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SOUTHEAST WATER SUPPLY CORPORATION

**AUDITED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2020

SOUTHEAST WATER SUPPLY CORPORATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

(Information as of December 31, 2019 presented for comparative purposes only)

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash in bank and on hand	\$ 931,521	\$ 399,300
Invested funds	171,622	170,457
Trade accounts receivable	85,513	75,706
Prepaid expenses	18,152	17,117
Total Current Assets	1,206,808	662,581
PROPERTY AND EQUIPMENT (NET)	8,120,743	7,945,007
OTHER ASSETS		
Invested funds - CoBank, ACB	7,386	3,871
Invested funds - Reserve	231,148	228,631
	<u>238,534</u>	<u>232,501</u>
TOTAL ASSETS	<u>\$ 9,566,086</u>	<u>\$ 8,840,090</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Trade accounts payable	\$ 14,584	\$ 13,021
Payroll taxes payable	20,633	62
Accrued interest payable	13,051	11,984
Current portion of long term debt	147,430	151,210
Total Current Liabilities	195,698	176,277
LONG TERM DEBT		
Notes payable - USDA Rural Development	2,128,087	3,109,897
Notes payable - CoBank	2,654,296	1,068,150
Notes payable - Banks	16,370	28,141
Less current portion of long term debt	(147,430)	(151,210)
	<u>4,651,323</u>	<u>4,054,978</u>
NET ASSETS WITHOUT RESTRICTION		
Without restriction	4,719,065	4,608,835
	<u>4,719,065</u>	<u>4,608,835</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,566,086</u>	<u>\$ 8,840,090</u>

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

See Independent Auditors' Report

SOUTHEAST WATER SUPPLY CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Information as of December 31, 2019 presented for comparative purposes only)

	<u>2020</u>	<u>2019</u>
WITHOUT RESTRICTIONS		
Operating Revenues		
Metered water sales	\$ 1,135,365	\$ 1,079,561
Tap and installation fees	17,700	17,303
Penalty and late fees	23,540	33,179
Reconnect fees	1,200	1,507
Other fees	<u>16,028</u>	<u>12,931</u>
Total Operating Revenues	1,193,833	1,144,480
Operating Expenses		
Water production fees and testing	54,285	46,158
Depreciation expense	288,107	294,052
Dues, fees and subscriptions	6,130	6,960
Insurance	28,326	25,771
Service vehicles expense	24,216	26,637
Office and postage expense	18,232	14,770
Office utilities	3,277	3,328
Professional fees	20,010	10,205
System repairs and maintenance	58,301	162,293
Supplies	29,294	11,606
Wages, salaries and benefits	350,738	316,323
Telephone	5,563	6,326
Power purchased for pumping	41,327	44,159
Training and education	2,065	1,588
Bad debts	921	4,032
Miscellaneous	<u>160</u>	<u>554</u>
Total Operating Expenses	930,953	974,760
Change in Operating Net Assets	262,880	169,720
Other Revenue / (Expense)		
Interest and dividend income	13,568	12,464
Gain or (loss) from sale of assets	775	-
Miscellaneous income	2,400	2,500
Interest expense	<u>(171,043)</u>	<u>(150,310)</u>
Total Other Revenue / (Expense)	(154,300)	(135,346)
CHANGE IN NET ASSETS FROM OPERATIONS	108,580	34,374
OTHER NON-RECURRING REVENUE / (EXPENSE)		
Member fees (net of forfeitures)	1,800	12,900
USDA-RDS grants	<u>-</u>	<u>-</u>
	1,800	12,900
CHANGE IN NET ASSETS	110,380	47,274
BEGINNING NET ASSETS	<u>4,608,685</u>	<u>4,561,411</u>
ENDING NET ASSETS	<u>\$ 4,719,065</u>	<u>\$ 4,608,685</u>

The accompanying notes are an integral part of these financial statements.
See Independent Auditors' Report

SOUTHEAST WATER SUPPLY CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Information as of December 31, 2019 presented for comparative purposes only)

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets from operations	\$ 108,580	\$ 34,374
Adjustments to reconcile net assets to net cash flows provided by operating activities:		
Depreciation and amortization	288,107	294,052
(Increase) decrease in invested funds	(1,165)	(2,520)
(Increase) decrease in accounts receivable	(9,807)	(2,837)
(Increase) decrease in prepaid expenses	(1,035)	(1,672)
Increase (decrease) in accounts payable	22,134	1,544
Increase (decrease) in accrued liabilities	1,067	(345)
Total Adjustments	<u>299,301</u>	<u>288,222</u>
Net Cash Provided By (Used In) Operating Activities	407,881	322,596
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Cash payments for the purchase capital assets	(463,843)	(64,980)
Cash payments for the purchase of invested funds	<u>(6,033)</u>	<u>(23,524)</u>
Net Cash Provided By (Used In) Investing Activities	(469,876)	(88,505)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from the issue of memberships	1,800	12,900
Proceeds from borrowing	1,657,420	-
Principal payments on long term debt	<u>(1,065,004)</u>	<u>(152,947)</u>
Net Cash Provided By (Used In) Financing Activities	<u>594,216</u>	<u>(140,047)</u>
NET INCREASE (DECREASE) IN CASH	532,222	94,045
CASH, JANUARY 1,	<u>399,300</u>	<u>305,255</u>
CASH, DECEMBER 31,	<u>\$ 931,521</u>	<u>\$ 399,300</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for -		
Interest expense	<u>\$ 162,920</u>	<u>\$ 150,544</u>

The accompanying notes are an integral part of these financial statements.
See Independent Auditors' Report

SOUTHEAST WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
(Information as of December 31, 2020 presented for comparative purposes only)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial statement presentation. The Corporation is required to present its financial statements in accordance with ASC 958-205 Financial Statement Presentation for Not-for-Profit Entities, which requires information regarding its financial position and activities according to two classes of net assets: without restrictions and net assets with restrictions. All of the Corporation's net assets were without donor restrictions at December 31, 2020 and 2019. The following is a schedule of net assets:

<u>NET ASSETS WITHOUT RESTRICTIONS</u>	<u>2020</u>	<u>2019</u>
MEMBERSHIPS		
Balance, January 1,	\$ 279,240	\$ 266,340
Member investment - Current year	1,800	13,500
Member investment - Current forfeitures	-	(600)
Balance, December 31,	<u>281,040</u>	<u>279,240</u>
DONATED CAPITAL		
Individual members	2,413	2,413
USDA-Rural Development	<u>2,218,809</u>	<u>2,218,809</u>
Balance, January 1,	<u>2,221,222</u>	<u>2,221,222</u>
Additional donations - Current year	-	-
Balance, December 31,	<u>2,221,222</u>	<u>2,221,222</u>
DESIGNATED BY BOARD		
Balance, January 1,	228,631	207,936
Allocation to (from) undesignated net assets	<u>2,517</u>	<u>20,695</u>
Balance, December 31,	<u>231,148</u>	<u>228,631</u>
UNDESIGNATED		
Balance, January 1,	1,879,742	1,866,060
Allocation to (from) undesignated net assets	(2,517)	(20,695)
Change in net assets from operations	<u>108,580</u>	<u>34,374</u>
Balance, December 31,	<u>1,985,808</u>	<u>1,879,742</u>
Total Net Assets Without Restrictions	<u>\$ 4,719,065</u>	<u>\$ 4,608,835</u>

NOTE B - RESERVE FOR EMERGENCY REPAIRS AND DEBT RETIREMENT

The Corporation is required, as long as indebted to USDA-RDS or CoBank, ACB, to deposit from its revenues, one-tenth of its total mortgage payments (including interest) in a Reserve Fund in an insured Texas Bank, or in U.S. Government-backed securities. Such deposits continue until the account balance equals one year's mortgage payments (including interest). Withdrawals may be made only for emergency repairs, equipment obsolescence and revenue deficiencies during periods when water is not available.

At December 31, the Reserve Account consisted of the following:

	<u>2020</u>	<u>2019</u>
Invested funds - Reserve	\$ 231,148	\$ 228,631
Required fund balance	<u>243,866</u>	<u>205,105</u>
Funds in excess (deficit) of loan agreement	<u>\$ 12,718</u>	<u>\$ 23,526</u>

SOUTHEAST WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
(Information as of December 31, 2020 presented for comparative purposes only)

NOTE C - MEMBER INVESTMENT

Membership in the Corporation is currently sold for \$600 and \$480 per member, for the December 31, 2020 and 2019 years, respectively. Prior to January 1, 2017 memberships were sold for \$474, \$300 and \$100 per member. One membership must be purchased to use system facilities. The membership cost is not refundable; it is transferable. At December 31, 2020 and 2019 there were 1,327 and 1,300 active memberships, respectively.

NOTE D - DONATED INVESTMENT

During the initial formation of the Corporation, and in subsequent years, the U.S. Government and certain individuals have contributed cash and property to assist in the development and expansion of the water distribution system. No additions were received during the years ending December 31, 2020 and 2018.

USDA-RDS	\$ 1,697,721
USDA-RDS during 2014	521,088
Individual Members Investment	2,413
	<u>\$ 2,221,222</u>

NOTE E - MID EAST TEXAS GROUNDWATER CONSERVATION DISTRICT

The Corporation has established a business relationship with Mid-East Texas Groundwater Conservation District (Mid-East) to provide groundwater. The regulatory authority establishing groundwater conservation districts was provided through the Texas Water Code, Chapter 36. The Texas Legislature determined this was the preferred method for groundwater management.

Mid-East has agreed to provide up to 88,000,000 gallons of groundwater. The agreement provides for a payment annually, at \$.04 per thousand gallons, for water withdrawn during the preceding year. Water withdrawn for the years ending in December 31, 2020 and 2019 are noted below:

Additionally, Southeast WSC has an inter-local agreement with an area water supply corporation to provide water on an as-needed basis, at their current rate of \$4.75/1,000 gallons, metered.

	<u>2020</u>	<u>2019</u>
Gallons pumped from wells	75,021,000	75,545,212
Gallons purchased from WSC	7,052,000	4,869,000 -
Gallons sold to members	61,506,303	56,700,100

NOTE F - NET ASSETS WITHOUT RESTRICTIONS

The Corporation's net assets without restrictions are comprised of undesignated amounts for the following purposes at:

December 31,	<u>2020</u>	<u>2019</u>
Undesignated	\$ 4,486,066	\$ 4,380,204
Board designated	231,148	228,631
Total net assets without restrictions	<u>\$ 4,717,214</u>	<u>\$ 4,608,835</u>

SOUTHEAST WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
(Information as of December 31, 2020 presented for comparative purposes only)

NOTE G - NOTES PAYABLE

The Corporation is indebted to USDA-RDS to fund major water system infrastructure and improvements. Deeds of trust on water system assets and security interests in revenues are used as collateral.

The indebtedness to the Banks and Individuals are secured with deeds of trust on the affected real estate and security interests in the vehicles

<u>Note No.</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Monthly Payment</u>	<u>Note Balances</u>	
				<u>Current</u>	<u>Total</u>
2020					
USDA - RDS					
91 - 09	2.75%	6-06-2052	<u>8,597</u>	<u>44,642</u>	<u>2,128,087</u>
			<u>\$ 8,597</u>	<u>\$ 44,642</u>	<u>\$ 2,128,087</u>
CoBank, ACB					
3139947	4.530%	6-20-2028	\$ 5,018	\$ 42,974	\$ 380,491
3170318	5.490%	8-20-2038	4,679	21,809	625,601
3330907	3.200%	6-20-2041	1,981	0	719,000
3305347	3.250%	5-20-2043	<u>4,895</u>	<u>26,546</u>	<u>929,204</u>
			<u>\$ 16,573</u>	<u>\$ 91,329</u>	<u>\$ 2,654,296</u>
Commercial Banks					
Toyota Financial Services					
	3.95%	12-05-2022	\$ 558	\$ 7,410	\$ 12,321
	3.95%	10-10-2021	<u>530</u>	<u>4,049</u>	<u>4,049</u>
			<u>\$ 1,088</u>	<u>\$ 11,459</u>	<u>\$ 16,370</u>

Maturities of long-term debt are as follows:

<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Subsequent Years</u>
<u>\$ 147,430</u>	<u>\$ 182,831</u>	<u>\$ 184,630</u>	<u>\$ 191,499</u>	<u>\$ 198,688</u>	<u>\$ 3,893,675</u>

2019

USDA - RDS					
91 - 05	4.50%	5-05-2043	\$ 3,948	\$ 17,620	\$ 681,259
91 - 07	4.50%	5-05-2043	1,528	7,210	263,621
91 - 09	2.75%	5-05-2043	<u>8,597</u>	<u>44,036</u>	<u>2,165,017</u>
			<u>\$ 14,073</u>	<u>\$ 68,866</u>	<u>\$ 3,109,897</u>

CoBank, ACB					
313522	4.53%	6-20-2028	\$ 5,018	\$ 39,506	\$ 422,031
3094757	4.57%	6-20-2028	<u>4,679</u>	<u>29,428</u>	<u>646,119</u>
			<u>\$ 9,697</u>	<u>\$ 68,934</u>	<u>\$ 1,068,150</u>

Commercial Banks

Toyota Financial Services					
	3.95%	12-05-2022	\$ 558	\$ 6,779	\$ 10,308
	3.95%	10-10-2021	<u>530</u>	<u>6,631</u>	<u>17,833</u>
			<u>\$ 1,088</u>	<u>\$ 13,410</u>	<u>\$ 28,141</u>

Maturities of long-term debt are as follows:

<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Subsequent Years</u>
<u>\$ 151,210</u>	<u>\$ 156,607</u>	<u>\$ 158,644</u>	<u>\$ 165,613</u>	<u>\$ 174,570</u>	<u>\$ 3,399,544</u>

SOUTHEAST WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
(Information as of December 31, 2020 presented for comparative purposes only)

NOTE H – INVESTED FUNDS

The Corporation has invested funds, stated at market value (which approximates cost), with various financial institutions as follows:

	<u>Interest Rate</u>	<u>Maturity</u>	<u>Amount.</u>
<u>2020</u>			
Community National Bank	1.90%	3-15-2022	\$ 108,035
Community National Bank	.75	3-15-2022	63,587
			<u>\$ 171,622</u>
<u>Reserve</u>			
Citizens State Bank	1.22%	6-03-2021	\$ 81,819
Community National Bank	.75	3-15-2022	62,848
Community National Bank	.75	3-15-2022	28,519
Community National Bank	.75	3-15-2022	57,962
			<u>\$ 231,148</u>
<u>2019</u>			
Community National Bank	1.45%	Demand	\$ 107,526
Community National Bank	1.45	Demand	62,931
			<u>\$ 170,457</u>
<u>Reserve</u>			
Citizens State Bank	1.22%	6-03-2021	\$ 80,827
Community National Bank	1.20	Demand	62,204
Community National Bank	1.40	Demand	28,226
Community National Bank	1.25	Demand	57,374
			<u>\$ 228,631</u>

The investment in CoBank, ACB is represented by an initial payment of \$1,000 for membership in the Farm Credit System cooperative. Subsequent additions are the result of patronage dividends declared by the Board of Directors, consisting of A Shares and cash. CoBank, ACB is audited annually by an international accounting firm. Southeast Water Supply Corporation uses Level 2 inputs to value this investment.

NOTE I – NET ASSETS WITHOUT RESTRICTIONS

The Corporation's net assets without restrictions are comprised of undesignated amounts for the following purposes at:

December 31,	<u>2020</u>	<u>2019</u>
Undesignated	\$ 4,487,917	\$ 4,380,204
Board designated	231,148	228,631
Total net assets without restrictions	<u>\$ 4,719,065</u>	<u>\$ 4,608,835</u>

SOUTHEAST WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
(Information as of December 31, 2020 presented for comparative purposes only)

NOTE I – LIQUIDITY AND AVAILABILITY OF RESOURCES

<u>December 31,</u>	<u>220</u>	<u>2019</u>
Cash and cash equivalents	\$ 931,521	\$ 399,300
Investments	171,622	170,457
Accounts receivable	85,513	75,706
Invested funds - Reserve	231,148	228,631
Total financial assets available within one year	1,419,804	874,094
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restrictions by donors	-	-
Total amounts unavailable for general expenditures within one year	-	-
Amounts unavailable without Board approval		
Board designated	(231,148)	(228,631)
Total amounts unavailable without Board approval	(231,148)	(228,631)
Total financial assets available for general expenditures within one year	\$ 1,188,656	\$ 645,463

Liquidity management. The Corporation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. Additionally, the Corporation has available all net assets without restrictions (NOTE I) that could be made available for current operations or construction projects, if necessary.

NOTE J – SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated subsequent events and transactions for potential recognition or disclosure through April 7, 2021, the date the financial statements were available to be issued.

In March, 2020 a Federal Disaster Declaration (FDD) was issued covering the United States for the period January 20, 2020, and is still in force, in response to the CoVid-19 virus. Management has evaluated the economic impact of the FDD and determined, thru April 7, 2021, the financial impact will be minimal. Water utilities are "essential services" and stay-at-home and other measures to slow or disrupt the virus' spread are not applicable. Management has taken steps to reduce exposure and enforce certain hygiene and protective equipment utilization to protect company personnel and the general community.