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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Gonzales County Water Supply Corporation
Gonzales, Texas

I have audited the accompanying financial statements of Gonzales County Water Supply Corporation (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2021 and 2020, and the related statements of activities and cash flows for the years 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

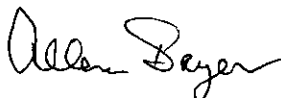
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gonzales County Water Supply Corporation as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Certified Public Accountant
Yoakum, Texas
March 30, 2022

**GONZALES COUNTY WATER SUPPLY CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020**

	ASSETS	
	2021	2020
Current Assets:		
Cash and Cash Equivalents	\$ 929,317.69	\$ 892,524.73
Accounts Receivable	182,466.62	194,026.69
Inventory	170,521.33	134,334.72
Interest Receivable	291.67	490.32
Prepaid Expenses	117,788.61	112,922.81
Other Receivables, Current Portion	203,750.00	203,750.00
Total Current Assets	1,604,135.92	1,538,049.27
Designated Cash:		
For Customer Deposits	1,700.00	1,700.00
For Capital Improvements	182,856.99	115,853.29
For Debt Service	318,371.91	317,789.14
Total Designated Cash	502,928.90	435,342.43
Plant, Property and Equipment:		
Utility Plant	17,706,623.17	16,888,566.68
Construction in Progress	111,143.88	298,638.07
Land & Water Rights	236,494.27	231,326.27
Equipment	1,947,948.83	1,805,721.96
	20,002,210.15	19,224,252.98
Less: Accumulated Depreciation	8,782,365.09	8,358,420.21
Total Plant, Property and Equipment	11,219,845.06	10,865,832.77
Other Assets:		
Other Receivable, Net of Current	75,000.00	278,750.00
Deferred Charges	23,650.47	33,844.21
Investment – Co Bank	28,335.98	22,261.79
Total Other Assets	126,986.45	334,856.00
Total Assets	\$ 13,453,896.33	\$ 13,174,080.47

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

GONZALES COUNTY WATER SUPPLY CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

LIABILITIES AND NET ASSETS

	<u>2021</u>	<u>2020</u>
Current Liabilities:		
Accounts Payable	\$ 156,284.86	\$ 285,225.40
Interest Payable	9,247.00	9,642.57
Current Portion of Long-Term Debt	65,981.42	62,991.95
Current Portion of Deferred Revenue	<u>203,750.00</u>	<u>203,750.00</u>
Total Current Liabilities	<u>435,263.28</u>	<u>561,609.92</u>
Long-Term Liabilities:		
Deferred Revenue, Net of Current	104,035.98	301,711.79
Long-Term Debt, Net of Current	<u>1,472,515.08</u>	<u>1,534,288.58</u>
Total Long-Term Liabilities	<u>1,576,551.06</u>	<u>1,836,000.37</u>
Total Liabilities	<u>2,011,814.34</u>	<u>2,397,610.29</u>
Net Assets:		
Unrestricted Net Assets:		
Contributed Capital	2,683,677.54	2,549,084.62
Membership Fees	271,116.50	261,803.00
Designated for Customer Deposits	1,700.00	1,700.00
Designated for Debt Service	318,371.91	317,789.14
Designated for Capital Improvements	182,856.99	115,853.29
Undesignated	<u>7,984,359.05</u>	<u>7,530,240.13</u>
Total Net Assets	<u>11,442,081.99</u>	<u>10,776,470.18</u>
Total Liabilities and Net Assets	<u>\$ 13,453,896.33</u>	<u>\$ 13,174,080.47</u>

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

GONZALES COUNTY WATER SUPPLY CORPORATION
STATEMENTS OF ACTIVITIES
YEARS END DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Revenue:		
Water Sales	\$ 2,432,129.74	\$ 2,384,113.49
Miscellaneous and Service Charges	43,657.13	39,239.71
Forfeited Discounts	19,867.43	20,948.75
Capital Improvement Fee	253,700.00	166,400.00
Meter Installation Fees	<u>76,350.00</u>	<u>46,850.00</u>
Total Revenue	<u>2,825,704.30</u>	<u>2,657,551.95</u>
Expenses:		
Water Purchases	97,297.48	101,639.97
Utilities	208,460.78	200,510.07
Chemicals	53,026.76	69,410.69
Supplies	17,503.00	18,570.23
Repairs and Maintenance	223,395.77	189,845.84
Transportation Expense	62,839.27	42,964.85
Equipment Expense	14,765.60	7,909.24
Salaries	696,422.82	658,609.81
Office Supplies	24,422.25	22,924.70
Outside Services	24,599.91	40,046.70
Insurance Expense	268,251.43	243,116.63
Depreciation	555,305.74	539,310.99
Uniforms	7,847.37	7,205.58
Miscellaneous Expense	68,691.84	58,194.83
Payroll Taxes	53,693.85	50,764.26
Retirement Plan Contributions	11,273.71	11,049.43
Director Fees	<u>3,780.00</u>	<u>3,360.00</u>
Total Expenses	<u>2,391,577.58</u>	<u>2,265,433.82</u>
Change in Unrestricted Net Assets from Operations	434,126.72	392,118.13
Nonoperating Revenue (Expenses):		
Interest Income	4,256.46	5,770.64
Interest Expense <i>ppd off debt</i>	(85,988.18)	(114,154.06)
Gain (Loss) on Sale of Assets	(34,439.61)	(5,076.99)
Contract Settlement	203,750.00	203,750.00
Capital Contributions	134,592.92	123,762.01
Membership Fees	<u>9,313.50</u>	<u>6,365.50</u>
Total Nonoperating Revenues (Expenses)	<u>231,485.09</u>	<u>220,417.10</u>
Change in Unrestricted Net Assets	665,611.81	612,535.23
Net Assets, Beginning of Year	<u>10,776,470.18</u>	<u>10,163,934.95</u>
Net Assets, End of Year	<u>\$ 11,442,081.99</u>	<u>\$ 10,776,470.18</u>

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

GONZALES COUNTY WATER SUPPLY CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Change in Unrestricted Net Assets	\$ 665,611.81	\$ 612,535.23
Adjustments to Reconcile Changes in Unrestricted Net Assets to Net Cash Provided by Operations:		
Depreciation	555,305.74	539,310.99
New Memberships - Net	(9,313.50)	(6,365.50)
Capital Contributions	(134,592.92)	(123,762.01)
Loss (Gain) on Sale of Assets	34,439.61	5,076.99
(Increase) Decrease In:		
Accounts Receivable	11,560.07	(21,556.94)
Inventory	(36,186.61)	(60,600.95)
Interest Receivable	198.65	500.08
Prepaid, Other Assets and Receivables	203,003.75	130,773.76
Increase (Decrease) In:		
Accounts Payable	(128,940.54)	217,898.51
Interest Payable	(395.57)	(3,869.39)
Deferred Revenue	<u>(197,675.81)</u>	<u>(196,974.99)</u>
Net Cash Provided by Operating Activities	<u>963,014.68</u>	<u>1,092,965.78</u>
Cash Flows From Investing Activities:		
Purchases of Equipment	(319,871.28)	(140,509.11)
Additions to Utility Plant	(339,383.09)	(374,515.51)
Construction in Progress	(296,179.21)	(156,703.07)
Purchase of Real Estate	(5,168.00)	(500.00)
Sale of Assets	<u>16,843.94</u>	<u>-0-</u>
Net Cash Used by Investing Activities	<u>(943,757.64)</u>	<u>(672,227.69)</u>
Cash Flows from Financing Activities:		
Debt Issuance Cost	4,207.92	4,207.92
Payments on Long-Term Debt	(62,991.95)	(419,015.99)
New Memberships - Net	9313.50	6,365.50
Capital Contributions	<u>134,592.92</u>	<u>123,762.01</u>
Net Cash Provided (Used) by Financing Activities	<u>85,122.39</u>	<u>(284,680.56)</u>
Net Increase in Cash, Cash Equivalent, and Restricted Cash	104,379.43	136,057.53
Cash, Cash Equivalents, and Restricted Cash		
Beginning of Year	<u>1,327,867.16</u>	<u>1,191,809.63</u>
Cash, Cash Equivalents, and Restricted Cash		
End of Year	<u>\$ 1,432,246.59</u>	<u>\$ 1,327,867.16</u>
Supplemental Disclosures:		
Interest Paid	<u>\$ 86,383.75</u>	<u>\$ 118,023.45</u>

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

**GONZALES COUNTY WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

Note 1: Summary of Significant Accounting Policies

Nature of Activities

Gonzales County Water Supply Corporation (a nonprofit corporation) is incorporated under the laws of the State of Texas. Members, each of whom has one vote, are admitted by agreeing to comply with the bylaw provisions and the payment of a nonrefundable membership fee.

The Corporation operates in the retail sale of water to its members.

Financial Statement Presentation

The Corporation reports information regarding its financial position and activities according to two classes of net assets: net assets, without donor restrictions and with donor restrictions. All the Corporation's net assets are without donor restrictions.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Estimates

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

Valuation of Inventories

Inventories are valued at average cost.

Accounts Receivable

Accounts receivables consist of charges to members for monthly water service. The Corporation considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Plant, Property, and Equipment

Plant, property, and equipment are stated at cost. Expenditures for maintenance and repairs are charged to expense as incurred; major betterment and new assets are capitalized. Depreciation is provided over the estimated useful lives of the respective assets on the straight-line basis. Cost and accumulated depreciation are removed from the related accounts upon disposition, and any gain or loss is reflected in net income.

Assets donated by members are recorded at their fair market value as of the date of donation.

GONZALES COUNTY WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 1: Summary of Significant Accounting Policies (Concluded)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Corporation defines cash and cash equivalents as all cash, undesignated demand accounts, undesignated money market accounts, and undesignated certificates of deposit with an original maturity of three months or less.

Revenue Recognition

Substantially all revenue are charges for water services. These revenues are recorded and billed one month in areas on a monthly basis.

Unserved customers and contract settlement revenue is deferred and is recognized over time based on the terms of the agreement.

Note 2: Designated Cash

The Corporation has several bank accounts and certificates of deposit which are designated for various purposes. A list of designated cash follows:

	<u>Designated</u>		<u>Undesignated</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Cash on Hand and Non-Interest Bearing Checking Accounts	\$ 1,700.00	\$ 1,700.00	\$ 300,645.94	\$ 440,007.96
Interest Bearing Checking Accounts and Certificates of Deposit	<u>501,228.90</u>	<u>433,642.43</u>	<u>628,671.75</u>	<u>452,516.77</u>
Totals	<u>\$ 502,928.90</u>	<u>\$ 435,342.43</u>	<u>\$ 929,317.69</u>	<u>\$ 892,524.73</u>

For the years ended December 31, 2021 and 2020, the Corporation had \$318,371.91 and \$317,789.14, respectively designated for debt service.

Note 3: Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	<u>12/31/21</u>	<u>12/31/20</u>
Cash and Cash Equivalents	\$ 929,317.69	\$ 892,524.73
Designated Cash for Customer Deposits, Capital Improvements and Debt Service	<u>502,928.90</u>	<u>435,342.43</u>
Total Cash, Cash Equivalents, and Restricted Cash Shown on the Statement of Cash Flows	<u>\$1,432,246.59</u>	<u>\$1,327,867.16</u>

**GONZALES COUNTY WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

Note 4: Liquidity and Availability of Financial Assets

The undesignated cash of \$929,317.69 and other financial assets of \$386,508.29 are available to meet cash needs for general expenditures within one year.

Note 5: Long-term Debt

A master loan agreement was entered into as of April 13, 2010 with Guadalupe Valley Development Corporation. Under this agreement the existing loans were consolidated. Two new consolidating term loans were created. These two loans were refinanced. A master loan agreement was entered into as of August 13, 2015 with Co Bank, ABC, a federally chartered instrumentality of the United States. Two new promissory notes were created. One loan for \$845,990.35 has a 5.74 fixed interest rate payable quarterly with a maturity date of July 31, 2022. A second loan for \$614,625.44 has a 5.24 fixed interest rate payable quarterly with a maturity date of July 31, 2036. These notes are collateralized by the Corporation's real and personal property. The loan agreement calls for certain ratios to be met (see note 6). The company also has a loan for \$1,200,000.00 with Co Bank ABC for the construction of a new office building. The loan has a fixed interest rate of 5.41% with a maturity date of July 20, 2038.

The following is a summary of long-term debt net of unamortized issuance cost at December 31, 2021 and 2020.

	2021	2020
Co Bank	\$ 475,761.44	\$ 499,960.65
Co Bank	<u>1,076,097.22</u>	<u>1,114,889.96</u>
Total	1,551,858.66	1,614,850.61
Less: Unamortized Issuance Cost	<u>13,362.16</u>	<u>17,570.08</u>
	1,538,496.50	1,597,280.53
Less: Current Maturities	<u>65,981.42</u>	<u>62,991.95</u>
 Long-Term Debt	 <u>\$ 1,472,515.08</u>	 <u>\$ 1,534,288.58</u>

Aggregate maturities required on long-term debt at year ended December 31, 2021 are as follows:

Fiscal Year	Amount
2022	\$ 65,981.42
2023	69,120.56
2024	72,224.59
2025	75,869.54
2026	79,505.71
Thereafter	<u>1,189,156.84</u>
Total	<u>\$ 1,551,858.66</u>

**GONZALES COUNTY WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

Note 6: Retirement Plan

The Corporation provides a simple IRA retirement plan. The Corporation matches up to 3% of employee contributions. The amount of retirement plan expense contributed by the Corporation for the years ended December 31, 2021 and 2020 was \$11,273.71 and \$11,049.43, respectively.

Note 7: Income Tax

The Corporation is exempt from Federal income tax under Section 501(c)(12) of the Internal Revenue Code and, therefore, has made no provision for Federal income taxes in the accompanying financial statements.

The Corporation's Forms 990 Return of Organization Exempt from income tax, for the years ending 2019, 2020 and 2021 are subject to examination by the IRS generally for three years after they are filed.

Note 8: Loan Covenants

The Corporation's loan agreement with Co Bank requires the accomplishment of certain ratios.

The agreement calls for a debt service coverage ratio and a debt to capitalization ratio. These ratios are calculated as follows:

Debt to Capitalization Ratio -- Ratio of not more than 0.65 to 1.

Total Debt	<u>\$ 1,551,858.66</u>
Total Capitalization -	
Total Assets	\$ 13,453,896.33
Total Liabilities	<u>2,011,814.34</u>
Net Worth	<u>11,442,081.99</u>
Total Capitalization	12,993,940.65
Ratio	<u>0.12</u>

**GONZALES COUNTY WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

Note 8: Loan Covenants (Concluded)

Debt Service Coverage Ratio –Ratio of not less than 1.25 to 1.

Net Income	\$ 665,611.81
Sale of Assets & Contract Settlement	(169,310.39)
Interest Expense	85,988.18
Depreciation	<u>555,305.74</u>
Subtotal	<u>1,137,595.34</u>
Divided by:	
Principal Payments	62,991.95
Interest Expense	<u>85,988.18</u>
Subtotal	<u>148,980.13</u>
DSC Ratio	<u><u>7.64</u></u>

Note 9: Concentrations of Credit Risk

The Corporation’s cash and certificates of deposit are located at several area institutions. The balances are secured by Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2021, \$295,484.42 of funds were uninsured. At December 31, 2020, \$238,808.65 of funds were uninsured.

The Corporation sells water to its customers in Gonzales County and the surrounding areas. The company extends credit to customers located within the above areas.

Note 10: Deferred Revenue

The Corporation had 17 customers at December 31, 2021 and 2020 who made payment or partial payment for water service but had not received water meters. The Corporation also has deferred revenue of \$27,335.98 in regard to patronage distributions from CoBank ABC. A settlement agreement was reached in 2019 with San Antonio Water System for \$890,000 which will provide 203,750 for four years and a final payment of \$75,000 in 2023 resulting in deferred revenue of \$278,750 at December 31, 2021.

Note 11: Leases

The Corporation entered a ground water lease in 2004. The terms of the lease began on March 28, 2004, and continues through March 28, 2005, and for as long thereafter as lessee continues to produce water and pay the royalties and fees contracted for. Each consecutive twelve month period from March 29, 2004 is a lease year. Beginning with the lease year for 2004 - 2005, the lease requires a guaranteed purchase of \$10,000.00 a year. Within 30 days after the close of each lease year, lessee shall pay the lessor all sums due for water produced in excess of the one acre foot per leased surface acre. The lessee has the option to terminate the lease at any time during the term of the lease.

**GONZALES COUNTY WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

Note 11: Leases (Concluded)

This lease was replaced by a new lease which began January 1, 2019 through December 31, 2019, and for as long thereafter as lessee continues to produce water and pay the amounts contracted for herein. In no event shall lessor receive less than ten annual payments of at least \$27,800 even if the lease is sooner terminated by lessee. Beginning with the lease year from 2018-2019, the lease payment shall be \$100.00 per acre foot of water, with a guarantee purchase of 278 acre feet of water and guaranteed payment of \$27,800.00.

The Corporation also entered a ground water lease in 2006. The terms of the lease start May 25, 2006 and continue through May 25, 2007 and for as long thereafter as lessee continues to produce water and pay the royalties and fees contracted for. Each consecutive twelve month period from May 25, 2006 is a lease year. Beginning with the anniversary date (commercial production date), the lease requires a guaranteed purchase of \$17,500.00 a year. Within 30 days of the close of each year, lessee shall pay the lessor all sums due for water produced in excess of the one acre foot. The lessee has the option to terminate the lease at any time during the term of the lease.

In 2013, property was leased as a site for tanks, buildings and pumps used in connection with the supply of portable water. The lessee will pay an annual rental fee. The lessee shall have the option to terminate the lease by giving 90 days written notice.

The Corporation entered a ground water lease in 2014 for the development, production, transportation and use of ground water in and under the property. An initial lease payment will be made in the year of lease. Production period payments began in the second lease year and are paid annually. The rate shall be in effect for five years and then may be adjusted by the lessor requesting in writing, a rate review. The lessee has the option to terminate the lease at any time during the preproduction phases and any time after lessee begins production upon (60) days written notice.

The Corporation also has several well site leases. The leases are for 50 years with an option to renew for another 50 years at expiration date. As rent for the site, the landlord is entitled to a quantity of water from the well not to exceed 25,000 gallons a month. The Corporation has the option to terminate these leases at any time during the term of the lease. Upon such termination, the Corporation shall be released from all obligations. The Corporation assumes the maintenance and upkeep of the leased premises.

The lease expense for the year ended December 31, 2021 and 2020 was \$79,573.35 and \$86,475.97, respectively.

**GONZALES COUNTY WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

Note 12: Commitments

In 2015, a wholesale water purchase contract was entered into with the City of Gonzales. The term is for seven years with automatic renewal for an additional seven years unless notice of termination is provided. The minimum take shall be 500,000 gallons per month and not exceed 1,000,000 gallon per month and/or 50,000 gallons per day.

Note 13: Change in Accounting

In 2020, the Corporation changed its accounting methods for revenue recognition as a result of implementing the requirements in the Financial Accounting Standard Board's Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*. The difference to revenue account balances under the new guidance as opposed to the prior revenue recognition guidance was determined to be immaterial. Accordingly, no adjustment to beginning net assets was necessary.

Note 14: Contract Assets and Liabilities

Contract assets consisting of accounts receivable were \$182,466.62 and \$194,026.69 as of December 31, 2021 and 2020, respectively, and other receivables of \$278,750.00 and \$482,500.00 respectively.

Contract liabilities consisted of deposits and deferred revenue of \$280,450.00 and \$484,200.00 as of December 31, 2021 and 2020 respectively.

Note 15: Contingent Liability

The Company has evaluated subsequent events through March 30, 2022, the date which the financial statements were available to be used.