

**CENTRAL BOWIE COUNTY
WATER SUPPLY CORPORATION**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

Year ended December 31, 2023

Central Bowie County Water Supply Corporation
ANNUAL FINANCIAL REPORT
For the year ended December 31, 2023

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Principal Officials Directory | 1 |
| FINANCIAL SECTION | |
| Independent Auditor's Report | 2 |
| Exhibit A Statement of Financial Position | 3 |
| Exhibit B Statement of Activities and Changes in Net Position | 4 |
| Exhibit C Statement of Cash Flows | 5 |
| Notes to the Financial Statements | 6-10 |

Central Bowie County Water Supply Corporation
DIRECTORY OF PRINCIPAL OFFICIALS
December 31, 2023

BOARD OF DIRECTORS

OFFICERS

Harrell Hignight, President
James MacKay, Vice President
Tom Coleman, Secretary-Treasurer

MEMBERS

Brian Proctor
Jason Capps
Jerry May
Earnest Shelton, Jr.
Johnny Clack
Gary Fannin

MANAGEMENT

Hal Harris, Manager

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Central Bowie County Water Supply Corporation
New Boston, Texas

Opinion

We have audited the accompanying financial statements of Central Bowie County Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Bowie County Water Supply Corporation as of December 31, 2023, and the changes in its net position 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. 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 Central Bowie County Water Supply Corporation 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.

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 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 Central Bowie County Water Supply Corporation's ability to continue as a going concern within 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 from 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, 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 Corporation'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 Corporation'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.

Arnold, Walker, Arnold & Co., P.C.

ARNOLD, WALKER, ARNOLD & CO., P.C.

March 12, 2024

Central Bowie County Water Supply Corporation
Statement of Financial Position
As of December 31, 2023

| | |
|---|-------------------|
| Assets | |
| Current Assets | |
| Cash and cash equivalents | 1,035,008 |
| Accounts receivable | 81,814 |
| Unbilled accounts receivable | 185,481 |
| Inventory | 115,630 |
| Prepaid insurance | 17,952 |
| Total current assets | <u>1,435,885</u> |
| Restricted Assets | |
| Restricted for memberships-- | |
| Cash and cash equivalents | 300,450 |
| Restricted for debt service-- | |
| Cash and cash equivalents | 216,228 |
| Restricted for capital projects-- | |
| Cash and cash equivalents | 239,000 |
| Restricted for advanced metering system-- | |
| Cash and cash equivalents | 247,336 |
| Total restricted assets | <u>1,003,014</u> |
| Capital Assets | |
| Land | 16,973 |
| Other capital assets, net of accumulated depreciation | 10,834,628 |
| Total capital assets | <u>10,851,601</u> |
| Other Assets | |
| Organization expense | 4,923 |
| Total other assets | <u>4,923</u> |
| Total assets | <u>13,295,423</u> |
| Deferred outflow of resources | <u>-</u> |
| Liabilities | |
| Current liabilities | |
| Accounts payable | 20,639 |
| Accrued expenses | 11,639 |
| Notes payable, current | 232,533 |
| Total current liabilities | <u>264,811</u> |
| Non-current liabilities | |
| Notes payable, non-current | 5,179,292 |
| Total liabilities | <u>5,444,103</u> |
| Deferred inflow of resources | <u>-</u> |
| Net assets | |
| Net investment in capital assets | 5,687,112 |
| Restricted for debt service | 216,628 |
| Restricted for memberships | 300,450 |
| Restricted for capital projects | 239,000 |
| Unrestricted | 1,408,130 |
| Total net assets | <u>7,851,320</u> |

The accompanying notes are an integral part of this financial statement.

Central Bowie County Water Supply Corporation
Statement of Activities
and Changes in Net Position
For the year ended December 31, 2023

| | |
|--|-------------------------|
| OPERATING REVENUES | |
| Water sales | 1,888,223 |
| Fees and charges | 321,923 |
| Total revenues | <u>2,210,146</u> |
| OPERATING EXPENSES | |
| Depreciation | 334,811 |
| Dues and fees | 421,859 |
| Employee benefits | 49,485 |
| Insurance | 32,667 |
| Line installation | 48,200 |
| Miscellaneous | 30,215 |
| Professional fees | 40,735 |
| Repairs and maintenance | 128,375 |
| Salaries | 277,253 |
| Supplies | 202,844 |
| Taxes-payroll | 21,166 |
| Utilities and telephone | 51,060 |
| Water purchases | 380,756 |
| Total operating expenses | <u>2,019,426</u> |
| Net operating income (loss) | <u>190,720</u> |
| NONOPERATING REVENUE (EXPENSES) | |
| Interest income | 58,682 |
| Interest expense | (81,007) |
| Total nonoperating revenues (expenses) | <u>(22,325)</u> |
| Net income (loss) before contributions | 168,395 |
| Capital contributions, memberships | <u>4,830</u> |
| Changes in net assets | 173,225 |
| Net assets, beginning of year | <u>7,678,095</u> |
| Net assets, end of year | <u><u>7,851,320</u></u> |

The accompanying notes are an integral part of this financial statement.

Central Bowie County Water Supply Corporation
Statement of Cash Flows
for the year ended December 31, 2023

| | |
|--|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | 2,197,653 |
| Cash payments to suppliers for goods and services | (1,356,822) |
| Cash payments to employees for services and benefits | (326,738) |
| Net cash provided by operating activities | <u>514,093</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Capital contributions, memberships | <u>4,830</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition of capital assets | (506,762) |
| Principal paid on debt | (135,221) |
| Interest paid on debt | (81,007) |
| Net cash provided by capital and related financing activities | <u>(722,990)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest income | <u>58,682</u> |
| Net cash provided by investing activities | <u>58,682</u> |
| Net increase in cash and cash equivalents | (145,385) |
| Cash and cash equivalents, beginning of year | <u>2,183,407</u> |
| Cash and cash equivalents, end of year | <u><u>2,038,022</u></u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| Operating income (loss) | 190,720 |
| Adjustment to reconcile operating (loss) to net cash provided by operating activities | |
| Depreciation | 334,811 |
| Increase in accounts receivable | (12,501) |
| Decrease in accounts payable and accrued expenses | (6,880) |
| Increase in prepaid expenses | (5,653) |
| Decrease in inventory | 13,596 |
| Net cash provided by operating activities | <u><u>514,093</u></u> |

The accompanying notes are an integral part of this financial statement.

Central Bowie County Water Supply Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

Note 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Central Bowie County Water Supply Corporation was incorporated in 1971 for the purpose of providing water service to its members. A Board of Directors is elected by the membership and directs the activities of the organization. The Board has assigned the administrative duties to a staff headed by corporate officers, who are authorized to enter into contract agreements with other parties on behalf of the organization.

Income Taxes

Central Bowie County Water Supply Corporation operates as a non profit organization and has been classified as exempt for federal income tax purposes by the State of Texas and the Internal Revenue Service under Code Sec. 501(c) 4.

Basis of Accounting

The accounting policies of the Corporation conform to generally accepted accounting principles.

The Corporation maintains one set of records to account for all corporate financial transactions. Interim internal financial reporting is on the cash basis of accounting. These financial statements are presented using the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred under the accrual method.

Property, Plant and Equipment

Prior to 1981, property and equipment are shown in the aggregate only. For purchases in subsequent years, property and equipment are stated at cost, and the related depreciation is charged as an expense against operations. On the Statement of Net Assets, property and equipment is shown net of accumulated depreciation. Generally, the Corporation capitalizes fixed asset purchases with a cost of \$500 or more and a life of more than one year. Current year additions to fixed assets receive one-half year of depreciation in the year of acquisition. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. The estimated useful lives are as follows:

| | |
|-----------------------------------|----------|
| Equipment and automobiles | 5 years |
| Plant and facility | 20 years |
| 1992 Expansion project | 40 years |
| Extensions and lines | 66 years |
| Property acquired before 12-31-81 | 66 years |

Budget

Each year the Corporation's management prepares a budget. The budget is adopted on a basis consistent with generally accepted accounting principles. The budget is amended during the year as needed.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, checking accounts, and the time deposit accounts. All certificates of deposits are classified as cash and cash equivalents

Central Bowie County Water Supply Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

Restricted Assets

The Corporation has short-term investments that are restricted for debt service payments.

Compensated Absences

The Corporation utilizes the accrual method for recording compensated absences. All full-time employees are granted one week of vacation (40 hours) upon the first year of service. After two years of service, employees are granted two weeks of vacation (80 hours). After twelve years of service, employees are granted the maximum accrual of three weeks of vacation (120 hours). A regular work week consists of 40 hours per week. Accrued compensated absences are recorded in accordance with Statement of Financial Accounting Standards No. 43.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumption 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2--CASH AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the Corporation to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the Corporation to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the Corporation to have independent auditors perform test procedures related to investment practices as provided by the Act. The Corporation is in substantial compliance with the requirements of the Act and with local policies.

Additional contractual provisions governing deposits and investments for the Corporation are as follows:

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the Corporation has adopted a deposit and investment policy. That policy does address the following risks:

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Corporation's policy regarding types of deposits allowed and collateral requirements is that the funds of the Corporation must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping in an amount sufficient to protect the Corporation's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Deposits of the Corporation are insured or collateralized with securities held by the pledging financial institution's trust department or agent in the name of the Corporation.

At December 31, 2023, the carrying amount of the Corporation's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,060,030 and the bank balance was \$2,038,022. The Corporation's cash deposits at December 31, 2023 and during the year ended December 31, 2023 were not entirely covered by FDIC insurance or by pledged collateral held by the Corporation's agent bank in the Corporation's name.

In addition, the following is disclosed regarding coverage of combined balances at the depository bank as of December 31, 2023:

- a. Depository: Guaranty Bank & Trust
- b. The market value of securities pledged as of December 31, 2023 was \$0.
- c. The December 31, 2023 balances of cash, savings, and time deposit accounts amounted to \$597,261.

Total amount of FDIC coverage at the time of the highest combined balance was \$500,000.

Central Bowie County Water Supply Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

In addition, the Corporation has deposits with Edward Jones of \$1.193 million as of December 31, 2023. Also, \$247 thousand of lease proceeds remain on deposit at Bank OZK Trust to complete the advanced metering system.

Custodial Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Positions in external investment pools are not subject to custodial credit risk. The Corporation has no investments exposed to custodial credit risk at the end of the period.

Interest- rate Risk – Interest-rate risk occurs when potential purchasers of debt securities do not agree to pay face value for these securities if interest rates rise. The Corporation does not purchase investments where the face value is not guaranteed.

Concentration Risk – Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments in external investment pools are not subject to concentration risk. The Corporation is not exposed to any amounts of concentration risk.

Other Credit Risk Exposure – The Corporation has no investments.

Note 3--WATER BILLING RECEIVABLES

The Corporation has accounts receivable from billed amounts of \$81,814. The Corporation does not record an allowance for uncollectibles. Each member's investment in the Corporation generally covers final bills. Water cut-off rules are very stringently enforced. Unbilled water usage of \$185,481 from December to be collected in January, 2024 is reflected also.

Note 4--PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the fixed assets at December 31, 2023:

| | Balance 1/1/2023 | Additions | Deletions | Balance 12/31/2023 |
|-----------------------------------|---------------------|----------------|-----------|-----------------------|
| Land | 16,973 | - | - | 16,973 |
| New building | 279,306 | - | - | 279,306 |
| Equipment | 163,668 | - | - | 163,668 |
| Extensions and lines | 2,130,917 | - | - | 2,130,917 |
| Office equipment | 206,324 | - | - | 206,324 |
| Automobiles | 214,296 | - | - | 214,296 |
| Plant facility | 1,431,799 | - | - | 1,431,799 |
| 1992 expansion project | 2,393,647 | - | - | 2,393,647 |
| 2013 TWDB Project | 2,081,465 | - | - | 2,081,465 |
| USDA Phase 1 | 1,847,905 | - | - | 1,847,905 |
| USDA Phase 2 | 2,902,430 | - | - | 2,902,430 |
| Advanced metering system | 1,969,904 | 142,975 | - | 2,112,879 |
| Projects in progress | 134,879 | 363,787 | - | 498,666 |
| | <u>15,773,513</u> | <u>506,762</u> | <u>-</u> | <u>16,280,275</u> |
| Totals | | | | 16,280,275 |
| Less: Accumulated depreciation | | | | (5,428,674) |
| Net property, plant and equipment | | | | <u>10,851,601</u> |

Depreciation expense for the year ended December 31, 2023 is \$334,811.

Central Bowie County Water Supply Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

Note 5--CHANGES IN NOTES PAYABLE

The following is a summary of notes payable transactions by the Corporation for the year ended December 31, 2023:

| | Original Amount | Payable Jan. 1 2023 | Additions | Reductions | Payable Dec. 31 2023 |
|--------------------------------------|--------------------|---------------------------|-----------|------------------|----------------------------|
| A) USDA Rural Development Loan #5 | 2,250,000 | 1,746,050 | - | (45,975) | 1,700,075 |
| B) USDA Rural Development Loan #7 | 2,072,487 | 1,418,268 | - | (89,246) | 1,329,022 |
| C) First Security Finance, Inc. | 2,382,728 | 2,382,728 | - | - | 2,382,728 |
| | <u>6,705,215</u> | <u>5,547,046</u> | <u>-</u> | <u>(135,221)</u> | <u>5,411,825</u> |

Details of notes payable as of December 31, 2023, follows:

| | |
|---|------------------|
| A) USDA Rural Development Loan #5-for water lines and storage tank; monthly payments of \$7,425 including 2.5% interest over 40 years. | 1,700,075 |
| B) USDA Rural Development Loan#7-for waterlines and pumpstation, interest at 2.75%, repay over 40 years. | 1,329,022 |
| C0 First Security Finance, Inc.- for advanced metering system install, interest at 3.65%, repay over 17 years | 2,382,728 |
| | <u>5,411,825</u> |

| Years ended 12/31 | Principal | Interest | Total |
|----------------------|------------------|------------------|------------------|
| 2024 | 232,533 | 163,309 | 395,842 |
| 2025 | 242,945 | 156,184 | 399,129 |
| 2026 | 253,750 | 148,611 | 402,361 |
| 2027 | 264,555 | 140,679 | 405,234 |
| 2028 | 275,340 | 132,464 | 407,804 |
| 2029-2033 | 1,540,813 | 525,022 | 2,065,835 |
| 2034-2038 | 1,530,283 | 273,143 | 1,803,426 |
| 2039-2043 | 579,092 | 90,950 | 670,042 |
| 2044-2048 | 408,510 | 36,990 | 445,500 |
| 2049-2053 | 84,004 | 1,112 | 85,116 |
| Total | <u>5,411,825</u> | <u>1,668,464</u> | <u>7,080,289</u> |

The Corporation is in compliance with debt covenant requirements.

Central Bowie County Water Supply Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

Note 6--CASH FLOW INFORMATION

During the year ended December 31, 2023, \$81,007 cash was disbursed for interest.

Note 7--RETIREMENT PLAN

In 2001 the Corporation established a Simplified Employer Pension Plan (SEP)-IRA. The Corporation makes a 3% nonmatching contribution to eligible employees. Eligible employees are defined as full-time employees at least 18 years of age with one year of service. The Corporation elected to retroactively commence the pension contribution from September 1998. In 2023, the Corporation made \$6,520 in non-matching contributions.

Note 8--RISK MANAGEMENT

The corporation is exposed to various risks of loss to torts of theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2023, the corporation purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Note 9--RESTRICTED ASSETS

The Corporation reflects restricted assets for debt service of \$216,228 and for capital projects of \$239,000 and for memberships of \$300,450.

Note 10--OTHER INFORMATION

Number of water customers at December 31, 2023 was 2,988.

For the year ended December 31, 2023, in 1,000's of gallons:

| | | |
|-----------------|---------|-------------|
| Water purchased | 223,047 | |
| Water pumped | 247,050 | (unaudited) |
| Water sold | 14,181 | |
| Flush/leaks | 17,624 | (unaudited) |

Insurance Coverage--

| | |
|------------------------|-----------|
| EMC Insurance | |
| Liability | 3,000,000 |
| Auto | 1,000,000 |
| Directors and officers | 1,000,000 |

| | |
|------------------|-----------|
| EMC Insurance | |
| General property | 4,405,000 |

| | |
|-----------------------|-----------|
| Lloyd's | |
| Worker's compensation | 2,000,000 |

Note 11—SUBSEQUENT EVENT

Management has evaluated subsequent events through March 12, 2023, the date which the financial statements are available to be issued.