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**CROSS TIMBERS WATER
SUPPLY CORPORATION**

FINANCIAL STATEMENTS
DECEMBER 31, 2021

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Cross Timbers Water Supply Corporation
Argyle, Texas

We have audited the accompanying financial statements of Cross Timbers 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 Cross Timbers 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.

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

March 9, 2022

CROSS TIMBERS WATER SUPPLY CORPORATION

BALANCE SHEET December 31, 2021

<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents, net of restrictions	\$ 287,180	
Accounts receivable – trade, pledged	209,095	
Prepaid expenses	47,521	
Inventory, at cost	<u>108,040</u>	
Total current assets		\$ 651,836
Cash and cash equivalents – restricted		3,306,011
Property and equipment, pledged:		
Well sites, water distribution system and ground storage	23,862,688	
Elevated storage tanks	4,350,165	
Machinery and equipment	608,357	
Office building	1,344,429	
Construction in progress	<u>529,001</u>	
	30,694,640	
Less accumulated depreciation	(16,232,592)	
Land and easements	<u>725,176</u>	
Net property and equipment		15,187,224
Other assets:		
Equity fee, net of \$70,500 amortization	<u>81,249</u>	
Total other assets		<u>81,249</u>
TOTAL ASSETS		<u>\$ 19,226,320</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 255,355	
Total current liabilities		<u>\$ 255,355</u>
Total liabilities		<u>255,355</u>
Members' equity:		
Contributed capital –		
Member accounts	309,100	
Real estate developers' donated lines	<u>6,279,527</u>	
Total contributed capital		6,588,627
Retained earnings:		
Restricted	3,306,011	
Unrestricted	<u>9,076,327</u>	
Total retained earnings		<u>12,382,338</u>
Total members' equity		<u>18,970,965</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY		<u>\$ 19,226,320</u>

See accompanying notes to financial statements.

CROSS TIMBERS WATER SUPPLY CORPORATION**STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 2021**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Water sales	\$ 3,097,364	\$ 3,337,462	\$ 240,098
Current period new member additions	276,000	981,446	705,446
Other income	3,996	10,346	6,350
Penalties and NSF charges	5,004	1,623	(3,381)
Meter installation charges	14,000	76,325	62,325
Total revenues	<u>3,396,364</u>	<u>4,407,202</u>	<u>1,010,838</u>
Operating expenses:			
Upper Trinity charges	1,394,248	1,427,401	(33,153)
Depreciation and amortization	850,000	862,674	(12,674)
Salaries, wages and contract labor	559,255	555,677	3,578
Utilities	225,000	239,003	(14,003)
Repair, maintenance, operations	265,000	375,867	(110,867)
Insurance and bonds	82,000	69,270	12,730
Employee benefits	213,652	216,243	(2,591)
Legal fees	2,000	1,463	537
Payroll taxes	45,000	44,742	258
Office supplies and expense	30,000	33,036	(3,036)
Computer expense and security	38,000	49,251	(11,251)
Bank and credit card fees	51,000	54,352	(3,352)
Telephone	14,500	19,717	(5,217)
Audit and accounting	14,000	14,350	(350)
Consulting fees	4,000	2,600	1,400
Postage	6,000	9,168	(3,168)
Retirement plan contribution	4,000	10,311	(6,311)
Auto and truck expense	18,500	22,597	(4,097)
Water sample and other purchases	42,500	31,886	10,614
Training and travel	9,500	10,018	(518)
Total operating expenses	<u>3,868,155</u>	<u>4,049,626</u>	<u>(181,471)</u>
Net operating income (loss)	<u>(471,791)</u>	<u>357,576</u>	<u>829,367</u>
Other income (loss):			
Interest income	15,000	10,600	(4,400)
Loss on disposition of property	-	(53,158)	(53,158)
Total other income (loss)	<u>15,000</u>	<u>(42,558)</u>	<u>(57,558)</u>
Net Income (loss)	<u>(456,791)</u>	<u>315,018</u>	<u>771,809</u>
Retained earnings – beginning of year		<u>12,067,320</u>	
Retained earnings – end of year		<u>\$ 12,382,338</u>	

See accompanying notes to financial statements.

CROSS TIMBERS WATER SUPPLY CORPORATION

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

Cash flows from operating activities:		
Net income (loss)	\$	315,018
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization		862,674
(Increase) decrease in:		
Accounts receivable – trade		(21,085)
Other accounts receivable		1,715
Prepaid expenses		12,647
Inventory		(56,422)
Increase (decrease) in accounts payable		(31,455)
New member equity fees		(981,446)
Interest income		(10,600)
Loss on disposition of property		23,358
		<u>23,358</u>
Net cash provided by (used by) operating activities	\$	114,404
Cash flows from investing activities:		
Purchase of property and equipment		(676,253)
Interest income		10,600
		<u>10,600</u>
Net cash used by investing activities		(665,653)
Cash flows from financing activities:		
Contributions from new members, net		14,650
New member equity fees		981,446
		<u>981,446</u>
Net cash provided by financing activities		<u>996,096</u>
Net increase in cash and cash equivalents		444,847
Cash and cash equivalents at beginning of year:		
Unrestricted cash and cash equivalents		647,526
Restricted cash and cash equivalents		2,500,818
		<u>3,148,344</u>
Cash and cash equivalents at end of year:		
Unrestricted cash and cash equivalents		287,180
Restricted cash and cash equivalents		3,306,011
		<u>3,306,011</u>
	\$	<u>3,593,191</u>
Supplemental disclosure:		
Interest paid included in operating expenses	\$	-
Income taxes paid	\$	-
Non-cash items: Water lines contributed by developers	\$	<u>720,385</u>

See accompanying notes to financial statements.

CROSS TIMBERS WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Cross Timbers Water Supply 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.

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 with a cost of \$5,000 or more are recorded at cost or, if contributed, estimated cost of materials and installation. Useful lives range from 3 years for light equipment to 40 years for system improvements.

Inventory

Inventory, consisting of supplies and new meters, is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

Equity Fees

In June 2014, the Board of Directors approved an increase in the equity buy-in fee to \$7,262 per connection. The previous equity buy-in fee was \$7,151, and was effective June 2013. The \$7,262 fee from new member applications is usually received in two separate installments; the first paid by the developer and the second paid by the home builder. These fees are recorded by Cross Timbers Water Supply Corporation only when actually received and are included in the Statement of Income as "new member additions."

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.

Allowance For Uncollectible Receivables

Management believes that no allowance for uncollectible receivables is necessary.

CROSS TIMBERS WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For purposes of financial statement presentation, the Corporation considers all money market funds, certificates of deposit with maturity dates of three months or less when acquired and highly liquid debt instruments with maturities of three months or less when acquired to be cash equivalents. Cash and cash equivalents at December 31, 2021 include funds invested with TexPool, a Public Funds Investment Pool, of \$218,739, which are not federally insured.

Date of Management's Review

Subsequent events were evaluated through March 9, 2022, which is the date the financial statements were available to be issued.

NOTE 2 – LINE OF CREDIT

The Corporation has entered into a revolving line of credit financing agreement with Independent Bank. The agreement allows for borrowings of up to \$1,500,000. Amounts advanced under the agreement are secured by the Corporation's property and equipment. Interest on outstanding borrowings is payable monthly at the prime rate plus 1.0% (4.25% as of December 31, 2021) with a minimum interest rate of 4.25%. The agreement expires October 1, 2022. The Corporation did not make any borrowings under the agreement during 2021.

NOTE 3 – RESTRICTED CASH AND CASH EQUIVALENTS AND INVESTMENTS

Included in the financial statements at December 31, 2021 is \$3,306,011 of cash and cash equivalents that is restricted for future water system improvements and upgrades under policies established by the Corporation's Board of Directors and rules established by the Texas Commission on Environmental Quality.

NOTE 4 – FEDERAL INCOME TAX

Cross Timbers Water Supply Corporation is a non-profit organization that qualifies under 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 income. For the year ended December 31, 2021, the Corporation had no unrelated business income.

CROSS TIMBERS WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 5 – OPERATING LEASE

The Corporation currently leases office equipment under a noncancellable operating lease that expires in May 2023. Rent expense under operating leases was \$7,949 in 2021. The following is a schedule of required future minimum lease payments:

<u>December 31</u>	
2022	\$ 7,140
2023	2,975
2024	-
Thereafter	-
Total	<u>\$ 10,115</u>

NOTE 6 – RETIREMENT PLAN

The Corporation sponsors a SIMPLE IRA retirement plan for eligible employees. The Plan allows eligible employees to make elective contributions of up to Internal Revenue Service limits, and the Corporation matches employee contributions up to a maximum of three percent of eligible compensation. The Corporation's matching contribution for 2021 was \$10,311. All participating employees are fully vested in the Corporation's matching contributions.

NOTE 7 – CONCENTRATIONS

The Corporation operates a water system in the Cross Timbers area in southern Denton County, Texas. The Corporation is reliant on customers within this area for its operations.

The Corporation maintains demand checking and money market accounts at Independent Bank. Bank accounts at the bank are insured by the FDIC up to \$250,000. The Corporation maintains balances in excess of FDIC limits at times. As of December 31, 2021, the bank balance was \$3,467,848. Independent Bank has pledged government securities owned by the bank to the Corporation to provide additional security for the Corporation's uninsured deposits. As of December 31, 2021, the par value of the pledged securities was \$3,838,246, and the market value was \$3,863,463. The pledged securities are held by the Federal Home Loan Bank-Dallas. The Corporation invests excess funds with Texpool, a public funds investment pool. Deposits with Texpool are not federally insured. The balance invested with Texpool at December 31, 2021 was \$218,739.

CROSS TIMBERS WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents, investments, short-term accounts receivable, and accounts payable: the carrying amounts reported in the balance sheet approximate fair values because of the short maturities of those instruments.

The estimated fair values of the Corporation's financial instruments are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$3,593,191	\$3,593,191
Short-term accounts receivable	209,095	209,095
Accounts payable	(255,355)	(255,355)

NOTE 9 – CONSTRUCTION IN PROGRESS

The Corporation had six projects in progress as of December 31, 2021. The following is a list of the projects and the total costs incurred to date as of December 31, 2021:

Stargate ground storage	\$ 104,232
Simmons Road well	67,500
Stonewood Blvd line upgrade	86,700
Jeter Road line upgrade	86,700
Double Oak Post hydrants	140,113
Other projects	<u>43,756</u>
Total construction in progress	<u>\$ 529,001</u>