

South Freestone County WSC

Committed to Providing Clean, Safe Water for All Our Residents

SOUTH FREESTONE COUNTY WATER SUPPLY CORPORATION

FINANCIAL REPORTS

YEARS ENDED SEPTEMBER 30, 2024 AND 2023

SOUTH FREESTONE COUNTY WATER SUPPLY CORPORATION
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
MODIFIED CASH BASIS

September 30,	2024	2023
Assets		
Current assets		
Cash and cash equivalents	\$ 533,734	\$ 580,982
Certificates of deposit	435,000	335,000
Inventory	75,483	93,002
Total current assets	1,044,217	1,008,984
Board designated cash reserves	251,277	223,044
Property and equipment, net	1,156,221	1,000,057
Total assets	\$ 2,451,715	\$ 2,232,085
Liabilities and net assets		
Current liabilities		
Accrued expenses	\$ 10,755	\$ 30,316
Deposits	-	44,675
Current maturities of long-term debt	36,347	20,079
Total current liabilities	47,102	95,070
Refundable membership deposits	138,555	132,855
Long-term debt less current portion	405,671	378,533
Total liabilities	591,328	606,458
Net assets		
Net assets without donor restrictions	1,860,387	1,625,627
Net assets with donor restrictions	-	-
Total net assets	1,860,387	1,625,627
Total liabilities and net assets	\$ 2,451,715	\$ 2,232,085

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

SOUTH FREESTONE COUNTY WATER SUPPLY CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS

Years ended September 30,	2024	2023
Revenues		
Water sales	\$ 1,100,558	\$ 1,008,486
Installation charges	99,019	52,581
Penalties and other charges	34,599	30,345
Grant	-	50,000
Other income	7,741	-
Interest and dividends	42,235	30,637
Total revenues	1,284,152	1,172,049
Expenses		
Program Services	794,346	735,037
Administration	255,046	238,916
Fundraising	-	-
Total expenses	1,049,392	973,953
Change in net assets, without donor restrictions	234,760	198,096
Net assets without donor restrictions - beginning of year	1,625,627	1,427,531
Net assets without donor restrictions - end of year	\$ 1,860,387	\$ 1,625,627

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

SOUTH FREESTONE COUNTY WATER SUPPLY CORPORATION
STATEMENTS OF FUNCTIONAL EXPENSES
MODIFIED CASH BASIS

Year Ended September 30, 2024	Program	Administration	Fundraising	Total
Expenses				
Salaries	\$ 265,154	\$ 124,778	\$ -	\$ 389,932
Employee health insurance	50,767	18,776	-	69,543
Taxes - payroll	20,728	9,754	-	30,482
Employee S.E.P.	12,462	6,711	-	19,173
Depreciation	139,282	2,567	-	141,849
Repairs and maintenance	105,918	-	-	105,918
Fuel, oil, and auto maintenance	30,213	-	-	30,213
Utilities	70,915	12,514	-	83,429
Chemicals	45,324	-	-	45,324
Office	-	34,253	-	34,253
Insurance	23,837	10,216	-	34,053
Professional fees	4,947	19,790	-	24,737
Interest	23,849	-	-	23,849
Uniforms	950	-	-	950
Directors fees	-	3,195	-	3,195
Annual meeting	-	3,458	-	3,458
Recording fees	-	1,291	-	1,291
Miscellaneous	-	7,743	-	7,743
Total expenses	\$ 794,346	\$ 255,046	\$ -	\$ 1,049,392

Year Ended September 30, 2023	Program	Administration	Fundraising	Total
Expenses				
Salaries	\$ 248,412	\$ 116,900	\$ -	\$ 365,312
Employee health insurance	55,906	20,677	-	76,583
Taxes - payroll	19,345	9,103	-	28,448
Employee S.E.P.	12,273	6,609	-	18,882
Depreciation	116,136	2,612	-	118,748
Repairs and maintenance	92,677	-	-	92,677
Fuel, oil, and auto maintenance	26,020	-	-	26,020
Utilities	63,027	11,122	-	74,149
Chemicals	55,134	-	-	55,134
Office	-	30,575	-	30,575
Insurance	20,463	8,769	-	29,232
Professional fees	4,615	18,461	-	23,076
Interest	19,428	-	-	19,428
Uniforms	1,601	-	-	1,601
Directors fees	-	2,835	-	2,835
Annual meeting	-	3,550	-	3,550
Recording fees	-	2,046	-	2,046
Miscellaneous	-	5,657	-	5,657
Total expenses	\$ 735,037	\$ 238,916	\$ -	\$ 973,953

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

SOUTH FREESTONE COUNTY WATER SUPPLY CORPORATION
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS

Years ended September 30,	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 234,760	\$ 198,096
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	141,849	118,748
Changes in operating assets and liabilities:		
Inventory	17,518	(6,153)
Accrued expenses	(19,560)	15,276
Deposits	(44,675)	44,675
Change in refundable membership deposits	5,700	4,600
Net cash flows provided by operating activities	335,592	375,242
Cash flows from investing activities:		
Purchase of certificates of deposit	(100,000)	(65,000)
Increase in cash reserved for long-term liabilities	(28,233)	(56,209)
Purchase of property and equipment	(298,014)	(271,367)
Net cash flows provided by (used in) investing activities	(426,247)	(392,576)
Cash flows from financing activities:		
Proceeds (Payments) of borrowings	43,407	(19,152)
Net cash flows provided by (used in) financing activities	43,407	(19,152)
Net change in cash and cash equivalents	(47,248)	(36,486)
Cash and cash equivalents - beginning of year	580,982	617,468
Cash and cash equivalents - end of year	\$ 533,734	\$ 580,982
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 23,849	\$ 19,428
Cash paid for income taxes	\$ -	\$ -

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

SOUTH FREESTONE COUNTY WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1 – Nature of the Organization

South Freestone County Water Supply Corporation (the “Organization”) supplies water and related services to individual and business customers within Freestone County, Texas. The Organization is committed to providing safe, high quality water services to their community, while maintaining a standard of excellence in customer service and environmental conservation.

Note 2 – Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting. Consequently, certain revenues and expenses are recognized in the determination of income in different reporting periods than they would be if the financial statements were prepared in conformity with generally accepted accounting principles. Under the modified cash basis of accounting, the Organization recognizes revenues when received rather than when earned and recognizes expenses when paid rather than when incurred, with the exception of accounts payable, depreciation, and payroll and related expenses.

Note 3 – Summary of Significant Accounting Policies

Use of Estimates – The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

Basis of Presentation – Net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization and/or the passage of time, or that they be maintained permanently by the Organization. Generally, the donors of assets to be maintained permanently by the Organization permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is donor restricted or restricted by law. Expirations of donor restrictions on net assets (i.e., the donor restriction has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Currently, all net assets of the Organization are unrestricted. However, net assets are subject to certain loan covenants and board designations as described in Notes 4 and 12.

Cash and Cash Equivalents – For the purpose of the statement of cash flows, the Organization considers all short-term investments with original maturities of three months or less to be cash equivalents.

SOUTH FREESTONE COUNTY WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

Federal Income Tax – The Organization qualifies as a tax-exempt organization under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(12) and, therefore, has no provision for federal income taxes.

Property and Equipment – Property and equipment are stated at cost. Major expenditures for renewals or betterments are capitalized. Expenditures for maintenance and repairs are charged to expenses as incurred. Assets sold or otherwise disposed of are removed from the accounts, including accumulated depreciation and any resulting gain or loss is recognized in income.

Depreciation is computed for financial statement purposes on a straight-line basis over the estimated useful lives of the related assets.

Written consent of the U.S. Department of Agriculture – Rural Development is required prior to disposition or transfer of title to the facility or any part thereof, including lands and interest in lands by sale, security instrument, lease or other encumbrance.

Functional Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management.

Concentrations of Credit Risk – Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash, cash equivalents, and certificates of deposit. Cash, cash equivalents, and certificates of deposit are placed with high quality financial institutions that from time to time exceed FDIC (Federal Deposit Insurance Corporation) and SIPC (Securities Investor Protection Corporation) limits. The Organization has not experienced any losses with respect to these accounts. The Organization exceeded its SIPC coverage at September 30, 2024.

The Organization's revenue is derived from the production and sale of water and related services within its geographic area.

Reclassifications – Certain reclassifications may have been made to the 2023 financial statement presentation in order to conform to the 2024 financial statement presentation.

Subsequent Events – In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 3, 2025, which is the date the financial statements were available to be issued. In December 2024, the Board approved expenditures of \$651,000 to purchase and install generators for well sites and pump stations.

Note 4 – Limits on Net Assets Without Donor Restrictions

USDA-Rural Development loan covenants require the Organization to set aside into an account designated as the Reserve Account an amount equal to one year's payment for each USDA-Rural Development loan. The Organization must set aside each month an amount equal to 1/120 of one year's payment until there is accumulated

SOUTH FREESTONE COUNTY WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

in that account the sum of one year's payment. USDA-Rural Development approval is required prior to any disbursements from the Reserve Account. Cash set aside for these loan covenants amounted to \$38,580 as of September 30, 2024 and 2023.

The board has designated cash reserves to be maintained in an amount equal to the outstanding balance of the refundable deposits. Cash set aside for these refundable deposits amounted to \$138,350 and \$132,855 for the years ended September 30, 2024, and 2023, respectively.

The board has designated cash reserves to be set aside for future capacity improvements, such as line upgrades, new tanks, treatment, or production. Cash set aside for future capacity improvements amounted to \$74,347 and \$51,609 for the years ended September 30, 2024 and 2023, respectively.

Note 5 – Long-term Debt

Long-term debt consists of the following notes payable to the U.S. Department of Agriculture – Rural Development, and two local banks:

	<i>2024</i>	<i>2023</i>
Note payable, USDA-Rural Development, 4.75% interest, payable in monthly installments of \$3,215 (including interest), maturing September 2, 2038, secured by all present and future contract rights, accounts receivable, general intangibles arising in connection with the facility, real estate and chattels	\$ 378,533	\$ 398,612
 Note payable, local bank, 10.0% interest, payable in monthly installments of \$813.90 (including interest), secured by a vehicle	 25,774	 -
 Note payable, local bank, 8.5% interest, payable in monthly installments of \$883.47 (including interest), secured by equipment	 37,711	 -
 Less current maturities	 (36,347)	 (20,079)
Total long-term debt	\$ 405,671	\$ 378,533

The Organization paid \$23,849 and \$19,428 in interest expense for the years ended September 30, 2024 and 2023, respectively.

SOUTH FREESTONE COUNTY WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

The scheduled maturities of long-term debt outstanding as of September 30, 2024, are as follows:

2025	\$	36,347
2026		38,824
2027		41,489
2028		34,879
2029		27,948
Thereafter		262,531
Total	\$	442,018

Note 6 – Property and Equipment

Property and equipment consist of:

	<i>Estimated Useful Lives</i>	<i>2024</i>	<i>2023</i>
Vehicles	5 years	\$ 166,204	\$ 126,205
Building	10-25 years	102,833	102,833
Distribution system	5-20 years	2,035,930	1,923,820
Water wells and pumps	7-25 years	1,277,652	1,277,652
Equipment	5-10 years	164,479	100,711
Construction in Progress		74,395	-
Land		22,479	14,738
		3,843,972	3,545,959
Less accumulated depreciation		(2,687,751)	(2,545,902)
Total property and equipment net		\$ 1,156,221	\$ 1,000,057

The cost and related accumulated depreciation of assets sold, returned, or otherwise disposed of is removed from the respective accounts at the time of disposition. Any resulting profit or loss from the disposition of assets is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Total depreciation expense was \$141,849 and \$118,748 in 2024 and 2023, respectively.

Note 7 – Inventories

The Organization values its inventory at the lower of cost or net realizable value. Inventory consists primarily of pipe, fittings, and valves. Obsolete and damaged goods are not included in inventory.

SOUTH FREESTONE COUNTY WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

Note 8 – Related Party Transactions

The Organization had entered into a lease agreement with the Field Manager to lease the following equipment for \$1,400 per month: backhoe, truck and trailer to transport equipment, water pump and miscellaneous hand tools. The lease ended March 31, 2024. The lessor agreed to operate the equipment in the performance of the duties of Field Manager. The contract did not include the installation of new lines, replacement of existing lines over 500 feet and installation of new lines for the purpose of upgrading the system. The Organization paid to the Field Manager \$8,400 and \$16,800 for the lease of equipment for the years ended September 30, 2024 and 2023. The Organization paid \$4,100 and \$2,825 for other contract services to the Field Manager for the years ended September 30, 2024 and 2023, respectively.

Note 9 – Pension Plan

The Organization has a simplified employee pension (SEP) and all employees of the Organization are eligible to participate in the plan. The Organization contributed \$19,173 and \$18,882 for the years ended September 30, 2024 and 2023, respectively.

Note 10 – Commitments and Contingencies

The Organization's facilities are subject to periodic inspections of its water quality by state regulatory agencies. Compliance with applicable regulations has not had, nor does Organization management expect such compliance to have, any material effect on the financial condition of the Organization.

Note 11 – Operating Lease

The Organization leases office equipment under a lease agreement in effect December 2022, which required a base monthly lease payment of \$277 and expires in December 2027. Rent expense was \$3,388 and \$2,806 at September 30, 2024 and 2023, respectively.

Future minimum lease payments are as follows:

2025	\$	3,324
2026		3,324
2027		3,324
2028		831
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Total	\$	10,803

Note 12 – Liquidity and Availability

The Organization strives to maintain liquid financial assets sufficient to cover a minimum of 180 days of general expenses. General expenses do not include cost of improvements, extensive wells repairs, and various expenses for

SOUTH FREESTONE COUNTY WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

growth. Due to this fact, the Organization has recently increased rates, added an additional fee for first time customers, and is in process of applying for grants.

As of September 30, 2024, the Organization has liquid assets that would be sufficient to cover approximately eleven months of general expenses. In addition to the financial assets available to meet general expenses over a twelve-month period, the Organization operates with a balanced budget and anticipates sufficient revenue to cover general expenses. The Organization's board of directors works closely with management to maintain fiscal accountability and responsibility.

The Organization's management invests approximately 45% of liquid funds in short-term investments to earn interest for the Organization, as well as allowing for use of assets as needed for daily operations.

Financial assets available for general expenses, that is, without donor or other restrictions limiting their use, within one year of September 30 are:

	2024	2023
Total financial assets:		
Cash and cash equivalents	\$ 533,734	580,982
Investments	435,000	335,000
Total	968,734	915,982
Less:		
Reserve for covenants	38,580	38,580
Reserve for refundable deposits	138,350	132,855
Reserve for future capacity improvements	74,347	51,609
Reserve for Gorman Exterior Refurbishment	-	15,000
Reserve for TDEM/HMGT grant, if awarded requires 10% down payment	72,000	72,000
Reserve for subdivision water line installation	-	36,575
Total	323,277	346,619
Financial assets available to meet cash needs for general expenses within one year	\$ 645,457	\$ 569,363