of this amount, \$177,224 were the designated retained earnings for CAP, remaining after the initial transfer in December 2022.

North American Development Bank
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Notes to Financial Statements (Unaudited)
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2. Summary of Significant Accounting Policies (continued)

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.

3. Undisbursed Third-party Grant Funds

The following table summarizes the changes in undisbursed grants from third-party grantors as of September 30, 2023 and December 31, 2022.

	Beginning Balance January 1, 2023	Grant Receipts	Grant Disbursements		Ending Balance September 30, 2023
			Projects ¹	Administrative Reimbursements	
EPA:					
BEIF	\$ 1,009	\$ 8,357,160	\$ 7,497,880	\$ 860,289	\$ -
PDAP	-	1,404,629	770,213	634,416	-
Border 2025	-	680,753	451,703	229,050	-
Other	-	43,238	42,500	738	-
	1,009	10,485,780	8,762,296	1,724,493	-
DOS	1,021,205	3,000,000	1,895,373	-	2,125,832
Air Quality Fund	207,325	74,363	143,765	5,155	132,768
Total	\$ 1,229,539	\$ 13,560,143	\$ 10,801,434	\$ 1,729,648	\$ 2,258,600

	Beginning Balance December 28, 2022 ²	Grant Receipts ³	Grant Disbursements		Ending Balance December 31, 2022
			Projects ¹	Administrative Reimbursements	
EPA:					
BEIF	\$ -	\$ 1,009	\$ -	\$ -	\$ 1,009
PDAP	-	-	-	-	-
Border 2025	-	-	-	-	-
	-	1,009	-	-	1,009
DOS	-	1,021,205	-	-	1,021,205
Air Quality Fund	-	207,325	-	-	207,325
Total	\$ -	\$ 1,229,539	\$ -	\$ -	\$ 1,229,539

¹ Includes funds disbursed for project financing and technical assistance.

² For the period ending December 31, 2022, activity began December 28, 2022, the date the EICF was established.

³ Amounts transferred from OCR to EICF following its establishment.

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4. Disbursements by Program and Source

The following table summarizes disbursements for project implementation and technical assistance by program and source for the nine months ended of September 30, 2023.

	Nine Months Ended September 30, 2023
By Program	
BEIF	\$ 7,497,880
PDAP	770,213
Border 2025	451,703
CAP	1,117,451
TAP	777,922
Air Quality Fund	143,765
Other	42,500
	\$ 10,801,434
 By Source	
Bank-funded	\$ -
Third-party:	
EPA	8,762,296
DOS	1,895,373
Air Quality Fund	143,765
	\$ 10,801,434

After the establishment of the EICF on December 28, 2022, there were no grant disbursements for the remainder of the year.

5. Fund Balance

The following table summarizes the changes in Fund balance for the nine months ended September 30, 2023 and the period from December 28, 2022 (establishment of EICF) to December 31, 2022.

	CAP		TAP		Undesignated		Total
Beginning balance, January 1, 2023	\$ 5,685,234	\$	1,814,766	\$	-	\$	7,500,000
Interest income	-		-		172,785		172,785
Transfers-in from OCR	1,054,484		2,046,940		-		3,101,424
Disbursements	-		-		-		-
Ending balance, September 30, 2023	\$ 6,739,718	\$	3,861,706	\$	172,785	\$	10,774,209
Beginning balance, December 28, 2022	\$ -	\$	-	\$	-	\$	-
Transfers-in from OCR	5,685,234		1,814,766		-		7,500,000
Ending balance, December 31, 2022	\$ 5,685,234	\$	1,814,766	\$	-	\$	7,500,000

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6. Undisbursed Commitments

Undisbursed commitments are signed grant agreements less disbursements. The following table summarizes the changes in undisbursed commitments by program for the nine months ended September 30, 2023 and the period from December 28, 2022 (establishment of EICF) to December 31, 2022.

	CAP	TAP	Total
Undisbursed commitments, January 1, 2023	\$ 899,883	\$ 1,024,720	\$ 1,924,603
Commitments	417,539	698,693	1,116,232
Disbursements:			
Bank-funded	-	-	-
DOS-funded	(1,117,451)	(777,923)	(1,895,374)
Undisbursed commitments, September 30, 2023	<u>\$ 199,971</u>	<u>\$ 945,490</u>	<u>\$ 1,145,461</u>
Undisbursed commitments, December 28, 2022	\$ 899,883	\$ 1,024,720	\$ 1,924,603
Commitments	-	-	-
Disbursements	-	-	-
Undisbursed commitments, December 31, 2022	<u>\$ 899,883</u>	<u>\$ 1,024,720</u>	<u>\$ 1,924,603</u>

The following table summarizes the grant funds available for commitment as of September 30, 2023 and December 31, 2022.

	CAP	TAP	Total
September 30, 2023			
Total fund balance	\$ 6,739,718	\$ 3,861,706	\$ 10,601,424
Undisbursed commitments	(199,971)	(945,490)	(1,145,461)
New approvals	-	(737,000)	(737,000)
Total available for commitment	<u>\$ 6,539,747</u>	<u>\$ 2,179,216</u>	<u>\$ 8,718,963</u>
December 31, 2022			
Total fund balance	\$ 5,685,234	\$ 1,814,766	\$ 7,500,000
Undisbursed commitments	(899,883)	(1,024,720)	(1,924,603)
New approvals	(450,000)	-	(450,000)
Total available for commitment	<u>\$ 4,335,351</u>	<u>\$ 790,046</u>	<u>\$ 5,125,397</u>

In addition to the funds available for commitment in the above table, \$2,125,832 and \$1,021,205 in DOS funds were available as of September 30, 2023 and December 31, 2022, respectively, to cover disbursements under those programs.