



Montemayor Britton Bender PC

CERTIFIED PUBLIC ACCOUNTANTS

AQUA WATER SUPPLY CORPORATION

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2023 AND 2022



Montemayor Britton Bender PC

CERTIFIED PUBLIC ACCOUNTANTS

Arturo Montemayor III CPA, President & CEO | Stacy Britton CPA, Shareholder | Sean Bender CPA, Shareholder
Danielle Guerrero, Shareholder | Sara Carey CPA, Shareholder

Board of Directors
Aqua Water Supply Corporation

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the accompanying financial statements of Aqua Water Supply Corporation (Aqua WSC), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities and cash flows for the years 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 Aqua WSC as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows 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. 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 Aqua WSC 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 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 Aqua WSC'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

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the override of internal control. Misstatements, including omissions, 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 Aqua WSC'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 Aqua WSC'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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2024, on our consideration of Aqua WSC'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 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 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 Aqua WSC's internal control over financial reporting and compliance.

Montemayor Britton Bender PC

March 4, 2024
Austin, Texas

AQUA WATER SUPPLY CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

ASSETS

CURRENT ASSETS	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$24,600,804	\$31,731,402
Accounts receivable, net of allowance for doubtful accounts of \$40,000	4,077,051	3,044,079
Inventory and other	<u>350,504</u>	<u>289,690</u>
Total current assets	29,028,359	35,065,171
RESTRICTED CASH	148,787	145,859
PROPERTY AND EQUIPMENT, net	<u>229,959,591</u>	<u>205,759,250</u>
TOTAL ASSETS	<u>\$259,136,737</u>	<u>\$240,970,280</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$4,437,261	\$2,853,092
Retainage payable	1,334,348	567,142
Accrued expenses	654,419	641,766
Member deposits and other	213,544	193,665
Current maturities of long-term debt	<u>1,444,023</u>	<u>1,942,953</u>
Total current liabilities	8,083,595	6,198,618
LONG-TERM DEBT, net of current portion	8,162,241	9,453,490
CONTRIBUTIONS IN AID OF CONSTRUCTION	12,431,303	4,690,796
CAPACITY RESERVATION OBLIGATION	<u>4,967,499</u>	<u>3,357,608</u>
TOTAL LIABILITIES	<u>33,644,638</u>	<u>23,700,512</u>
NET ASSETS		
Without donor restrictions		
Undesignated	222,982,880	215,601,830
Designated by the Board	<u>1,900,000</u>	<u>1,000,000</u>
Total net assets without donor restrictions	224,882,880	216,601,830
With donor restrictions		
Purpose restrictions- wastewater facilities	<u>609,219</u>	<u>667,938</u>
TOTAL NET ASSETS	<u>225,492,099</u>	<u>217,269,768</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$259,136,737</u>	<u>\$240,970,280</u>

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

AQUA WATER SUPPLY CORPORATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE			
Water sales	\$29,024,672	\$0	\$29,024,672
Tap fees	7,702,580	0	7,702,580
Contribution in aid of construction	3,190,590	0	3,190,590
Capacity reservation fees	274,109	0	274,109
Membership fees	140,900	0	140,900
Other revenue from contracts with customers	1,183,100	0	1,183,100
Other revenue	715,145	0	715,145
Loss on sale of waste water treatment plant	(1,929,466)	0	(1,929,466)
Net assets released from restriction-wastewater facilities	<u>58,719</u>	<u>(58,719)</u>	<u>0</u>
Total revenue	<u>40,360,349</u>	<u>(58,719)</u>	<u>40,301,630</u>
EXPENSES			
Program	25,663,440	0	25,663,440
General and administrative	<u>6,415,859</u>	<u>0</u>	<u>6,415,859</u>
Total expenses	<u>32,079,299</u>	<u>0</u>	<u>32,079,299</u>
CHANGE IN NET ASSETS	8,281,050	(58,719)	8,222,331
BEGINNING NET ASSETS	<u>216,601,830</u>	<u>667,938</u>	<u>217,269,768</u>
ENDING NET ASSETS	<u><u>\$224,882,880</u></u>	<u><u>\$609,219</u></u>	<u><u>\$225,492,099</u></u>

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

AQUA WATER SUPPLY CORPORATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE			
Excess of assets acquired over liabilities assumed in donation of Polonia Water Supply Corporation	\$83,092,827	\$0	\$83,092,827
Water sales	23,839,506	0	23,839,506
Tap fees	10,865,791	0	10,865,791
Contribution in aid of construction	1,264,074	0	1,264,074
Membership fees	243,200	0	243,200
Contributed nonfinancial assets	220,425	0	220,425
Capacity reservation fees	170,664	0	170,664
Other revenue from contracts with customers	1,540,743	0	1,540,743
Other revenue	547,356	0	547,356
Net assets released from restriction-wastewater facilities	<u>58,719</u>	<u>(58,719)</u>	<u>0</u>
Total revenue	<u>121,843,305</u>	<u>(58,719)</u>	<u>121,784,586</u>
EXPENSES			
Program	18,581,117	0	18,581,117
General and administrative	<u>4,645,279</u>	<u>0</u>	<u>4,645,279</u>
Total expenses	<u>23,226,396</u>	<u>0</u>	<u>23,226,396</u>
CHANGE IN NET ASSETS	98,616,909	(58,719)	98,558,190
BEGINNING NET ASSETS	<u>117,984,921</u>	<u>726,657</u>	<u>118,711,578</u>
ENDING NET ASSETS	<u>\$216,601,830</u>	<u>\$667,938</u>	<u>\$217,269,768</u>

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

AQUA WATER SUPPLY CORPORATION
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2023</u>	<u>2022</u>
Change in net assets	\$8,222,331	\$98,558,190
Contributed assets	0	(78,908,495)
Depreciation	10,300,722	5,628,596
Bad debt	41,483	53,162
(Gain)/loss on sale of property and equipment	1,929,466	4,012
Change in accounts receivable	(1,074,455)	(101,038)
Change in inventory and other	(60,814)	(25,627)
Change in accounts payable	1,584,169	1,835,829
Change in retainage payable	767,206	567,142
Change in accrued expenses	12,653	113,653
Change in member deposits and other	19,879	36,100
Change in capacity reservation obligation	<u>1,609,891</u>	<u>2,167,336</u>
Net cash provided by operating activities	<u>23,352,531</u>	<u>29,928,860</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(37,386,030)	(21,504,087)
Proceeds from sale of property and equipment	<u>955,501</u>	<u>14,996</u>
Net cash used in investing activities	<u>(36,430,529)</u>	<u>(21,489,091)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances and contributions for construction	10,922,697	4,233,925
Payments from advances and contributions for construction	(3,182,190)	(1,256,274)
Proceeds from debt	0	644,400
Principal payments on notes payable	<u>(1,790,179)</u>	<u>(2,311,640)</u>
Net cash used in financing activities	<u>5,950,328</u>	<u>1,310,411</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(7,127,670)	9,750,180
BEGINNING CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	<u>31,877,261</u>	<u>22,127,081</u>
ENDING CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	<u>\$24,749,591</u>	<u>\$31,877,261</u>
CASH PAID FOR INTEREST	<u>\$531,072</u>	<u>\$620,863</u>

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

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION

Aqua Water Supply Corporation (Aqua WSC) is a nonprofit cooperative headquartered in Bastrop County, Texas, owned by its customers who are its members, with each member holding one share in the corporation. More than 70,000 people rely on Aqua WSC to provide water for their daily lives. Most are homeowners, farmers, and ranchers who count on Aqua WSC for safe and reliable drinking water.

Aqua WSC's services are primarily funded by water sales, tap fees, contributions in aid of construction and other contract fees.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

Aqua WSC uses the accrual basis method of accounting. Revenues and support are recorded when earned, rather than when received. Expenses are recorded when incurred regardless of when paid.

FINANCIAL STATEMENT PRESENTATION

Net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and construction in progress.

Net Assets With Donor Restrictions

Net assets subject to donor imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

CASH AND CASH EQUIVALENTS

Aqua WSC considers all highly liquid investments with an original maturity of three months or less and certificate of deposits to be cash equivalents.

INVENTORY

Finished goods inventory is valued at the lower of cost or net realizable value determined by the first-in first-out method.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTS RECEIVABLE

Accounts receivable are recorded at the value of the revenue earned and require payments within thirty days. Account balances with charges over thirty days old are considered delinquent and management begins collection efforts at that time. Delinquent invoices do not accrue interest. Aqua WSC continually monitors each customer's credit worthiness individually and recognizes allowances for estimated bad debts for incorrect meter readings and uncollectible accounts. Aqua WSC regularly adjusts any allowance for subsequent collections and final determination that a trade account receivable is no longer collectible.

FUNCTIONAL EXPENSE ALLOCATION

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Aqua WSC allocates all costs between program and general and administrative functions by estimating the percentage of personnel time spent on each area as estimated by management. The estimates are reviewed periodically and the allocations revised, if necessary, to reflect changes in the activities of the organization.

PROPERTY AND EQUIPMENT

Fixed assets over \$5,000 are recorded at cost if purchased and estimated fair value if donated; costs that are specifically attributable to a project included in construction in progress are capitalized regardless of their cost. It is Aqua WSC's policy to imply a time restriction on all gifts of long-lived assets equal to the useful life of the assets. Depreciation is provided using the straight-line method based on the assets' estimated useful lives of 5 to 50 years.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the amount recorded may not be recoverable. An impairment loss is recognized for the amount in which the carrying amount of the asset exceeds the fair value, if the carrying amount of the asset is not recoverable. Management believes there has been no impairment as of December 31, 2023 and 2022.

NET ASSETS DESIGNATED BY THE BOARD

In December 2009, the Board designated \$1,000,000 for future operating needs. During 2023, the board designated \$900,000 for construction in progress.

REVENUES FROM CONTRACTS WITH CUSTOMERS

Aqua WSC derives its revenues primarily from providing water and wastewater services to members. Other revenue from contracts with customers consists of tap fees, capacity reservation fees, membership fees, miscellaneous fees charged to members, and other contracts. Costs incurred to obtain a contract are expensed as incurred when the amortization period is less than a year.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenues received for tap fees are recognized when Aqua WSC satisfies the performance obligation to transfer the meter to the customer, which typically occurs at a point in time when the meter is installed.

Revenues for capacity reservation fees are recognized over time because the customer both receives and consumes the benefit of having the capacity available each day. The revenues are recognized on a straight line basis over the term during which the customer has the capacity available which ranges from 10 to 40 years.

CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction are funds received from developers to offset the acquisition, improvement or construction costs of Aqua WSC's property, facilities, or equipment used to provide utility services to the public. Revenues from contributions in aid of construction are recognized as related expenses are incurred.

TAX STATUS

Aqua WSC is a nonprofit organization exempt from Federal income taxes under IRS Code Section 501(c)(12), except with respect to any unrelated business income. Therefore, no provision has been made for Federal income tax in the accompanying financial statements. Aqua WSC's policy is to record interest and penalties related to income taxes as interest and other expense, respectively. At December 31, 2023 and 2022 no interest and penalties have been or are required to be accrued.

ESTIMATES

The preparation of financial statements in conformity with the U.S. generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

SUBSEQUENT EVENTS

Aqua WSC has evaluated subsequent events as of the date of the Independent Auditor's Report, the date the financial statements were available to be issued.

NOTE 3: RESTRICTED CASH

The note payable to the United States Department of Agriculture (USDA) requires that Aqua WSC reserve cash in designated accounts totaling \$136,752 that cannot be withdrawn unless prior written approval is obtained from the lenders for such things as loan installments, emergency maintenance, extensions to facilities and replacement of short-lived assets. The reserve amounts are reported on the statement of financial position as restricted cash. The notes payable have cross default provisions, which would cause a default on the notes if there were a default on any other obligations. At December 31, 2023 and 2022 the designated accounts had balances of \$148,787 and \$145,859, respectively.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 4: CONCENTRATION

At December 31, 2023 and 2022, Aqua WSC had cash balances in excess of FDIC insurance of \$11,230,602 and \$5,436,102 respectively. Aqua WSC has not experienced any losses due to this credit risk.

NOTE 5: PROPERTY AND EQUIPMENT

	<u>2023</u>	<u>2022</u>
Land	\$6,347,957	\$6,516,286
Construction in progress	65,173,381	34,863,493
Water lines and extensions	154,108,979	148,906,361
Pump station	31,239,325	31,239,325
Well sites and easements	29,160,714	29,053,064
Wastewater facilities	4,486,586	8,360,157
Furniture and equipment	9,762,959	9,003,153
Building and improvements	5,495,810	5,495,810
Transportation equipment	4,861,386	4,345,520
Accumulated depreciation	<u>(80,677,506)</u>	<u>(72,023,919)</u>
	<u>\$229,959,591</u>	<u>\$205,759,250</u>

NOTE 6: DEFINED CONTRIBUTION PLAN

Aqua WSC sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code (IRC) for all eligible employees who are age 21 or older and have completed one year of continuous service. Participating employees may contribute up to the maximum allowed by the IRC. Aqua WSC may make matching contributions, qualified matching contributions and non-elective contributions at the sole discretion of Aqua WSC's management. Total employer contributions to the plan during the year ended December 31, 2023 and 2022 were \$699,515 and \$622,640 respectively.

During 2022, Aqua WSC temporarily waived the one year service requirement for Polonia employees and any employee hired between February 7, 2022 and December 31, 2022.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 7: COMMITMENTS

At December 31, 2023 Aqua WSC had the following commitments for contracts related to water system improvements:

<u>Vendor Name</u>	<u>Total Contract Amount</u>	<u>Remaining commitment at December 31, 2023</u>
TTE, LLC. (multiple projects)	\$17,333,019	\$8,296,234
Blastco Texas, Inc.	1,203,939	636,000
Gaeke Construction Co., Inc.	1,319,088	1,303,117
Herschap Backhoe & Ditching, LLC.	1,730,418	127,919
K & R Flanigan Construction, LLC.	2,782,916	203,651
Nelson Lewis Construction (multiple projects)	8,274,967	747,174
Phoenix Fabricators and Erectors, LLC.	1,859,652	103,594
Russell Drilling Co. Inc. (multiple projects)	2,591,558	1,391,610
Travis Hobbs Construction	<u>3,906,171</u>	<u>1,505,494</u>
	<u>\$41,001,728</u>	<u>\$14,314,793</u>

At December 31, 2022 Aqua WSC had the following commitments for contracts related to water system improvements:

<u>Vendor Name</u>	<u>Total Contract Amount</u>	<u>Remaining commitment at December 31, 2022</u>
TTE, LLC. (Multiple projects)	\$6,569,023	\$4,541,754
Blastco Texas Inc.	1,198,553	1,198,533
Nelson Lewis Construction	5,554,033	2,487,909
Phoenix Fabricators and Erectors, LLC.	1,859,653	578,266
Russell Drilling Co. Inc.	946,189	573,163
Travis Hobbs Construction	<u>4,543,116</u>	<u>515,218</u>
	<u>\$20,670,567</u>	<u>\$9,894,843</u>

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 8: FUNCTIONAL EXPENSE ALLOCATION

Functional expense allocation at December 31, 2023:

	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Depreciation	\$8,240,578	\$2,060,144	\$10,300,722
Personnel	6,968,796	1,742,199	8,710,995
General and administrative	3,527,681	881,920	4,409,601
Repairs and maintenance	1,428,186	357,046	1,785,232
Outside services	1,253,772	313,443	1,567,215
Electric	1,191,288	297,822	1,489,110
Material and supplies	1,145,167	286,292	1,431,459
Developer refund	958,880	239,720	1,198,600
Interest	431,221	107,805	539,026
Other	<u>517,871</u>	<u>129,468</u>	<u>647,339</u>
Total expenses	<u>\$25,663,440</u>	<u>\$6,415,859</u>	<u>\$32,079,299</u>

Functional expense allocation at December 31, 2022:

	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Personnel	\$6,301,208	\$1,575,302	\$7,876,510
Depreciation	4,502,877	1,125,719	5,628,596
General and administrative	3,046,444	761,611	3,808,055
Electric	1,128,764	282,191	1,410,955
Repairs and maintenance	1,012,458	253,115	1,265,573
Material and supplies	930,141	232,535	1,162,676
Interest	503,054	125,763	628,817
Other	<u>1,156,171</u>	<u>289,043</u>	<u>1,445,214</u>
Total expenses	<u>\$18,581,117</u>	<u>\$4,645,279</u>	<u>\$23,226,396</u>

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 9: LONG-TERM DEBT

	<u>2023</u>	<u>2022</u>
\$7 million CoBank Revolving Term Loan with interest due monthly at a weekly quoted CoBank variable rate (4.45% at December 31, 2023 and 2022), matures May 20, 2037	\$3,628,652	\$3,821,302
\$2 million CoBank Revolving Term Loan with interest and principal due monthly at a weekly quoted CoBank variable rate (4.50% at December 31, 2023 and 2022) matures May 20, 2031	915,212	1,022,603
\$4 million CoBank Revolving Term Loan with principal and interest due monthly at 6.45%, matures December 20, 2023	0	290,486
\$9 million CoBank Revolving Term Loan with principal and interest due monthly at 6.98% for \$3,567,753 and 6.82% for \$708,574, matures September 20, 2024	579,269	1,262,595
\$5.5 million CoBank Revolving Term Loan with principal and interest due monthly at 4.72%, matures January 20, 2028	1,984,631	2,377,271
\$2,293,000 Note Payable to USDA, principal and interest paid in monthly installments totaling \$10,778 at 4.75%, matures September 26, 2042, secured by all real property, personal property and assignment of income and contracts	1,540,908	1,590,685
\$54,530 Loan Payable to Texas Water Development Board, principal and interest paid in monthly installments ranging from \$560 to \$580 at a variable interest rate (3.66% and 3.66% at December 31, 2023 and 2022), matures March 15, 2024, secured by Aqua WSC's gross revenues (exclusive of restricted gifts, grants, donations and contributions)	2,130	8,630
\$800,000 CoBank Term Loan with interest and principal due monthly at a weekly quoted CoBank variable rate (3.18% at December 31, 2023 and 2022) matures October 20, 2028	319,511	379,639
\$644,400 Steronko Loan with principal and interest paid in monthly installments totaling \$4,073 at 6.50%, matures September 2027, secured by real property	<u>635,951</u>	<u>643,232</u>
	9,606,264	11,396,443
Less: current maturities of long-term debt	<u>1,444,023</u>	<u>1,942,953</u>
Total long-term debt	<u>\$8,162,241</u>	<u>\$9,453,490</u>

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 9: LONG-TERM DEBT

Future maturities of long-term debt as of December 31, 2023 are as follows:

2024	\$1,444,023
2025	917,758
2026	976,335
2027	1,640,739
2028	539,331
Thereafter	<u>4,088,078</u>
	<u>\$9,606,264</u>

Assets pledged as collateral on loans are all land, construction in progress, and other building and property and equipment, see Note 5.

At December 31, 2023 and 2022, Aqua WSC had a \$500,000 CoBank line of credit, with interest due monthly at the weekly quoted CoBank variable rate, maturing on June 30, 2024. Aqua WSC did not draw on the line of credit during the years ended December 31, 2023 or 2022.

The CoBank revolving term loans (Loans) are under a Master Loan Agreement with CoBank dated November 25, 2002, which was amended and restated on May 5, 2010, May 14, 2013, November 6, 2013, August 23, 2016 and July 19, 2018. The Loans are secured by all real and personal property of Aqua WSC. The Master Loan Agreement has cross default provisions on any other obligations. It also contains a material adverse change provision, which would allow the bank to subjectively deem adverse changes in Aqua WSC to be in default on the Loans. It requires compliance with financial covenants, including a debt service coverage ratio greater than 1.25 and a debt to capitalization ratio less than 0.65.

NOTE 10: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$24,600,804	\$31,731,402
Accounts receivable	<u>4,077,051</u>	<u>3,044,079</u>
	<u>\$28,677,855</u>	<u>\$34,775,481</u>

As part of Aqua WSC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The policy is that monthly revenues are to cover monthly expenses. Monthly revenues and expenditures are deposited in and deducted from Aqua WSC's operating accounts.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 10: LIQUIDITY AND AVAILABILITY

Any excess cash for the year is to be used for general capital purchases in the next year. These funds are invested in CDARS accounts with short term maturities to be available for yearly capital spending. A capital depository account is maintained for these funds to be deposited as well as any new service monies that Aqua WSC receives.

In 2013 Aqua WSC's Board of Directors approved a list of financial institutions for which it may deposit funds. Limits were set at each of the financial institutions, so monies are transferred when needed to stay within the guidelines.

Aqua WSC is required to have a reserve in the amount of \$136,752 on hand per USDA loan requirements. Aqua WSC has designated a certificate of deposit to maintain compliance with the reserve. As of December 31, 2023 and 2022 the account had a balance of \$148,787 and \$145,859 respectively, and was recorded as restricted cash.

Designations of net assets of Aqua WSC are the Board Designated Reserves. Per Board direction in 2009, \$1,000,000 was to be set aside for emergency purposes. The funds are accruing interest, but have not been spent to date.

During 2023, the Board designated \$900,000 for construction in progress.

Aqua WSC borrows for construction in progress projects when needed. As described in Note 9, Aqua WSC has an existing line of credit with CoBank in the amount of \$500,000, which it could draw upon in the event of an unanticipated liquidity need.

Aqua WSC is subject to certain loan covenants related to their revolving term loans as discussed in Note 9.

Aqua WSC has contributed facilities that are restricted for wastewater. The fair value of the facilities, net of depreciation, as of December 31, 2023 and 2022 was \$609,219 and \$667,938 respectively.

NOTE 11: REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table disaggregates Aqua WSC's revenue based on the timing of satisfaction of performance obligations for the year ended December 31:

	<u>2023</u>	<u>2022</u>
Performance obligations satisfied over time	\$30,519,125	\$25,612,137
Performance obligations satisfied at a point in time	<u>7,806,236</u>	<u>11,047,768</u>
	<u>\$38,325,361</u>	<u>\$36,659,905</u>

Revenue recognized at a point of time primarily includes tap fees and miscellaneous water fees. These fees are typically recognized at the date at which control of the service transfers to the customer. Typically, control of the service is deemed to transfer at the date at which the service is provided. Revenue recognized over time consists primarily of water and wastewater service contracts. Revenue is recognized over time as water is provided to customers. Revenue from capacity reservation fees are recognized over the life of the contract.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 11: REVENUE FROM CONTRACTS WITH CUSTOMERS

CONTRACT BALANCES

Contract assets consist of Aqua WSC's right to payment from customers for water and wastewater services that have been provided to the customers. The balances of contract receivables at December 31, 2023 and 2022 were \$3,970,781 and 3,000,559 respectively.

Contract liabilities consist of Aqua WSC's obligation to retain water capacity for customers for which Aqua WSC has received consideration from the customer. Contract liabilities primarily relate to capacity reservation fees that are charged to customers to reserve the right to water for future years and must be recognized as revenues over the expected period of benefit. Balances of contract liabilities at December 31, 2023 and 2022 were \$4,967,499 and \$3,357,608 respectively.

PERFORMANCE OBLIGATIONS

With respect to tap fees and miscellaneous water fees, revenue is recognized at a point in time, when control of the services transfers to the customer in an amount that reflects the consideration Aqua WSC expects to be entitled to in exchange for those services. Typically, control is deemed to transfer at the date at which the service is provided. Payment is typically due upon completion of the services. Transaction prices vary depending on the size of the meter installed. In general, revenue recognized does not have a significant financing component because payments terms are relatively short.

Revenue related to water sales is recognized over time as control of the goods or service is transferred to the customer. Aqua WSC generally has a right to consideration in an amount that corresponds directly with the value to the customer of the entity's performance completed to date and may recognize revenue in the amount to which the entity has a right to invoice and has elected to recognize revenue for its sales of water and wastewater using the invoice practical expedient. The amounts are billed to customers one month in arrears. In general, revenue recognized does not have a significant financing component because payments terms are relatively short.

Revenue related to capacity reservation fees is recognized over time evenly on a straight-line basis, as control transfers to the customer over the life of the agreement, which is 10-40 years depending on the contract. In exchange for advance payment, Aqua WSC guarantees water services will be available for the duration of the agreement. Customers pay in advance at the time each contract is executed. Capacity reservation fees are typically \$600 per Living Unit Equivalent. In general, revenue recognized does not have a significant financing component because the customer pays in advance, and the timing of the transfer is at the discretion of the customer.

Determining a measure of progress requires management to make judgments that affect the timing of revenue recognized. Aqua WSC has determined that the above methods provide a faithful depiction of the transfer of goods or services to the customer.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 12: ACQUISITION OF POLONIA WATER SUPPLY CORPORATION

On December 20, 2022 Aqua WSC acquired 100% of Polonia Water Supply Corporation (Polonia WSC), a nonprofit water supply corporation in Texas. Polonia WSC requested to be acquired by Aqua WSC because they could no longer economically acquire additional water sources. Control was obtained through the dissolution of Polonia WSC and the transfer of all assets and customer accounts to Aqua WSC. No consideration was transferred by Aqua WSC.

The table below summarizes the fair value of the assets acquired and liabilities assumed during the acquisition.

Cash	\$4,423,263
Property and equipment	78,688,070
Customer credits and other liabilities	<u>(18,506)</u>
	<u>\$83,092,827</u>

NOTE 13: FAIR VALUE MEASUREMENTS

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Property and equipment acquired in 2022	<u>\$0</u>	<u>\$78,688,070</u>	<u>\$0</u>

Level 2 Valuations

The fair value of property and equipment acquired are based on quoted market prices in active markets for similar assets adjusted for the condition of the assets.



Montemayor Britton Bender PC

CERTIFIED PUBLIC ACCOUNTANTS

Arturo Montemayor III CPA, President & CEO | Stacy Britton CPA, Shareholder | Sean Bender CPA, Shareholder
Danielle Guerrero, Shareholder | Sara Carey CPA, Shareholder

INDEPENDENT AUDITOR'S 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*

Board of Directors
Aqua Water Supply Corporation

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 Aqua Water Supply Corporation (Aqua WSC), which comprise the statement of financial position as of December 31, 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 4, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Aqua WSC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Aqua WSC's internal control. Accordingly, we do not express an opinion on the effectiveness of Aqua WSC'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 entity'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 may exist that have not been identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Aqua WSC'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 determination of financial statement amounts. 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*.

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 organization'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 Aqua WSC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Montemayor Britton Bender PC

March 4, 2024
Austin, Texas