

LAKE LIVINGSTON WATER SUPPLY CORPORATION

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

December 31, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lake Livingston Water Supply Corporation
Livingston, Texas

Opinion

We have audited the accompanying financial statements of Lake Livingston Water Supply Corporation (a Texas nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, 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 Lake Livingston Water Supply Corporation as of December 31, 2022 and 2021, 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 audits 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 Lake Livingston Water Supply Corporation 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 Lake Livingston 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, 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 Lake Livingston Water Supply 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 Lake Livingston Water Supply 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Water Usage Details and Statistics is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lufkin, Texas
March 23, 2023


CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL STATEMENTS

LAKE LIVINGSTON WATER SUPPLY CORPORATION
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2022 and 2021

| | 2022 | 2021 |
|--|---------------|---------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 1 631 271 | \$ 1 732 884 |
| Accounts Receivable: | | |
| Trade (net of allowance of \$37,966 for 2022 and 2021) | 824 124 | 743 402 |
| Prepaid expenses | 227 505 | 171 237 |
| Inventory | 319 765 | 227 371 |
| TOTAL CURRENT ASSETS | 3 002 665 | 2 874 894 |
| Reserve Funds: | | |
| Cash and cash equivalents | 3 852 977 | 3 574 428 |
| TOTAL RESERVE FUNDS | 3 852 977 | 3 574 428 |
| Property, Plant and Equipment: | | |
| Land | 928 308 | 924 588 |
| Buildings | 1 772 104 | 1 772 104 |
| Water supply and distribution | 36 113 683 | 35 896 341 |
| Transportation equipment | 1 037 298 | 913 574 |
| Office furniture and equipment | 308 331 | 300 410 |
| Construction in progress | 234 826 | 227 354 |
| Capital lease asset | 98 194 | 31 588 |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | 40 492 744 | 40 065 959 |
| Less: Accumulated depreciation | (17 455 016) | (16 673 948) |
| TOTAL NET PROPERTY, PLANT AND EQUIPMENT | 23 037 728 | 23 392 011 |
| Other Assets: | | |
| Investments - CoBank | 196 376 | 215 518 |
| TOTAL OTHER ASSETS | 196 376 | 215 518 |
| TOTAL ASSETS | \$ 30 089 746 | \$ 30 056 851 |

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

LAKE LIVINGSTON WATER SUPPLY CORPORATION
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2022 and 2021

| | 2022 | 2021 |
|--|---------------|---------------|
| Operating Income: | | |
| Water revenues | \$ 6 242 517 | \$ 5 957 249 |
| Tap fees | 161 625 | 140 225 |
| Late charges, and return check charges | 92 346 | 68 552 |
| Disconnect fees | 48 750 | 39 000 |
| Other operating income | 113 862 | 98 972 |
| TOTAL OPERATING INCOME | 6 659 100 | 6 303 998 |
| Operating Expenses: | | |
| Annual meeting | 832 | 1 228 |
| Bad debts | 39 730 | 49 521 |
| Bank fees | 1 706 | 860 |
| Board of Directors expenses and fees | 37 768 | 35 220 |
| Chemical usage | 171 083 | 97 799 |
| Other employee benefits | 2 267 | 949 |
| Communications and telephone | 41 836 | 43 615 |
| Commitment fees | 1 014 | 1 014 |
| Computer operations | 58 629 | 61 288 |
| Customer relations | 13 481 | 16 156 |
| Depreciation and amortization | 890 927 | 877 892 |
| Dues and subscriptions | 2 915 | 8 577 |
| Education | 11 057 | 7 058 |
| Flower fund | 318 | 633 |
| Insurance | 480 162 | 439 833 |
| Inventory adjustments | 6 056 | 42 497 |
| Laboratory testing | 91 204 | 81 723 |
| Legal and professional services | 137 154 | 119 193 |
| Meals and travel | 2 651 | 1 730 |
| Office supplies | 29 032 | 23 696 |
| Operational fees | 30 354 | 30 040 |
| Other | 28 817 | 28 372 |
| Payroll taxes | 142 676 | 133 468 |
| Penalties and fines | 24 625 | 311 |
| Pension - 401(k) | 13 811 | 16 186 |
| Postage | 27 232 | 25 418 |
| Repairs and maintenance | 683 736 | 553 507 |
| Salaries and wages | 2 018 398 | 1 868 294 |
| Uniform services | 8 193 | 5 742 |
| Utilities | 233 750 | 222 476 |
| Vehicle | 180 483 | 162 680 |
| Water purchases and standby fees | 82 254 | 82 244 |
| Water production fees | 11 731 | 39 212 |
| TOTAL OPERATING EXPENSES | 5 505 882 | 5 078 432 |
| OPERATING INCOME | 1 153 218 | 1 225 566 |
| Other Income (Expenses): | | |
| Dividend income | 31 712 | 20 606 |
| Grant proceeds | - | 10 000 |
| Interest income | 7 479 | 7 073 |
| Interest expense | (214 716) | (197 778) |
| Gain (loss) on disposition of assets | 29 100 | - |
| Other income | 21 052 | 89 491 |
| TOTAL OTHER INCOME (EXPENSES) | (125 373) | (70 608) |
| CHANGE IN NET ASSETS | 1 027 845 | 1 154 958 |
| Net assets, beginning of year | 12 958 070 | 11 805 318 |
| Prior period adjustment | - | (2 206) |
| Net assets, beginning of year restated | - | 11 803 112 |
| NET ASSETS, END OF YEAR | \$ 13 985 915 | \$ 12 958 070 |

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

LAKE LIVINGSTON WATER SUPPLY CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021

| | 2022 | 2021 |
|--|--------------|--------------|
| Cash Flows from Operating Activities: | | |
| Cash received from members | \$ 6 578 378 | \$ 6 318 247 |
| Cash paid for payroll and related taxes | (2 150 835) | (2 023 182) |
| Cash paid to suppliers for operating expenses | (2 606 204) | (2 163 504) |
| Interest, dividends and grants received | 60 243 | 127 170 |
| Interest paid | (174 485) | (153 855) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 1 707 097 | 2 104 876 |
| Cash Flows from Investing Activities: | | |
| Cash payments for the purchases of fixed assets | (536 644) | (569 024) |
| Cash proceeds from the disposition of property | 29 100 | - |
| Proceeds from retirements of investments | 30 352 | 32 960 |
| Stock dividends | (11 210) | (12 585) |
| NET CASH (USED) BY INVESTING ACTIVITIES | (488 402) | (548 649) |
| Cash Flows from Financing Activities: | | |
| Proceeds from issuance of debt | 66 606 | - |
| Principal payments on long-term debt | (1 151 815) | (1 134 218) |
| Increase in membership fees | 13 600 | 17 600 |
| Increase (decrease) in customer deposits | 29 850 | 18 875 |
| NET CASH (USED) BY FINANCING ACTIVITIES | (1 041 759) | (1 082 903) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 176 936 | 473 324 |
| Cash and cash equivalents, beginning of year | 5 307 312 | 4 833 988 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 5 484 248 | \$ 5 307 312 |
| Reconciliation of Change in net assets to Net Cash Provided by Operating Activities: | | |
| Change in net assets | \$ 1 027 845 | \$ 1 154 958 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Amortization - Debt issue costs | 43 556 | 43 555 |
| Depreciation | 890 927 | 880 098 |
| (Gain) loss on disposition of assets | (29 100) | 13 460 |
| (Increase) decrease in accounts receivable and unbilled revenue | (80 722) | 14 249 |
| (Increase) decrease in prepaid expenses | (56 268) | (37 914) |
| (Increase) decrease in inventory | (92 394) | 13 813 |
| Increase (decrease) in accounts payable | (17 472) | 27 523 |
| Increase (decrease) in accrued liabilities | 20 725 | (4 866) |
| TOTAL ADJUSTMENTS | 679 252 | 949 918 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 1 707 097 | \$ 2 104 876 |

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

LAKE LIVINGSTON WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Lake Livingston Water Supply Corporation (the "Corporation") is a member-owned non-profit corporation incorporated pursuant to the provisions of Texas Water Code Chapter 67, for the purpose of furnishing a potable water. The Corporation provides water to 7,388 members in Polk, Hardin, Liberty, San Jacinto, Trinity, and Walker County areas. The Corporation has 73 water plants serving 113 subdivisions. The Corporation's water quality is regulated by the Texas Commission on Environmental Quality ("TCEQ").

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles, in all material respects.

Cash and Cash Equivalents

Cash and cash equivalents represent all cash on hand and in banks and all short-term, highly liquid investments that are readily convertible to known amounts of cash within three months or less.

Accounts Receivable

Accounts receivable are carried at cost. The Corporation uses the allowance method to account for uncollectible accounts. Receivables from employees and others not incurred while providing water service is reported as other receivables on the balance sheet (none as of December 31, 2022 and 2021). There was approximately \$36,000 of receivables 90 days or more past due at December 31, 2022 and 2021, shown in the allowance account. Accounts deemed uncollectible are offset with the respective customer deposit and any amount remaining is charged off as a bad debt.

Inventory

Inventory is comprised of spare meters and supplies used in maintenance and operations and is carried at cost, which is the lower of cost or net realizable value on a first in first out basis. As inventory is used, it is expensed to operations.

Property and Equipment

Property, plant, and equipment are recorded at cost. Major renewals and betterments including the original cost of construction or installation, the cost of contracted services, direct labor and materials, and appropriate overhead items are charged to the property accounts while replacements, maintenance and repairs which do not extend the life of the respective assets are expensed currently.

Property, plant, and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

Construction in progress is accumulated in an asset account, "construction in progress," until such time as the additions to plant and equipment are complete and placed in service. Upon placing the asset in service it is transferred to the appropriate fixed asset account and depreciated. The corporation capitalizes interest amounts incurred due to long-term construction to the assets being constructed. These costs are included in construction in progress until the asset is placed in service.

Depreciation

For financial reporting purposes, provisions for depreciation of utility plant are determined using the straight-line method at rates applied to individual classes of property in accordance with depreciable lives established by the TCEQ. Depreciation of non-utility property and equipment is recorded using various straight-line methods. Depreciation lives are as follows:

| | |
|--------------------------------------|--------------|
| Water supply and distribution system | 5 - 20 years |
| Buildings | 30 years |
| Office furniture and equipment | 5 - 7 years |
| Transportation | 5 years |

Investments

Investment in CoBank is accounted for using the original cost. This method results in carrying amount that approximates the fair value due to the investment in CoBank being a condition of the note payable.

Use of Estimates

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

LAKE LIVINGSTON WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

The Corporation qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code of 1986 and no provision for federal income tax has been made in the accompanying financial statements. Financial Accounting Standards Board Codification Section 740 requires recognition, measurement and disclosure of uncertain tax positions. The Corporation currently accounts for uncertain tax positions based on the estimated likelihood of assessment and has not determined that any tax positions require an accrual based on current standards of accounting. The Corporation is generally no longer subject to Federal tax examination for years before 2019.

Comprehensive Income

The Corporation has no items of comprehensive income other than income from normal operations; therefore, comprehensive income is equal to net income and no statement of comprehensive income is presented.

Revenue Recognition

The Corporation follows the guidance in ASC 606 revenues from contracts with customers. The Corporation's policies with respect to its various revenue streams are detailed below. In general, the Corporation applies the invoicing practical expedient to recognize revenue for the revenue streams detailed below, except in circumstances where the invoiced amount does not represent the value transferred to the customer.

Gross revenues for water sales to retail customers, who are members of the Corporation, are recognized as the Corporation transfers the promised water to the customer. The Corporation's performance obligation with the customer is satisfied over time.

Variable components of transaction price, such as late fees, are not recognized until uncertainty around the Corporation's right to charge them are resolved. Because the Corporation bills its customers monthly as water is consumed and because pricing is reflective of market conditions and value delivered to the customer, management has elected to apply the invoicing practical expedient to recognize revenue.

The Corporation accrues for revenues to the extent deliveries have occurred but for which a bill has not been issued. The amount of estimated revenue accrued would represent the revenue associated with the water consumed by the members in the current month, but not billed until the following month.

Accounts receivable represents sales of water and other charges made to members. They are recorded at the amount billed less an allowance for uncollectible accounts. An allowance is provided for accounts which management estimates there is doubt as to their collections (allowance for bad debts). This estimate is based on knowledge of particular customers as well as historical losses on accounts. The Corporation does not assess interest on past due accounts receivable. Approximately \$35,217 and \$36,420 of accounts receivable were past due more than 60 days at December 31, 2022 and 2021, respectively.

NOTE B - LONG-TERM DEBT

At December 31, 2022 and 2021, the Corporation was liable for the following long-term debt:

| | <u>2022</u> | <u>2021</u> |
|--|----------------------|----------------------|
| Advances on CoBank revolving line of credit. | \$ 600 000 | \$ 600 000 |
| Single advance term loan of \$1,642,826 from CoBank to refinance the United States Department of Agriculture Rural Utilities Service (USDA) loan for capital improvements, due April 20, 2026; principal and interest payable monthly, variable interest; secured by all real and personal property of the Corporation. | 497 430 | 639 727 |
| Multiple advance water system revenue bonds, taxable series 2007, issued through and payable to the Texas Water Development Board; maturing annually through December 1, 2039 with first maturity due in December, 2010; callable at 100 on December 1, 2017; interest at 0%; secured by first lien and pledge of gross revenues of water and sewer system and all real and personal property of the Corporation; \$17,500,000 total approved issue; \$710,086 available for issue at December 31, 2018. | 11 935 000 | 12 790 000 |
| Single advance water system revenue bonds taxable series 2013, \$3,130,000 issued through and payable to the Texas Water Development Board; maturing annually through December 1, 2034 with first maturity due in December 2015; callable at 100 on December 1, 2023; interest at 0.95-4.73%; secured by first lien and pledge of gross revenues of water and sewer system and all real and personal property of the Corporation. | 2 295 000 | 2 440 000 |
| Capital lease Pitney Bowes postage meter | 63 552 | - |
| Capital lease Texas Document Solutions copier | 8 376 | 14 840 |
| TOTAL NOTES PAYABLE | <u>15 399 358</u> | <u>16 484 567</u> |
| Less current maturities | (1 761 929) | (1 740 601) |
| Less debt issue costs | (580 326) | (623 882) |
| | <u>\$ 13 057 163</u> | <u>\$ 14 120 084</u> |

The Corporation has a \$1,000,000 revolving line of credit with CoBank to finance the operating needs of the Corporation. The line of credit is a supplement to the master loan agreement dated April 1, 1997, bears interest at a variable rate and matures March 1, 2023 and was extended for an additional year before the date of the audit report. The Corporation had a balance of \$600,000 drawn on the line as of December 31, 2022.

LAKE LIVINGSTON WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE B - LONG-TERM DEBT - CONTINUED

The CoBank notes contain various covenants including but not limited to the maintenance of certain debt service and operating ratios, future incurrence of debt or long-term leases, the maintenance of a debt cash reserve, and changes in the corporate structure. In the event the Corporation fails to comply with these covenants and other restrictions, it could be in default under the agreements, and substantially all of its debt maturities could be accelerated. In addition, if the Corporation prepays all or any portion of the notes, prepayment penalties will be assessed by CoBank.

The covenant with CoBank relating to the reserve cash account requires the Corporation to establish and maintain a reserve balance of \$150,000. CoBank has a security interest in these accounts and, in the event of default, the right to claim these funds. As of December 31, 2022 the balance in the reserve account was \$175,572 and is included in reserve funds on the accompanying statement of financial position.

The loan agreement with CoBank requires the Corporation to purchase non-voting participation certificates in CoBank. Equity is earned through patronage dividends and can be redeemed by CoBank after the loan is paid in full. These dividends are accrued annually using an estimate provided by CoBank; estimated dividends for 2022 and 2021 were approximately \$3,422 and \$4,195, respectively. The Corporation held \$196,376 and \$215,518 of patronage certificates at December 31, 2022 and 2021, respectively. These are included in investments on the accompanying statements of net position.

The 2007 water system revenue bond order with the Texas Water Development Board requires the maintenance of a reserve fund in an amount at least equal to the average annual debt service requirements of the bonds and any additional bonds issued. The reserve is to be funded over a 60-month period with monthly deposits of \$9,722 beginning October 25, 2007. At December 31, 2022, the Corporation had deposited the required reserve to-date of \$730,487, shown as reserve funds on the accompanying balance sheet. The bond order also requires that all funds and reserve funds established pursuant thereto will be secured by a pledge by a financial institution of general obligations of the United States or obligations unconditionally guaranteed by the United States or be invested as provided in the Public Funds Investment Act Chapter 2256, Texas Government Code (PFIA). As of December 31, 2022, the reserve funds were invested in interest-bearing transaction and certificate of deposit accounts in financial institutions the accounts are 100% insured by the Federal Deposit Insurance Corporation and as such are authorized investments under the PFIA.

Debt issue costs of \$922,263 were incurred in connection with the series 2007 bond issue. The majority (99.9%) of these costs were funded with the initial issue of \$1,055,000. They are being amortized to interest expense over a 30-year period using the straight-line method, the results of which, will not differ materially from the effective interest or constant yield method. During 2022 and 2021, approximately \$31,350 and \$31,350 was amortized to interest expense.

Debt issue costs of \$244,104 were incurred in connection with the series 2013 bond issue. The majority (99.9%) of these costs were funded with the initial issue of \$3,130,000. Debit issues costs are being amortized to interest expense over a 21-year period using the straight-line method, the results of which, will not differ materially from the effective interest or constant yield method. Approximately \$12,205 and \$12,205 was amortized to interest expense during December 31, 2022 and 2021, respectively.

The 2013 water system revenue bond order with the Texas Water Development Board requires the maintenance of escrow accounts regarding the obligations of the 2013 series bonds and loan forgiveness grant. The escrow accounts are to be maintained at a bank on behalf of the Corporation and TWDB and shall not be commingled with any other accounts or with any other proceeds or funds. The escrowed funds are held for the purpose of replacing existing water meters and amounts shall be disbursed in accordance with the bond order and solely upon written authorization from the TWDB. The funds in escrow are to be held in an authorized institution and invested in accordance with the Public Funds Investment Act, Texas Government Code, Chapter 2256 and Public Funds Collateral Act, Texas Government Code, Chapter 2257(PFIA). Accordingly, at December 31, 2022, the escrowed funds were invested in short term cash management funds which are invested in U.S. Government obligations, which qualify as permissible investments under the PFIA. The escrowed funds amounted to \$1,603,885 and \$1,592,055 at December 31, 2022 and 2021, respectively, and is included in reserve funds on the accompanying statements of net position.

Approximate maturities of long-term debt principal at December 31, 2022 for the next five years are as follows:

| | NOTES | REVENUE BONDS | LINE OF CREDIT | CAPITAL LEASES | TOTAL |
|----------------------|------------|---------------|----------------|----------------|---------------|
| Fiscal Years Ending: | | | | | |
| December 31, 2023 | \$ 137 762 | \$ 1 005 000 | \$ 600 000 | \$ 19 167 | \$ 1 761 929 |
| December 31, 2024 | 141 486 | 1 010 000 | - | 14 652 | 1 166 138 |
| December 31, 2025 | 145 310 | 1 015 000 | - | 13 424 | 1 173 734 |
| December 31, 2026 | 72 872 | 1 025 000 | - | 13 915 | 1 111 787 |
| December 31, 2027 | - | 1 030 000 | - | 10 770 | 1 040 770 |
| Thereafter | - | 9 145 000 | - | - | 9 145 000 |
| TOTALS | \$ 497 430 | \$ 14 230 000 | \$ 600 000 | \$ 71 928 | \$ 15 399 358 |

LAKE LIVINGSTON WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE C - EMPLOYEE BENEFIT PLANS

During 1998, the Corporation established a 401(k) retirement plan for the benefit of substantially all of its employees. Under the plan and trust document, the employee may elect to reduce their salary by contributions to the plan. In 2007, the plan was amended to require employer matching contributions. Employer contributions are 35% of the first 6% of the respective employees' salary reduction. The Corporation may elect to make a discretionary contribution to the plan. For the years ended December 31, 2022 and 2021, the Corporation contributed \$13,811 and \$16,186 to the plan, respectively.

For the year ended December 31, 2022 and 2021, the Corporation paid approximately \$359,000 and \$325,000, respectively, in health insurance premiums for the employees. This amount is included in insurance expense on the accompanying income statement.

NOTE D - CONCENTRATIONS

Substantially all of the Corporations revenue is derived from water sales to its members in Polk County, Texas and surrounding counties. The economic conditions in these areas have a large effect on the results of operations of the Corporation.

NOTE E - MEMBERSHIP CERTIFICATES

A summary of changes in membership certificates follows:

| | 2022 | 2021 |
|-----------------------------|------------|------------|
| Balance - Beginning of year | \$ 701 400 | \$ 683 800 |
| Net additions | 13 600 | 17 600 |
| BALANCE - END OF YEAR | \$ 715 000 | \$ 701 400 |

NOTE F - COMMITMENTS AND CONTINGENCIES

Raw Water Supply Contract

In August, 2007, the Corporation entered into a "Raw Water Supply Contract" with the Trinity River Authority of Texas (the Authority). The purpose of the contract is to provide an additional source of water supply for the Corporation. The basic terms of the contract provide the Corporation with the right to purchase raw water from Livingston Reservoir at the Authority's rates in effect over the following periods and in the following amounts:

| FISCAL YEARS | AVERAGE DAILY AMOUNTS | TOTAL ANNUAL AMOUNTS IN ACRE-FEET (AF) |
|-----------------|-----------------------------|--|
| 2021 - 2025 | 0.797 MGD | 893 AF/Year |
| 2026 - 2030 | 0.815 MGD | 913 AF/Year |
| 2031 - 2035 | 0.833 MGD | 933 AF/Year |
| 2036 - 2040 | 0.852 MGD | 954 AF/Year |

The acronym "MGD" means millions of gallons per day and the acronym "AF" means acre-feet.

The Corporation did not purchase any raw water in 2022 or 2021.

The contract also provides for the Corporation to pay annual standby fees to the Authority that are calculated pursuant to formulas based upon the amount of water that the Authority is obligated to sell to the Corporation on each annual basis. Standby fees are assessed whether or not the Corporation purchases any water. For the year ended December 31, 2022 and 2021, the Corporation incurred approximately \$82,000 and \$82,000 in standby fees, respectively.

The contract expires on December 1, 2040.

NOTE G - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 23, 2023, the date the financial statements were available to be issued.

NOTE H - PRIOR PERIOD ADJUSTMENT

Implementation of FASB ASC 842 resulted in a prior period adjustment of \$2,206 to record related assets and liabilities in the government wide statements for year ended December 31, 2021.

LAKE LIVINGSTON WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE I – RESTATEMENT OF PRIOR YEAR FINANCIALS

Implementation of FASB ASC 842 resulted in a restatement of prior year related assets and liabilities in the government wide statements.

SUPPLEMENTARY INFORMATION

LAKE LIVINGSTON WATER SUPPLY CORPORATION
SCHEDULE OF WATER USAGE DETAILS AND STATISTICS
December 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|--|--------------------|--------------------|
| Total Gallons of Water Pumped | <u>489 478 000</u> | <u>525 784 000</u> |
| Total Gallons of Water Sold | <u>287 433 000</u> | <u>254 503 000</u> |
| Total Gallons of Water Used for Flushing Lines | <u>35 323 494</u> | <u>18 761 824</u> |
| Total Number of Active Connections | <u>7 502</u> | <u>7 388</u> |
| Average Consumption per Connection | <u>38 316</u> | <u>34 449</u> |
| Water Loss Due to Flushing Lines | <u>7.2%</u> | <u>3.6%</u> |
| Total Water Loss Percentage | <u>41.3%</u> | <u>51.6%</u> |

See independent auditors' report.