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RIVER ACRES WATER SUPPLY CORPORATION
ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED DECEMBER 31, 2019



Lovvorn & Kieschnick
CERTIFIED PUBLIC ACCOUNTANTS

LOVVORN & KIESCHNICK, LLP

RIVER ACRES WATER SUPPLY CORPORATION

DIRECTORY OF OFFICIALS

DECEMBER 31, 2019

BOARD OF DIRECTORS

DARRELL DUSEK	PRESIDENT
KYLE CLARK	VICE PRESIDENT
KATHY VINSON	SECRETARY / TREASURER
MIKE OLSZEWSKI	DIRECTOR
RONALD HELLBERG	DIRECTOR
CANDY CRISMAN	DIRECTOR
CHUCK TENPENNEY	DIRECTOR

OTHER OFFICIALS

DEBRA RICHTER	OFFICE MANAGER
JOHN HERRERA	SYSTEM MANAGER
ALEX MCCLOSKEY	FIELD MANAGER

**RIVER ACRES WATER SUPPLY CORPORATION
ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED DECEMBER 31, 2019**

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Lovvorn & Kieschnick, LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees of
River Acres Water Supply Corporation
Robstown, Texas

Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of River Acres Water Supply Corporation (a nonprofit organization) which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of River Acres Water Supply Corporation as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited River Acres Water Supply Corporation's 2018 financial statements, and our report dated September 23, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Lovvorn & Kieschnick, LLP

Lovvorn & Kieschnick, LLP
Corpus Christi, Texas
November 11, 2020

RIVER ACRES WATER SUPPLY CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR 2018

	<u>2019</u>	<u>2018 *</u>
ASSETS		
Cash and Cash Equivalents	810,664	1,058,253
Investments (Note 12)	634,942	624,799
Accounts Receivable, net of allowance for doubtful accounts (Note 4)	86,637	91,234
Inventory	30,779	8,673
Prepaid Expense	2,225	-
Total Current Assets	<u>1,565,247</u>	<u>1,782,961</u>
Restricted Assets:		
Cash and Cash Equivalents	366,130	312,604
Investments (Note 12)	3,343,383	3,289,973
Total Restricted Assets (Note 8)	<u>3,709,513</u>	<u>3,602,578</u>
Property and Equipment, Net (Note 3)	<u>1,005,913</u>	<u>916,897</u>
Total Assets	<u><u>6,280,672</u></u>	<u><u>6,302,434</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	16,560	-
Accrued Expenses	13,555	49,547
Current Portion of Notes Payable (Note 5)	75,000	100,000
Total Current Liabilities	<u>105,115</u>	<u>149,547</u>
Long-Term Portion of Notes Payable (Note 5)	<u>3,445,000</u>	<u>3,520,000</u>
Total Liabilities	<u>3,550,115</u>	<u>3,669,547</u>
Net Assets		
Net Assets with donor restrictions	166,265	114,280
Net Assets without donor restrictions	2,564,292	2,518,608
Total Net Assets	<u>2,730,557</u>	<u>2,632,888</u>
Total Liabilities and Net Assets	<u><u>6,280,672</u></u>	<u><u>6,302,434</u></u>

* Restated

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

RIVER ACRES WATER SUPPLY CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR 2018

	2019			2018 *
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUES:				
Water Sales and Related Revenues	1,029,185	-	1,029,185	909,550
Assessment Fees - Capital Maintenance	-	51,985	51,985	56,397
Grant Revenues	-	-	-	623,400
Membership Contributions (Refunds)	-	-	-	-
Investment Income	65,093	-	65,093	1,764
Net Assets Released from Restrictions	-	-	-	-
Total Revenue	<u>1,094,278</u>	<u>51,985</u>	<u>1,146,263</u>	<u>1,591,111</u>
EXPENSES:				
Operating Expenses (See page 5)	986,938	-	986,938	851,631
Depreciation and Amortization	61,656	-	61,656	55,443
Total Expenses	<u>1,048,594</u>	<u>-</u>	<u>1,048,594</u>	<u>907,074</u>
Increase (Decrease) in Net Assets	45,684	51,985	97,669	684,037
Net Assets, beginning of year (restated)	<u>2,518,608</u>	<u>114,280</u>	<u>2,632,888</u>	<u>1,948,851</u>
Net Assets, end of year	<u><u>2,564,292</u></u>	<u><u>166,265</u></u>	<u><u>2,730,557</u></u>	<u><u>2,632,888</u></u>

* Restated

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

RIVER ACRES WATER SUPPLY CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR 2018

	2019 <u>Totals</u>	2018 * <u>Totals</u>
OPERATING EXPENSES:		
Water Purchases	272,988	235,424
Professional Fees	73,191	34,973
Repairs and Maintenance	62,482	109,977
Electricity, Plants and Pumps	14,568	14,935
Occupancy	19,572	22,060
Office	33,007	31,400
Administrative Costs	4,092	12,556
Insurance	24,158	26,534
Salaries and Contract Labor	327,415	216,452
Payroll Taxes	11,269	12,945
Vehicle and Fuel Expense	20,663	19,839
Travel and Meals	2,917	4,238
Interest	120,618	34,106
Loan Origination Fees	<u>-</u>	<u>76,192</u>
Total	<u><u>986,938</u></u>	<u><u>851,631</u></u>

* Restated

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

RIVER ACRES WATER SUPPLY CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR 2018

	2019	2018 *
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	1,141,665	965,239
Cash received from grants	-	623,400
Cash payments to suppliers for goods and services	(682,821)	(508,367)
Cash payments to employees for services	(338,684)	(229,397)
Net cash provided by operating activities	<u>120,160</u>	<u>850,875</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan	-	3,620,000
Loan origination fees	-	(76,192)
Loan repayment	(100,000)	-
Member contributions/refunds	-	-
Net cash provided (used) by financing activities	<u>(100,000)</u>	<u>3,543,808</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(150,673)	(123,467)
Purchase of Fidelity Treasury funds	-	(3,914,774)
Reinvestment of Dividends	(63,551)	-
Net cash used by financing activities	<u>(214,224)</u>	<u>(4,038,241)</u>
Net increase (decrease) in cash and cash equivalents	(194,063)	356,442
CASH AND CASH EQUIVALENTS and RESTRICTED CASH AND CASH EQUIVALENTS		
Beginning of year	1,370,857	1,014,415
End of year	<u><u>1,176,794</u></u>	<u><u>1,370,857</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	97,669	684,037
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	61,656	55,443
Loan Origination Fees	-	76,192
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivables	4,597	2,473
(Increase) Decrease in Other Receivables	-	-
(Increase) Decrease in Inventories	(22,106)	-
(Increase) Decrease in Prepaid Expense	(2,225)	-
Increase (Decrease) in Accounts Payable	16,560	-
Increase (Decrease) in Accrued Expenses	(35,991)	32,729
Net Cash Provided (Used) by Operating Activities	<u><u>120,160</u></u>	<u><u>850,875</u></u>

* Restated

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

RIVER ACRES WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR 2018

NOTE 1 – PROGRAM ORGANIZATION AND ACTIVITIES

Organization

River Acres Water Supply Corporation is a non-profit corporation organized to provide fresh water for individual and commercial enterprises residing in the rural community of Nueces County known as “River Acres.” The Organization owns and operates water distribution facilities for the benefit of its members..

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred.

Basis of Presentation

River Acres Water Supply Corporation reports information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions: This portion of the net assets represents the expendable resources that are available for operations at management’s discretion.

Net assets with donor restriction: This portion of the net assets is subject to either resources restricted by donors as to purpose or by the passage of time or resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. The River Acres Water Supply Corporation maintains its cash in two financial institutions. At December 31, 2019 and 2018, the cash in bank balances were not fully covered by FDIC insurance (See Note 7).

RIVER ACRES WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR 2018

Investments

Investments consist of money market funds. The Organization carries its investments in marketable securities at fair value on the statement of financial position. Unrealized and realized gains and losses are included in the statement of activities.

Accounts Receivable

Accounts receivable are recognized and reported as outstanding principle net of allowances for uncollectible accounts. Receivables are considered past due when balances are unpaid after 30 days from the date billed. Management provides for probably uncollectible accounts through a provision for bad debts and an adjustment to a valuation allowance based on its assessment of the status of individual customer accounts. Amounts are charged off after reasonable collection efforts have been exhausted.

Inventories

Inventories are carried at the lower cost or market using the Specific Identification Method.

Property, Plant and Equipment

Fixed assets are recorded at their purchase price if purchased. Donated assets are reported at their fair value at the time of acquisition. Depreciation of capital assets is provided over the estimated useful lives of the asset using the straight-line method over a period of 3 to 40 years. Maintenance and repairs which do not materially add to the value of the property or appreciably prolong its life are charges to expense as incurred. The Organization has not established a capitalization policy at December 31, 2019.

Federal Income Taxes

River Acres Water Supply Corporation is exempt from Federal Income Taxes under Section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(12). River Acres Water Supply Corporation is to be treated as a publicly supported organization, and not as a private foundation. However, an annual return must be filed with the Internal Revenue Service on IRS Form 990, Return of Organization Exempt from Income Tax. This return is basically an information-type return describing the financial and program activities within. An IRS Form 990-T reporting income from activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such

RIVER ACRES WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR 2018

information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Personal Leave

Employees of the Organization are allowed vacation leave based on employee position and length of service. Carryover of unused vacation after year end is not allowed and therefore, no liability for compensated absences is recognized.

Functional Allocation of Expenses

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the statement of activities. The expenses are allocated on the basis of estimates of time and effort and direct costs.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, consists of:

	2019	2018
Land	42,935	42,935
Water System, Tower and Equipment	1,496,682	1,432,507
Pump Station	531,644	531,644
Office Furniture and Equipment	33,729	33,729
Maintenance Equipment	38,086	38,086
Construction in Progress	440,651	354,153
Total	2,583,727	2,433,054
Less: Accumulated Depreciation	1,577,814	1,516,157
Total Property and Equipment, Net	<u>1,005,913</u>	<u>916,897</u>

Property and equipment is recorded at historical cost. Depreciation is recorded on the straight line method over the estimated useful lives of the respective assets which are 3 to 10 years for equipment and 25 to 40 years for building and improvements. Depreciation expense was \$61,656 for 2019 and \$55,443 for 2018.

NOTE 4 – ACCOUNTS RECEIVABLE

The Organization had the following accounts receivable, as of December 31:

	2019	2018
Customer Accounts Receivable	98,737	103,334
Less: Allowance for Uncollectible Accounts	(12,100)	(12,100)
Total Accounts Receivable	<u>86,637</u>	<u>91,234</u>

RIVER ACRES WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR 2018

NOTE 5 – NOTE PAYABLE

On September 20, 2018 the Organization borrowed \$3,620,000 from the Texas Water Development Board to finance improvements to its water distribution system. The note provides for 30 annual principal and 60 semi-annual interest payments,, with the first interest payment beginning, January 1, 2019 and the first principal payment on July 1, 2019, with a maturity date of July 1, 2048. The blended interest rate on the note is 3.358%.

The projected principle payments are as follows:

		2019	2018
Year Ending	2019	-	100,000
	2020	75,000	75,000
	2021	80,000	80,000
	2022	80,000	80,000
	2023	80,000	-
	Thereafter	3,205,000	3,285,000
Total Principal Payments		3,520,000	3,620,000

NOTE 6 – COMMITMENTS UNDER OPERATING LEASES

The Company leases office space under a lease with a two year agreement that expires July 31, 2019 at a rate of \$1,020.78 per month. The lease office space renewed in August 2019 for two years ending July 31, 2021. The rate increased to \$1,120.78 per month.

The Company also leases a copy machine with rentals due monthly in the amount of \$290.52. This lease expires on July 31, 2019. This lease renewed in August 2019 for five years ending July 31, 2024 with a new monthly rate of \$234.40.

Minimum lease payments for the five year period ending December 31 are as follows:

		2019	2018
Year Ending	2018	-	15,736
	2019	15,955	15,955
	2020	16,262	16,262
	2021	10,658	10,658
	2022	2,813	2,813
	Thereafter	4,454	4,454
Total Minimum Leases		50,142	65,878

Total rent paid for the year ended December 31, 2019 and 2018, totaled \$15,955 and \$15,736, respectively.

RIVER ACRES WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR 2018

NOTE 7 – CONCENTRATION OF CREDIT RISK

The River Acres Water Supply Corporation sells water to residential, rural and commercial customers located in Nueces County, located in South Texas. Net receivables attributed to sales are \$86,637 at December 31, 2019 and \$91,234 at December 31, 2018.

Monies of the Organization are held in two financial institutions. Accordingly, these funds are federally insured up to a maximum of \$250,000 at each institution. The Organization and its main depository is under a collateral agreement. Those funds are fully collateralized. Funds received through grant and loan are held in an investment. At December 31, 2019 and 2018, deposits are underinsured by \$0 and \$1,370,643, respectively.

NOTE 8 – RESTRICTED ASSETS

In 2013, River Acres Water Supply Corporation began assessing additional amounts per member totaling \$5.00 per month. These additional fees are restricted for up-grade of the Organization's water distribution system. Amounts of cash balances restricted for this purpose totaled \$166,265 in 2019 and \$114,280 in 2018.

In 2018, the Organization received a loan from the Texas Water Development Board of \$3,620,000. Those funds are kept in an investment account to be used for a Water System project to expand the Organization's services. That money is restricted for that purpose. The balances of those funds were \$3,343,383 in 2019 and \$3,289,973 in 2018.

In the loan covenant from the Texas Water Development Board, the Organization is required to have a reserve account with enough money to make the required interest and principal payments towards the loan. The Organization has met that the requirement and is restricted for that purpose. The balances in that account were \$199,865 in 2019 and \$198,324 in 2018.

NOTE 9 – CONTRIBUTED SERVICES

Donated goods and services that can be measured and meet certain other requirements are recorded in the financial statement as in-kind contributions and expenses of a like amount. No donated goods or services have been recognized in the Statement of Activities because the criteria for recognition under FASB ASC 958-10-20 formerly SFAS No. 116 has not been satisfied. During the year ended December 31, 2019 and 2018, there were no contributed services or supplies that are recognized in the financial statements.

NOTE 10 – RELATED PARTY TRANSACTIONS

River Acres Water Supply Corporation engaged a plumbing company, which is 100% owned by a former Field Manager of the Organization, to perform maintenance, repair and ongoing water operation services. Fees paid to this plumbing company totaled \$0 and \$34,970 in 2019 and 2018, respectively. Amounts owed at 2019 and 2018 totaled \$0 and \$0, respectively.

RIVER ACRES WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR 2018

NOTE 11 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Organization has the following financial assets that could readily be made available within one year of the balance sheet to fund expenses without limitations:

	2019	2018 *
Cash	\$ 1,176,794	\$ 1,370,858
Money Market - Fidelity	3,978,325	3,914,773
Accounts Receivable	86,637	91,234
Sub-total	5,241,756	5,376,865
Less: Restricted Cash and Investments	(3,709,513)	(3,602,577)
Total financial assets available to mgmt for general expenses within one year	<u>\$ 1,532,243</u>	<u>\$ 1,774,288</u>

* Restated

The statement of cash flows identifies the sources and uses of the Organization's cash and shows positive cash generated by operations of \$120,160 and \$850,875 for 2019 and 2018, respectively.

NOTE 12 – FAIR VALUE MEASUREMENTS

The Organization's assets and liabilities reported at fair value are valued using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy defines three levels of inputs, giving the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The Organization uses the following hierarchical disclosure framework:

Level 1 – Measurement based upon quoted prices for identical assets in an active market as of the reporting date.

Level 2 – Measurement based upon marketplace inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Measurement based on the Organization's assumptions about a hypothetical marketplace because observable market inputs are not available as of the reporting date.

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair values of its assets and liabilities. When available, the Organization measures fair value

RIVER ACRES WATER SUPPLY CORPORATION
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WITH COMPARATIVE TOTALS FOR 2018

using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs have the lowest priority.

The following tables set forth by level within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis at year end 2019 and 2018:

	2019			
<u>INVESTMENT</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market -				
Fidelity Treasury Fund	3,978,325	-	-	3,978,325
Total Investment	<u>3,978,325</u>	<u>-</u>	<u>-</u>	<u>3,978,325</u>

	2018 *			
<u>INVESTMENT</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market -				
Fidelity Treasury Fund	3,914,773	-	-	3,914,773
Total Investment	<u>3,914,773</u>	<u>-</u>	<u>-</u>	<u>3,914,773</u>

* Restated

NOTE 13 – SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. The Organization is closely monitoring the situation, but the extent of financial impact to the Organization is unknown at this time. Subsequent events have been evaluated through November 11, 2020, which is the date financial statements were available to be issued.

NOTE 14 – RESTATEMENT OF NET ASSETS

During fiscal year 2019, management determined that cash was understated from money received from Texas Water Development Board (TWDB) as green money, construction in progress was understated from engineering and legal fees being expensed in prior years related to ongoing projects and that the accrued interest payable for the loan to (TWDB) was understated. The restatements are as follows:

RIVER ACRES WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR 2018

	<u>Net Assets</u>
Beginning Net Assets, previously reported	1,977,105
Restatement:	
Understatement of Cash	624,799
Understatement of Construction in Progress	65,091
Understatement of Accrued Interest	<u>(34,107)</u>
Beginning Net Assets, as restated	<u><u>2,632,888</u></u>