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PUC DOCKET NO. 52697

PETITION OF SANGER TEXAS	§	BEFORE THE
INDUSTRIAL, LLC AND WEBB	§	
INDUSTRIAL, LLC TO AMEND	§	
BOLIVAR WATER SUPPLY	§	PUBLIC UTILITY COMMISSION
CORPORATION’S CERTIFICATE OF	§	
CONVENIENCE AND NECESSITY IN	§	
DENTON COUNTY BY STREAMLINED	§	
EXPEDITED RELEASE	§	OF TEXAS

**PETITIONERS’ RESPONSE AND OBJECTIONS
TO BOLIVAR’S APPRAISAL REPORT**

TO THE PUBLIC UTILITY COMMISSION OF TEXAS:

Sanger Texas Industrial, LLC and Webb Industrial, LLC (“Petitioners”) hereby file this Response and Objections to Bolivar Water Supply Corporation’s (“Bolivar”) Appraisal Report. In support thereof, Petitioners show the following:

I. BACKGROUND

On April 4, 2022, the Commission issued a Final Order granting streamlined expedited release of the Property at issue in this docket and triggering the compensation phase of the docket. On June 13, 2022, Petitioners and Bolivar each filed appraisal reports. Petitioners’ report determined that \$0 in compensation is owed to Bolivar as a result of the decertification in this docket,¹ while Bolivar’s report concludes that the compensation amount should be \$1,359,800.

As discussed in more detail herein, this dramatic disconnect in compensation determinations is primarily a result of: (1) Bolivar’s report including factors not properly

¹ Petitioners’ report did find, however, that Bolivar should be allowed to recover any necessary and reasonable legal and professional fees as approved by the Commission.

allocable to the Property and the compensation amount under the applicable rules and statute, and (2) Bolivar's report relying on dramatically inflated valuation figures prepared in anticipation of this litigation.

For these reasons, and the reasons discussed herein, Petitioners object to Bolivar's appraisal report, and in particular, to the analysis and conclusions reached in Factors 2B, 2C, 2E, 2F, 2G, and 2H.

II. BOLIVAR'S APPRAISER'S REPORT IMPROPERLY CONSIDERS FACTORS NOT ALLOCABLE TO THE PROPERTY AT ISSUE AND RELIES ON AN INFLATED VALUATION REPORT

In reaching its compensation determination, Bolivar purports to rely on the following factors set out at Tex. Water Code (TWC) § 13.254(g) and 16 Tex. Admin. Code (TAC) § 24.245(j):

- 2B: The value of the service facilities of the former CCN holder located within the removed area.
- 2C: The amount of any expenditures for planning, design, or construction of the service facilities that are allocable to service to the removed area.
- 2E: Any demonstrated impairment of service or any increase of cost to consumers of the former CCN holder remaining after the decertification.
- 2F: The impact on future revenues lost from existing customers.
- 2G: Necessary and reasonable legal expenses and professional fees.
- 2H: Any other relevant factors as determined by the Commission.

As discussed in more detail herein, none of these factors support the award of compensation to Bolivar as described in Bolivar's Appraisal Report. The compensation amount should be \$0, with the exception that Bolivar should be allowed to recover any reasonable and necessary attorneys' fees as approved by the Commission.

A. Factor 2B: The value of the service facilities of the former CCN holder located within the removed area.

Bolivar claims that compensation is owed under Factor 2B because it has an 8-inch distribution line “along the north side of the property,”² and that the line is valued at \$336,000. Bolivar does not cite to any evidence in support of this amount, or any basis for allocating the entire value of the line to the Property,³ but the calculation is presumably based on materials prepared by its engineer, including a document entitled “Bolivar Distribution System Costs” dated June 2022 and a “Planning Report for Water Facility Improvements” which is dated and sealed June 13, 2022 – the day of the appraiser’s report filing.⁴ For simplicity’s sake, this Response will collectively refer to such materials as the “Planning Report.”

The Planning Report, which was clearly prepared for purposes of litigation to advance Bolivar’s position on compensation, contains valuations that are dramatically inflated and are contradicted by Bolivar’s 2021 and 2020 Audit Reports, which result in much lower valuations.⁵ See **Exhibit “A”** for Bolivar’s Audit Reports. For instance, the Planning Report concludes that the value of Bolivar’s *distribution system alone* is **\$60,477,000**. This is in contrast to Bolivar’s 2021 Financial Statements and Independent Auditors’ Reports, which was produced by Bolivar in discovery and determines that the value of Bolivar’s *entire system* is only **\$11,647,812**. Bolivar’s 2020 Financial Statements and Independent Auditors’ Report similarly concluded that the value of Bolivar’s entire system was **\$10,663,688**. Bolivar’s Planning Report valuations were obviously

² That statement is ambiguous as to whether or not the line is located on the Property, but as noted at page 4 of Sanger’s appraiser’s report, Bolivar’s First Supplemental Response to Sanger’s RFI 1-8 in this docket states: “Bolivar does not have assets within the Subject Area.”

³ Moreover, Bolivar provides no statement regarding the line’s age, date of installation, capacity, unused capacity, or original cost.

⁴ The Planning Report was not in existence on the date that the Property was decertified – April 4, 2022. It therefore does not provide any basis for analysis when the Property was still in the CCN.

⁵ The Audits were conducted by Certified Public Accounts “in accordance with the auditing standards generally accepted in the United States of America.”

created for purposes of litigation, are dramatically inflated compared to its Independent Auditors' Reports, and are not credible. Bolivar's appraiser's report's reliance on the inflated Planning Report figures was in error.

Setting aside the inflated valuation, the existence of any distribution line along the north side of the property is not properly considered in determining the compensation amount. The Commission concluded in Findings of Fact 24-26 of its Order granting streamlined expedited release that:

24. The CCN holder has not committed or dedicated any facilities or lines to the tract of land for water service.

25. The CCN holder has no facilities or lines that provide water service to the tract of land.

26. The CCN holder has not performed any acts for or supplied anything to the tract of land.

Thus, even if there were a waterline in proximity to the Property, it is not committed or dedicated to the Property and is not impacted by the streamlined expedited release granted in this docket. It therefore is not a basis for compensation. As Petitioners' Appraiser's Report concluded, \$0 value is properly assigned to Factor 2B.

B. Factor 2C: The amount of any expenditures for planning, design, or construction of the service facilities that are allocable to service to the removed area.

To calculate the amount of expenditures allocable to service to the removed area, Bolivar calculated the cost per acre for its "Pressure Plane 2," in which the Property is apparently located, and multiplied that figure by the Property's 211 total acres to come up with its figure of \$186,867. As discussed in more detail below, there are numerous problems with Bolivar's approach, including that:

1. Bolivar has failed to establish that it has excess or unused facilities or system capacity in the area that would justify compensation under this factor;

2. It relies on the dramatically inflated figures contained in the Planning Report; and
3. The calculation is improperly based on acreage.

In order to recover compensation under Factor 2C, Bolivar should be required to establish that it has unused capacity, to calculate the amount of any unused capacity, and to show that absent use by Petitioners, such capacity would be stranded and unused. Bolivar, however, failed to identify *any* excess capacity that was left stranded, or was otherwise impacted, nor has it even attempted to establish that excess or unused facilities exist in the area. Indeed, it may be the case that all facilities in Pressure Plane 2 are currently operating at capacity, or if not, the capacity from these facilities may be needed, or committed to other homes or customers. There is, therefore, no record evidence that there is *any* excess capacity in the pressure plane, much less any record evidence establishing that Petitioners' Property is the only property that could use that capacity. Bolivar has not, therefore, met the minimum requirements for proving that it is owed compensation under this factor.

Also importantly, and as discussed in more detail above with regard to Factor 2B, Bolivar's calculation of the compensation amount is based on the Planning Report, which was prepared for litigation and which contains dramatically inflated figures. The conclusions drawn in the Planning Report, including the conclusion that Bolivar's distribution system is properly valued at \$60.4 million, are simply unsound. By contrast, Bolivar's 2021 and 2020 Audit Reports, which were presumably conducted properly, contain much more modest and reliable figures. See **Exhibit "A"**.

In reliance on the Planning Report, the appraisal concludes that facilities in Bolivar's "Pressure Plane 2" are valued at \$14,170,000 – *far more than the actual value of Bolivar's entire system* as determined by its Independent Auditors' Reports – and that Bolivar is owed \$186,867,

based on the acreage involved in the case. It was improper for Bolivar's appraiser's report to rely on the Planning Report, however.

In addition, there is no support in the statutes or regulations for allocating facilities costs by acre. In fact, under TCEQ rules, facility requirements are based upon the number of connections, and are not dependent on acreage.⁶ Even in Bolivar's Planning Report, Bolivar states that "[e]ach pressure plane is served by [facilities] based on the number of connections served in each plane."⁷ Allocating cost based on acreage is thus arbitrary, is not relevant to a facility's design, and is not an appropriate basis for conducting the appraisal. Costs could be appropriately allocated based on connection, but there are no connections on the Property, and \$0 should be allocated based on this factor. Moreover, Bolivar did not even utilize the correct acreage figure in its acreage calculation, as only 188 of the 211 total acres were previously located within Bolivar's service area, but Bolivar considered all 211 acres in making its calculation.⁸

Bolivar's analysis is contrary to the statutory requirements and should not be adopted. As set out in Petitioners' Appraiser's Report, \$0 in value should be assigned to this factor.

C. Factor 2E: Any demonstrated impairment of service or any increase of cost to consumers of the former CCN holder remaining after the decertification.

In response to Factor 2E, Bolivar stated that "[t]here is potentially an increase in cost to rate-paying customers if Bolivar Water Supply Corporation is not able to serve the released tract." This is wholly unsupported speculation and to the extent Bolivar relied on it in determining compensation is owed to it as a result of the decertification, this was improper. As noted in Petitioners' Appraiser's Report, "there is no evidence of impairment of services and/or increase in

⁶ See, e.g., 30 TAC § 290.45 (providing, for instance, for pumping capacity of 1.5 gpm *per connection*; ground storage of 200 gallons *per connection*; and elevated storage of 100 gallons *per connection*).

⁷ Bolivar Planning Report for Water Facility Improvements at p. 3 (emphasis added).

⁸ See Final Order, Finding of Fact No. 17 ("The portion of the tract of land for which the petitioners seek streamlined expedited release is approximately 188 acres and is located within the CCN holder's certificated service area.").

costs to the remaining customers of Bolivar as a result of decertification. No current customers contribute to fixed cost recovery currently from the subject area, and there is no reasonable expectation of future development that will lead to future customers contributing to fixed cost recovery.”

The value for Factor 2E is \$0.

D. Factor 2F: The impact on future revenues lost from existing customers and Factor 2H: Any other relevant factors as determined by the Commission.

Bolivar’s Appraiser’s Report claims that it could have served 100 LUEs on the 211 acre Property,⁹ that the average fee lost is \$4,500 per LUE, and the average annual water sales is \$650. It concludes the result is a loss in the net present value amount of \$822,427, and that Petitioners owe this to Bolivar as compensation in this docket.

Bolivar’s conclusion is clearly contrary to the statute and regulations, however, which provide that the relevant consideration is the impact on future revenues lost *from existing customers*. As noted in the Commission’s Final Order, the Property has *never* received water service from Bolivar.¹⁰ There are no existing customers on the Property. Therefore, there can be no loss of future revenues from existing customers, and the value for Factor 2F is \$0.

Bolivar suggests that its analysis may also be considered under Factor 2H: other relevant factors *as determined by the Commission*. The Commission, however, has adopted rules listing factors to be considered in making the compensation determination but has declined to include revenues lost from future customers as a factor, and there is no basis in the statute or rules for Bolivar’s analysis concerning potential future customers.¹¹ Indeed, the Legislature’s reference to

⁹ As noted above, only 188 of the 211 total acres were released from Bolivar’s CCN, and Bolivar’s consideration of the full 211 acres is in error. *See* Final Order, Finding of Fact No. 17.

¹⁰ *See* Final Order, Findings of Fact Nos. 22-23.

¹¹ Every word in a statute is presumed to have been used for a purpose and every word excluded is presumed to have been excluded for a purpose. *Laidlaw Waste Sys., Inc. v. City of Wilmer*, 904 S.W.2d 656, 659 (Tex. 1995). When

future revenues lost from *existing customers* makes clear that future revenues lost from potential future customers is not a proper basis for a compensation award. The Legislature instead chose to limit future revenue awards to that revenue that existing customers generate.

PUC precedent supports the position that potential lost revenues from future customers is not a proper basis for granting compensation. In a 2017 decertification case, at issue was whether “lost economic opportunity” concerning lost future revenues from future customers was a proper basis for a compensation award.¹² There, the Proposal for Decision (“PFD”) considered the compensation factors of Water Code §13.254(g) and stated that while the CCN holder “argues that removing the Tract from its CCN hurt its ‘regional economic opportunity,’ such ‘opportunity’ from non-existent customers is speculative and precisely the type of hypothetical damages the Legislature sought to avoid in drafting the statute.”¹³ The ALJ concluded:

[I]t is clear that the legislature did not intend a decertified utility to be compensated for future revenues from customers who do not yet exist at the time of decertification. The statute itself is clear when it states that compensation shall include the impact on future revenues lost from *existing* customers.¹⁴

The PUC’s Final Order in that case likewise provides that “TWC § 13.254(g) limits recovery for the impact on future revenues to losses from existing customers. [The CCN holder’s] lost future revenues from currently non-existing customers are not property and are not compensable under TWC §§ 13.254(d) and (g).”¹⁵ The same conclusion was reached by the Commission in PUC Docket No. 45702, *Application of City of Cibolo for Single Certification*.¹⁶

the Legislature identified “future revenues lost from *existing customers*” as a basis for compensation, it therefore expressly excluded other types of “future revenues” – including future revenues from future customers. Moreover, “other relevant factors” are *other* factors, and cannot be read to include other types of “future revenues.”

¹² See *City of Celina’s Notice of Intent to Provide Water and Sewer Service to Area Decertified from Aqua Texas, Inc. in Denton County*, Docket No. 45848 (Apr. 13, 2017).

¹³ Docket No. 45848, Proposal for Decision at 30 (Jan. 27, 2017).

¹⁴ *Id.* at 31 (emphasis in original).

¹⁵ Docket No. 45848, Final Order, Conclusion of Law No. 19 (Apr. 13, 2017).

¹⁶ See *Application of the City of Cibolo for Single Certification in Incorporated Area and to Decertify Portions of Green Valley Special Utility District’s Sewer Certificate of Convenience and Necessity in Guadalupe County*, Final Order, Conclusion of Law No. 15 (Jan. 10, 2018) (“TWC § 13.255(g) limits recovery for the impact on future revenues

A recent Appraiser's Report submitted by PUC Staff likewise stated that projected loss from any future customers is not an appropriate consideration for a compensation determination where, as here, the CCN holder will not lose any real property, facilities, or customers within the release area.¹⁷

In short, the statute, PUC rules, and precedent make clear that future losses from future customers is not a basis for a compensation award. No compensation should be awarded to Bolivar under these factors.¹⁸

E. Factor 2G: Necessary and reasonable legal expenses and professional fees.

In Factor 2G, Bolivar includes its \$8,000 appraisal fee as part of its total fees for which compensation should be provided. However, the statute and the PUC's rules are clear: Bolivar must bear the costs of its own appraisal. The Texas Water Code states that where the "petitioner and the certificate holder cannot agree on an independent appraiser ... the petitioner and the certificate holder shall each engage its own appraiser *at its own expense*."¹⁹ Bolivar may not recover the costs of its appraiser.

to losses from existing customers. [The CCN Holder's] lost future revenues from currently non-existing customers are not property and are not compensable under TWC § 13.255(c) and (g)").

¹⁷ See *Petition of Rodney Earl Mohnke, Stephen Lee Mohnke, Melvin Max Mohnke, Kenneth Wayne Mohnke, Kathleen Ann Mohnke-Blakely, and Mel Mohnke, Trustee of the Mohnke Living Trust Dated December 7, 1996, to Amend H-M-W Special Utility District's Certificate of Convenience and Necessity in Harris County by Expedited Release*, Docket No. 51973, Commission Staff's Submission of Appraisal Report (Mar. 18, 2022) ("HMW is endeavoring to use a fair market analysis determination to derive a value for projected loss from any future customers in the tract being part of the expedited release. Given that HMW will not lose any real property nor facilities or customers within the expedited release of this tract from its certified service area, no value should be allocated for this factor").

¹⁸ As an aside, it is clear that in calculating the \$822,427 number, despite referring to the figure as the "net present value amount," Bolivar calculated the gross amount without taking into account *any* costs or expenses. Thus, even if these speculative losses were properly part of the compensation owed to a CCN holder (and they are not), Bolivar's reliance on gross figures without offsetting for expenses was erroneous.

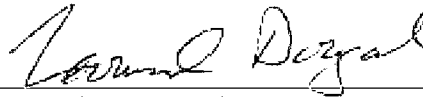
¹⁹ TWC § 13.2541(i); see also, 16 TAC § 24.245(i)(2)(B).

III. CONCLUSION

Bolivar's report does not properly apply the statutory factors for appraiser's reports in streamlined expedited release dockets, nor does it apply reliable valuation figures, and Petitioners therefore object to the report as discussed above, and in particular to the analysis and conclusions reached in Factors 2B, 2C, 2E, 2F, 2G, and 2H. As Petitioners' appraiser's report concluded, \$0 should be awarded to Bolivar as a result of the streamlined expedited release of the Property in this docket, except that Bolivar should be allowed to recover any necessary and reasonable attorneys' fees as approved by the Commission.

Respectfully submitted,

JACKSON WALKER L.L.P.

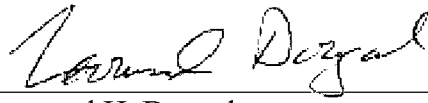


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ATTORNEYS FOR SANGER TEXAS
INDUSTRIAL, LLC AND WEBB INDUSTRIAL,
LLC

CERTIFICATE OF SERVICE

I certify that notice of the filing of this document was provided to all parties of record via electronic mail on June 21, 2022, in accordance with the Order Suspending Rules, issued in Project No. 50664.



Leonard H. Dougal

Exhibit "A"
Bolivar's Financial Audits

**BOLIVAR WATER
SUPPLY CORPORATION**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2021

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Bolivar Water Supply Corporation
Sanger, Texas

We have audited the accompanying financial statements of Bolivar Water Supply Corporation (a nonprofit corporation), which comprise the balance sheet as of December 31, 2021, and the related statements of income and retained earnings 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 Bolivar Water Supply Corporation as of December 31, 2021, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 8, 2022, on our consideration of Bolivar Water Supply Corporation'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 Bolivar Water Supply Corporation's internal control over financial reporting and compliance.

Hankins, Eastup, Deaton, Tonn & Seay, PC
Denton, Texas

March 8, 2022

BOLIVAR WATER SUPPLY CORPORATION

BALANCE SHEET DECEMBER 31, 2021

ASSETS

Current assets:		
Cash and cash equivalents	\$ 1,113,857	
Accounts receivable - trade (net of allowance), pledged	203,142	
Investments	6,627,938	
Prepaid expenses	8,714	
Inventory, at cost	88,958	
Total current assets		\$ 8,042,609
Investments - restricted		135,175
Property and equipment, pledged:		
Wells and well sites, water distribution system and storage facilities	22,765,872	
Buildings	1,447,060	
Furniture, equipment and vehicles	765,318	
Construction in progress	1,507,637	
	26,485,887	
Less accumulated depreciation	(15,241,693)	
Land, right of way and easements	403,618	
Net property and equipment		11,647,812
Other assets:		
Utility deposits	70	
Total other assets		70
TOTAL ASSETS		<u>\$ 19,825,666</u>

LIABILITIES AND MEMBERS EQUITY

Current liabilities:		
Accounts payable	\$ 524,566	
Accrued expenses	30,275	
Current portion of long-term debt	65,666	
Total current liabilities		\$ 620,507
Long-term debt, net of current portion		1,013,054
TOTAL LIABILITIES		<u>1,633,561</u>
Members' equity:		
Contributed capital -		
Member accounts	416,900	
Other contributed capital	3,025,098	
Total contributed capital		3,441,998
Retained earnings:		
Restricted	135,175	
Unrestricted	14,614,932	
Total retained earnings		14,750,107
Total members' equity		<u>18,192,105</u>
TOTAL LIABILITIES AND OWNER'S CAPITAL		<u>\$ 19,825,666</u>

See accompanying notes to the financial statements.

BOLIVAR WATER SUPPLY CORPORATION

STATEMENT OF INCOME AND RETAINED EARNINGS YEAR ENDED DECEMBER 31, 2021

Revenues:		
Water sales	\$ 2,706,987	
Current period new member additions	1,294,500	
Installations and road bores	100,479	
Other fees and changes	46,424	
Other income	48,183	
Total revenues		\$ 4,196,573
Operating expenses:		
Depreciation	685,921	
Salaries	864,121	
Payroll taxes	66,247	
Employee insurance	98,705	
Utilities	308,228	
Repairs, maintenance and operations	622,765	
Contracted services - GTUA	97,221	
Interest expense	55,803	
Insurance and bonds	51,791	
Miscellaneous	30,965	
Bank and credit card charges	50,977	
Office supplies and expense	40,750	
Telephone	12,835	
Professional fees	23,192	
Postage	13,558	
Retirement plan contribution	24,846	
Auto and truck expense	80,695	
Water sample expense	20,428	
Total operating expenses		3,149,048
Net operating income		1,047,525
Other income (loss):		
Interest and dividend income	194,648	
Realized gain/(loss) on investments	534,996	
Unrealized gain/(loss) on investments	(142,207)	
Gain on sale of equipment	5,500	
Total other income (loss)		592,937
Net Income		1,640,462
Retained earnings - beginning of year		13,109,645
Retained earnings - end of year		<u>\$ 14,750,107</u>

See accompanying notes to the financial statements.

BOLIVAR WATER SUPPLY CORPORATION

STATEMENT OF CASH FLOWS DECEMBER 31, 2021

Cash flows from operating activities		
Net income		\$ 1,640,462
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	\$ 685,921	
(Increase) decrease in:		
Accounts receivable - trade	(49,739)	
Prepaid expenses	(1,334)	
Inventory	2,414	
Increase (decrease) in accounts payable	279,861	
Increase (decrease) in accrued expenses	(26,479)	
Interest and dividend income	(194,648)	
Realized and unrealized gains/losses on investments	(392,789)	
Gain on sale of equipment	(5,500)	
Total adjustments		<u>297,707</u>
Net cash provided by operating activities		<u>1,938,169</u>
Cash flows from investing activities:		
Proceeds from sale of investments	4,664,802	
Proceeds from sale of equipment	5,500	
Purchase of property and equipment	(1,670,045)	
Purchase of investments	(5,471,593)	
Interest and dividend income	194,468	
Net cash used by investing activities		<u>(2,276,868)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(73,923)	
Increase in member accounts - net	21,427	
Net cash used by financing activities		<u>(52,496)</u>
Net decrease in cash and cash equivalents		(391,195)
Cash and cash equivalents at beginning of year		<u>1,505,052</u>
Cash and cash equivalents at end of year		<u><u>\$ 1,113,857</u></u>
Supplemental disclosure:		
Cash paid for interest		<u><u>\$ 50,078</u></u>

See accompanying notes to the financial statements.

BOLIVAR WATER SUPPLY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Bolivar Water Supply Corporation ("the Corporation") is operated in a manner similar to a private enterprise where the intent is to provide water and related services to the general public with all costs financed primarily through user charges. The Corporation is a nonprofit, member-owned corporation governed by a nine member Board of Directors elected by the members of the Corporation. The Corporation serves individuals residing in the rural areas surrounding Sanger, Texas in northern Denton County, southern Cooke County, and eastern Wise County, Texas.

Revenue and Expense Recognition

The books and records of the corporation are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the accounting period they are earned, and expenses are recognized when incurred.

Property, Equipment and Depreciation

Depreciation expense included in the accompanying financial statements is recorded on the straight-line method over the estimated useful lives of the assets. Property and equipment in excess of \$2,000 is recorded at cost or, if contributed, estimated cost of materials and installation. Useful lives range from 5 years for light equipment to 40 years for certain system improvements.

Inventory

Inventory, consisting of supplies and equipment, is stated at cost. Cost is determined primarily by the first-in, first-out method.

Accounts Receivable - Trade

Accounts receivable consist primarily of receivables related to water sales. Trade accounts receivable are shown net of an allowance for uncollectible amounts of \$30,264. All trade accounts receivable are pledged as security for the U.S.D.A. Rural Development loans. Accounts receivable are not collateralized.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statement presentation, the Corporation considers all money market funds and highly liquid debt instruments with maturities of three months or less when acquired to be cash equivalents.

BOLIVAR WATER SUPPLY CORPORATION

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 – LONG-TERM DEBT

Long-term debt at December 31, 2021, consisted of the following:

<u>United States Department of Agriculture Rural Development:</u> 5% note payable, dated March 8, 1996, maturing in July 2033. Due in monthly installments of \$10,341 including interest. Secured by the water system.		<u>\$ 1,078,720</u>
Total		1,078,720
Less Current Portion		<u>(65,666)</u>
Long-Term Debt		<u>\$1,013,054</u>

Maturities of Long-Term Debt are as follows:

Years Ended December 31:

2022	\$ 65,666
2023	75,146
2024	78,990
2025	83,032
2026	87,280
Thereafter	<u>688,606</u>
Total	<u>\$1,078,720</u>

BOLIVAR WATER SUPPLY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 3 – AGREEMENT WITH THE GREATER TEXOMA UTILITY AUTHORITY (GTUA)

GTUA is a political subdivision of the State of Texas created to assist cities, towns, and other entities develop water, sewer, and solid waste facilities. In 2004, the Corporation entered into a contract with GTUA for certain water supply services. Pursuant to the agreement, GTUA issued \$1,500,000 of Contract Revenue Bonds in order to fund construction of facilities as provided for in the water supply services contract with the Corporation.

The Corporation has agreed, and is obligated to GTUA, to make monthly payments in amounts sufficient to provide for the payment and redemption of the principal and interest on those revenue bonds as they become due through the year 2028. The Corporation is also obligated to pay an annual administration fee to GTUA. This fee was \$650 in 2021. These payments are recognized as operating expenses by the Corporation and as revenues by GTUA.

Contractual commitments to be paid to GTUA by the Corporation as required by the water supply and service contract are shown in the following schedule:

<u>Year</u>	<u>Amount</u>
2022	\$ 95,624
2023	97,142
2024	99,805
2025	98,579
2026	99,818
Thereafter	<u>127,901</u>
Total	<u>\$ 618,869</u>

Future payments to GTUA will fluctuate because the revenue bonds issued by GTUA are variable rate bonds, and the interest rate changes each year. The payment obligations shown above represent the bond interest rate as of April 1, 2017, which was 2.79%.

The debt obligation for GTUA's revenue bonds is not reflected in the Corporation's financial statements. The liability for the debt obligation is separately presented in the publicly available September 30, 2021 financial statements of GTUA.

NOTE 4 – RESTRICTED INVESTMENTS

Included in the financial statements at December 31, 2021 is \$135,175 of investments that are restricted under the Corporation's loan agreement with USDA Rural Development for future debt service payments.

The loan agreement requires the Corporation to maintain a reserve fund of at least \$124,092, which is one year of debt service payments on the loan. The reserve fund balance at December 31, 2021 was \$135,175. The reserve fund consists of mutual funds with a fair value at December 31, 2021 of \$135,175.

BOLIVAR WATER SUPPLY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 5 – INVESTMENTS

Investments consist of common stocks and mutual funds all of which are readily marketable. All investments are stated at fair value. The fair value of the mutual funds is based on significant other observable inputs (level 2 measurements). The mutual funds consist of both bond funds and equity funds. The fair value of the common stocks is based on quoted prices in active markets (level 1 measurements).

Investments at December 31, 2021 are summarized as follows:

Unrestricted investments included in current assets:

	<u>Cost</u>	<u>Fair Value</u>
Common Stocks	\$ 1,779,383	\$ 2,258,140
Mutual funds	<u>4,001,844</u>	<u>4,369,798</u>
Total	<u>\$ 5,781,227</u>	<u>\$ 6,627,938</u>

Restricted investments (see Note 4):

Mutual funds	<u>\$ 145,201</u>	<u>\$ 135,175</u>
Total	<u>\$ 145,201</u>	<u>\$ 135,175</u>

Total investment return for the year ended December 31, 2021 consisted of \$194,648 of interest and dividend income plus \$142,207 of unrealized losses in the fair value of investments plus \$534,996 of realized losses on the sale of investments for a net investment return of \$587,437.

NOTE 6 – FEDERAL INCOME TAX

Bolivar Water Supply Corporation is a non-profit organization that qualifies under IRS Code Sec. 501(c)(12) for exemption from Federal income tax.

The Corporation files Form 990 with the Internal Revenue Service, and as of December 31, 2021, the Corporation's tax returns related to the years ended December 31, 2018 through 2020 remain open to possible examination by the Internal Revenue Service; however, no tax returns are currently under examination.

Exempt organizations are required to pay Federal income tax on unrelated business taxable income. For the year ended December 31, 2021, the Corporation had no unrelated business taxable income.

BOLIVAR WATER SUPPLY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 7 – RETIREMENT PLAN

The Corporation sponsors an SEP retirement plan for eligible employees. The Plan allows for the Corporation to make contributions for eligible employees at a percentage of eligible compensation determined by the Board of Directors. For 2021 the Corporation contributed three percent of eligible compensation. The Corporation's contribution for 2021 was \$24,846. All participating employees are fully vested in the Corporation's contributions.

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable – trade, accounts payable, and accrued expenses reported in the balance sheet approximate fair values because of the short maturities of those instruments. The carrying amount of long-term debt reported in the balance sheet approximates fair value based on currently available loans with similar terms.

NOTE 9 – CONCENTRATIONS

The Corporation operates a water system in the Sanger, Texas area including northern Denton County, southern Cooke County, and eastern Wise County, Texas. The Corporation is reliant on customers within this area for its operations.

The Corporation maintains demand checking accounts at Sanger Bank and First United Bank. Deposits at the banks are insured by the FDIC up to \$250,000 per institution. The Corporation maintains balances in excess of FDIC coverage at times. As of December 31, 2021, the bank balance at Sanger Bank was \$776,202. Demand checking and money market accounts at other financial institutions were all below \$250,000 as of December 31, 2021. The Corporation invests excess funds in a money market mutual fund with Edward Jones. Deposits in the Edward Jones money market mutual fund are not federally insured. The balance invested in the Edward Jones money market mutual fund at December 31, 2021 was \$223,144.

NOTE 10 – SUBSEQUENT EVENTS

Management has reviewed events subsequent to December 31, 2021 through March 8, 2022, which is the date the financial statements were available to be issued. No subsequent events were identified that were required to be recorded or disclosed in the financial statements.

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**INDEPENDENT AUDITORS' 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**

To the Board of Directors
Bolivar Water Supply Corporation
Sanger, Texas

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 Bolivar Water Supply Corporation, which comprise the balance sheet as of December 31, 2021, and the related statements of income and retained earnings and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 8, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bolivar Water Supply Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bolivar Water Supply Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bolivar Water Supply Corporation'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 Corporation's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hankins, Eastup, Deaton, Tonn & Seay, PC
Denton, Texas

March 8, 2022

**BOLIVAR WATER
SUPPLY CORPORATION**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2020

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Bolivar Water Supply Corporation
Sanger, Texas

We have audited the accompanying financial statements of Bolivar Water Supply Corporation (a nonprofit corporation), which comprise the balance sheet as of December 31, 2020, and the related statements of income and retained earnings 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 Bolivar Water Supply Corporation as of December 31, 2020, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 9, 2021, on our consideration of Bolivar Water Supply Corporation'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 Bolivar Water Supply Corporation's internal control over financial reporting and compliance.

Hankins, Eastup, Deaton, Tonn & Seay, PC

Hankins, Eastup, Deaton, Tonn & Seay, PC
Denton, Texas

March 9, 2021

BOLIVAR WATER SUPPLY CORPORATION

BALANCE SHEET DECEMBER 31, 2020

ASSETS

Current assets:		
Cash and cash equivalents	\$ 1,505,052	
Accounts receivable - trade (net of allowance), pledged	153,403	
Investments	5,429,702	
Prepaid expenses	7,380	
Inventory, at cost	91,372	
Total current assets		\$ 7,186,909
Investments - restricted		133,621
Property and equipment, pledged:		
Wells and well sites, water distribution system and storage facilities	21,562,753	
Buildings	1,439,861	
Furniture, equipment and vehicles	682,986	
Construction in progress	1,165,442	
	24,851,042	
Less accumulated depreciation	(14,590,972)	
Land, right of way and easements	403,618	
Net property and equipment		10,663,688
Other assets:		
Utility deposits	70	
Total other assets		70
TOTAL ASSETS		<u>\$ 17,984,288</u>

LIABILITIES AND MEMBERS EQUITY

Current liabilities:		
Accounts payable	\$ 244,705	
Accrued expenses	56,754	
Current portion of long-term debt	68,006	
Total current liabilities		\$ 369,465
Long-term debt, net of current portion		1,084,607
TOTAL LIABILITIES		<u>1,454,072</u>
Members' equity:		
Contributed capital -		
Member accounts	395,473	
Other contributed capital	3,025,098	
Total contributed capital		3,420,571
Retained earnings:		
Restricted	133,621	
Unrestricted	12,976,024	
Total retained earnings		13,109,645
Total members' equity		<u>16,530,216</u>
TOTAL LIABILITIES AND OWNER'S CAPITAL		<u>\$ 17,984,288</u>

See accompanying notes to the financial statements.

BOLIVAR WATER SUPPLY CORPORATION

STATEMENT OF INCOME AND RETAINED EARNINGS YEAR ENDED DECEMBER 31, 2020

Revenues:		
Water sales	\$ 2,313,356	
Current period new member additions	330,000	
Installations and road bores	202,600	
Other fees and chages	20,295	
Other income	122,217	
Total revenues		\$ 2,988,468
Operating expenses:		
Depreciation	615,853	
Salaries	822,835	
Payroll taxes	63,288	
Employee insurance	95,793	
Utilities	261,162	
Repairs, maintenance and operations	282,067	
Contracted services - GTUA	94,309	
Interest expense	59,127	
Insurance and bonds	44,895	
Miscellaneous	24,958	
Dues and assessments	5,316	
Bank and credit card charges	41,254	
Office supplies and expense	45,061	
Telephone	11,056	
Professional fees	22,275	
Postage	11,479	
Retirement plan contribution	24,686	
Auto and truck expense	49,539	
Water sample expense	26,511	
Total operating expenses		2,601,464
Net operating income		387,004
Other income (loss):		
Interest and dividend income	86,133	
Realized gain/(loss) on investments	42,446	
Unrealized gain/(loss) on investments	428,730	
Gain on sale of equipment	12,752	
Total other income (loss)		570,061
Net Income		957,065
Retained earnings - beginning of year		12,152,580
Retained earnings - end of year		\$ 13,109,645

See accompanying notes to the financial statements.

BOLIVAR WATER SUPPLY CORPORATION

STATEMENT OF CASH FLOWS DECEMBER 31, 2020

Cash flows from operating activities		\$ 957,065
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	\$ 615,853	
(Increase) decrease in:		
Accounts receivable - trade	7,838	
Prepaid expenses	(552)	
Inventory	8,827	
Increase (decrease) in accounts payable	(48,379)	
Increase (decrease) in accrued expenses	26,589	
Interest and dividend income	(86,133)	
Realized and unrealized gains/losses on investments	(471,176)	
Gain on sale of equipment	(12,752)	
Total adjustments		40,115
Net cash provided by operating activities		997,180
Cash flows from investing activities:		
Proceeds from sale of investments	3,501,033	
Proceeds from sale of equipment	12,752	
Purchase of property and equipment	(1,668,343)	
Purchase of investments	(1,891,230)	
Interest and dividend income	86,133	
Net cash provided by investing activities		40,345
Cash flows from financing activities:		
Principal payments on long-term debt	(64,700)	
Increase in member accounts - net	14,625	
Net cash used by financing activities		(50,075)
Net increase in cash and cash equivalents		987,450
Cash and cash equivalents at beginning of year		517,602
Cash and cash equivalents at end of year		\$ 1,505,052
Supplemental disclosure:		
Cash paid for interest		\$ 59,353

See accompanying notes to the financial statements.

BOLIVAR WATER SUPPLY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Bolivar Water Supply Corporation ("the Corporation") is operated in a manner similar to a private enterprise where the intent is to provide water and related services to the general public with all costs financed primarily through user charges. The Corporation is a nonprofit, member-owned corporation governed by a nine member Board of Directors elected by the members of the Corporation. The Corporation serves individuals residing in the rural areas surrounding Sanger, Texas in northern Denton County, southern Cooke County, and eastern Wise County, Texas.

Revenue and Expense Recognition

The books and records of the corporation are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the accounting period they are earned, and expenses are recognized when incurred.

Property, Equipment and Depreciation

Depreciation expense included in the accompanying financial statements is recorded on the straight-line method over the estimated useful lives of the assets. Property and equipment in excess of \$2,000 is recorded at cost or, if contributed, estimated cost of materials and installation. Useful lives range from 5 years for light equipment to 40 years for certain system improvements.

Inventory

Inventory, consisting of supplies and equipment, is stated at cost. Cost is determined primarily by the first-in, first-out method.

Accounts Receivable - Trade

Accounts receivable consist primarily of receivables related to water sales. Trade accounts receivable are shown net of an allowance for uncollectible amounts of \$30,264. All trade accounts receivable are pledged as security for the U.S.D.A. Rural Development loans. Accounts receivable are not collateralized.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statement presentation, the Corporation considers all money market funds and highly liquid debt instruments with maturities of three months or less when acquired to be cash equivalents.

BOLIVAR WATER SUPPLY CORPORATION

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 – LONG-TERM DEBT

Long-term debt at December 31, 2020, consisted of the following:

United States Department of Agriculture Rural Development:
5% note payable, dated March 8, 1996, maturing in July
2033. Due in monthly installments of \$10,341 including
interest. Secured by the water system. \$ 1,152,613

Total	1,152,613
Less Current Portion	<u>(68,006)</u>
Long-Term Debt	<u>\$1,084,607</u>

Maturities of Long-Term Debt are as follows:

Years Ended December 31:

2021	\$ 68,006
2022	71,485
2023	75,142
2024	78,987
2025	83,028
Thereafter	<u>775,965</u>
Total	<u>\$1,152,613</u>

BOLIVAR WATER SUPPLY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2020

NOTE 3 – AGREEMENT WITH THE GREATER TEXOMA UTILITY AUTHORITY (GTUA)

GTUA is a political subdivision of the State of Texas created to assist cities, towns, and other entities develop water, sewer, and solid waste facilities. In 2004, the Corporation entered into a contract with GTUA for certain water supply services. Pursuant to the agreement, GTUA issued \$1,500,000 of Contract Revenue Bonds in order to fund construction of facilities as provided for in the water supply services contract with the Corporation.

The Corporation has agreed, and is obligated to GTUA, to make monthly payments in amounts sufficient to provide for the payment and redemption of the principal and interest on those revenue bonds as they become due through the year 2028. The Corporation is also obligated to pay an annual administration fee to GTUA. This fee was \$650 in 2020. These payments are recognized as operating expenses by the Corporation and as revenues by GTUA.

Contractual commitments to be paid to GTUA by the Corporation as required by the water supply and service contract are shown in the following schedule:

<u>Year</u>	<u>Amount</u>
2021	\$ 96,571
2022	95,624
2023	97,142
2024	99,805
2025	98,579
Thereafter	<u>227,719</u>
Total	<u>\$ 715,440</u>

Future payments to GTUA will fluctuate because the revenue bonds issued by GTUA are variable rate bonds, and the interest rate changes each year. The payment obligations shown above represent the bond interest rate as of April 1, 2017, which was 2.79%.

The debt obligation for GTUA's revenue bonds is not reflected in the Corporation's financial statements. The liability for the debt obligation is separately presented in the publicly available September 30, 2020 financial statements of GTUA.

NOTE 4 – RESTRICTED INVESTMENTS

Included in the financial statements at December 31, 2020 is \$133,621 of investments that are restricted under the Corporation's loan agreement with USDA Rural Development for future debt service payments.

The loan agreement requires the Corporation to maintain a reserve fund of at least \$124,092, which is one year of debt service payments on the loan. The reserve fund balance at December 31, 2020 was \$133,621. The reserve fund consists of mutual funds with a fair value at December 31, 2020 of \$133,621.

BOLIVAR WATER SUPPLY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2020

NOTE 5 – INVESTMENTS

Investments consist of common stocks and mutual funds, all of which are readily marketable. All investments are stated at fair value. The fair value of the mutual funds is based on significant other observable inputs (level 2 measurements). The mutual funds consist of both bond funds and equity funds. The fair value of the common stocks is based on quoted prices in active markets (level 1 measurements).

Investments at December 31, 2020 are summarized as follows:

Unrestricted investments included in current assets:

	<u>Cost</u>	<u>Fair Value</u>
Common Stocks	\$ 958,096	\$ 1,336,391
Mutual funds	<u>3,542,125</u>	<u>4,093,311</u>
Total	<u>\$ 4,500,221</u>	<u>\$ 5,429,702</u>

Restricted investments (see Note 4):

Mutual funds	<u>\$ 142,031</u>	<u>\$ 133,621</u>
Total	<u>\$ 142,031</u>	<u>\$ 133,621</u>

Total investment return for the year ended December 31, 2020 consisted of \$86,133 of interest and dividend income plus \$428,730 of unrealized gains in the fair value of investments plus \$42,446 of realized gains on the sale of investments for a net investment return of \$557,309. Investment income is reported net of \$53,068 of investment management fees.

NOTE 6 – FEDERAL INCOME TAX

Bolivar Water Supply Corporation is a non-profit organization that qualifies under IRS Code Sec. 501(c)(12) for exemption from Federal income tax.

The Corporation files Form 990 with the Internal Revenue Service, and as of December 31, 2020, the Corporation's tax returns related to the years ended December 31, 2017 through 2019 remain open to possible examination by the Internal Revenue Service; however, no tax returns are currently under examination.

Exempt organizations are required to pay Federal income tax on unrelated business taxable income. For the year ended December 31, 2020, the Corporation had no unrelated business taxable income.

BOLIVAR WATER SUPPLY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2020

NOTE 7 – RETIREMENT PLAN

The Corporation sponsors an SEP retirement plan for eligible employees. The Plan allows for the Corporation to make contributions for eligible employees at a percentage of eligible compensation determined by the Board of Directors. For 2020 the Corporation contributed three percent of eligible compensation. The Corporation's contribution for 2020 was \$24,686. All participating employees are fully vested in the Corporation's contributions.

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable – trade, accounts payable, and accrued expenses reported in the balance sheet approximate fair values because of the short maturities of those instruments. The carrying amount of long-term debt reported in the balance sheet approximates fair value based on currently available loans with similar terms.

NOTE 9 – CONCENTRATIONS

The Corporation operates a water system in the Sanger, Texas area including northern Denton County, southern Cooke County, and eastern Wise County, Texas. The Corporation is reliant on customers within this area for its operations.

The Corporation maintains demand checking accounts at Sanger Bank and First United Bank. Deposits at the banks are insured by the FDIC up to \$250,000 per institution. The Corporation maintains balances in excess of FDIC coverage at times. As of December 31, 2020, the bank balance at Sanger Bank was \$564,577. Demand checking and money market accounts at other financial institutions were all below \$250,000 as of December 31, 2020. The Corporation invests excess funds in a money market mutual fund with Edward Jones. Deposits in the Edward Jones money market mutual fund are not federally insured. The balance invested in the Edward Jones money market mutual fund at December 31, 2020 was \$836,354.

NOTE 10 – SUBSEQUENT EVENTS

Management has reviewed events subsequent to December 31, 2020 through March 9, 2021, which is the date the financial statements were available to be issued. No subsequent events were identified that were required to be recorded or disclosed in the financial statements.

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**INDEPENDENT AUDITORS' 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**

To the Board of Directors
Bolivar Water Supply Corporation
Sanger, Texas

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 Bolivar Water Supply Corporation, which comprise the balance sheet as of December 31, 2020, and the related statements of income and retained earnings and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 9, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bolivar Water Supply Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bolivar Water Supply Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bolivar Water Supply Corporation'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 Corporation's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hankins, Eastup, Deaton, Tonn & Seay, PC

Hankins, Eastup, Deaton, Tonn & Seay, PC
Denton, Texas

March 9, 2021