

***SOUTH COUNTY FREESTONE  
WATER SUPPLY CORPORATION  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 2025***

South County Freestone Water Supply Corporation  
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**ANDERSON, MARX & BOHL, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
South Freestone County Water Supply Corporation  
Teague, Texas

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the financial statements of South Freestone County Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of September 30, 2025, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of South Freestone County Water Supply Corporation as of September 30, 2025, 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.

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of South Freestone County Water Supply Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about South Freestone County Water Supply Corporation's ability to continue as a going concern for one year after the date that the financial statements are issued.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 South Freestone County Water Supply Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about South Freestone County Water Supply Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Anderson, Marx & Bohl, P.C.*

Anderson, Marx & Bohl, P.C.  
Corsicana, Texas

January 30, 2026

**SOUTH FREESTONE COUNTY WATER SUPPLY CORPORATION  
STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

**ASSETS**

<b>Current Assets</b>	
Cash	\$ 523,791
Investments	100,000
Accounts Receivable, net	145,631
Grant Receivable	610,630
Inventory	<u>72,071</u>
<b>Total Current Assets</b>	<b>1,452,123</b>
<b>Noncurrent Assets</b>	
Restricted Cash	237,743
Property and Equipment, at cost	
Construction in Progress	712,150
Land	34,709
Buildings and Equipment, Net	<u>1,398,536</u>
<b>Total Property and Equipment</b>	<b><u>2,145,395</u></b>
<b>Total Noncurrent Assets</b>	<b><u>2,383,138</u></b>
<b>Total Assets</b>	<b>\$ <u><u>3,835,261</u></u></b>

**LIABILITIES**

<b>Current Liabilities</b>	
Accounts Payable and Accrued Liabilities	\$ 418,914
Current Portion - Long-Term Debt Payable	<u>57,992</u>
<b>Total Current Liabilities</b>	<b><u>476,906</u></b>
<b>Long-Term Liabilities</b>	
Membership Deposits	139,600
Long-Term Debt Payable	<u>349,268</u>
<b>Total Liabilities</b>	<b>965,774</b>

**NET ASSETS**

<b>Net Assets Without Donor Restrictions:</b>	
Undesignated	<u>2,869,487</u>
<b>Total Net Assets</b>	<b><u>2,869,487</u></b>
<b>Total Liabilities and Net Assets</b>	<b>\$ <u><u>3,835,261</u></u></b>

See accompanying notes and accountants' report

**SOUTH FREESTONE COUNTY WATER SUPPLY CORPORATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS:

OPERATING REVENUES AND GAINS	
Water Revenue	\$ 1,200,126
Other Revenue	110,939
TOTAL REVENUES AND GAINS	<u>1,311,065</u>
EXPENSES AND LOSSES	
Program Services:	
Payroll	406,081
Payroll Tax	31,579
Employee Benefits	22,790
Supplies, Repairs, and Maintenance	164,458
Electric and Water Purchases	75,732
Insurance	109,413
Equipment Rental	3,204
Professional Fees	10,740
Auto Expense	31,620
Depreciation	154,568
Total Program Services	<u>1,010,185</u>
Supporting Activities:	
Office Expense	73,676
TOTAL EXPENSES AND LOSSES	<u>1,083,861</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS FROM OPERATIONS	<u>227,204</u>
NON-OPERATING CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	
Grant Revenue	640,935
Interest Revenue	38,570
Interest Expense	<u>(21,436)</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS FROM NON-OPERATING ACTIVITIES	<u>658,069</u>
INCREASE IN NET ASSETS	885,273
NET ASSETS, BEGINNING OF YEAR	1,860,387
PRIOR PERIOD ADJUSTMENT	123,827
NET ASSETS, BEGINNING OF YEAR, RESTATED	<u>1,984,214</u>
NET ASSETS, END OF YEAR	<u>\$ 2,869,487</u>

See accompanying notes and accountants' report

**SOUTH FREESTONE COUNTY WATER SUPPLY CORPORATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 1,300,520
Cash payments to suppliers	(678,117)
Cash payments to employees	(460,450)
Net Cash Provided (Used) By Operating Activities	<u>161,953</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest income	38,570
Increase in cash reserved for long-term liabilities	13,534
Proceeds from maturity of certificates of deposit	435,000
Purchase of certificate of deposit	(100,000)
Purchases of property and equipment	(1,143,742)
Net Cash Provided (Used) by Investing Activities	<u>(756,638)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Interest payments on debt	(21,436)
Proceeds from grant	640,935
Proceeds from issuance of debt	57,334
Principal payments on debt	(92,091)
Net Cash Provided (Used) by Financing Activities	<u>584,742</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(9,943)</b>
<b>CASH, BEGINNING OF YEAR</b>	<u>533,734</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 523,791</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Increase (Decrease) from operations	\$ 227,204
Adjustments to Reconcile Change in Net Assets	
Cash Provided by Operating Activities:	
Depreciation	154,568
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(10,545)
(Increase) Decrease in Grant Receivable	(610,630)
(Increase) Decrease in Inventory	3,411
Increase (Decrease) in Accrued Liabilities	396,900
Increase (Decrease) in Membership Deposits	1,045
	<u>1,045</u>
Net Cash Provided (Used) By Operating Activities	<u><u>\$ 161,953</u></u>
<b>SUPPLEMENTAL DISCLOSURES</b>	
Interest Paid	<u><u>\$ 21,436</u></u>
See accompanying notes and accountants' report	

**SOUTH COUNTY FREESTONE WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2025**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:**

**NATURE OF ACTIVITIES**

South Freestone County Water Supply Corporation is a nonprofit organization incorporated in the state of Texas and recognized as a nonprofit organization under section 501(c)(12) of the Internal Revenue Code, for the purpose of providing a potable water utility service to rural members in Teague, Texas. Operating policies, rates, tariffs and regulations are formulated by a Board of Directors, duly elected by the members of South Freestone County Water Supply Corporation.

**BASIS OF PRESENTATION**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for Profit Organizations" (the 'Guide'). (ASC 958-205) was effective January 1, 2018. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Corporation and changes therein are classified and reported as follows:

Net assets without donor restrictions- Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation. The Corporation's board may designate net assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions- Net assets subject to donor or grantor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation or by the passage of time. Other donor restrictions may be perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

The Corporation reported a change in accounting principle for the current year, changing from the modified cash basis to the accrual basis of accounting. The Corporation determined that the accrual basis would provide more useful data moving forward. See Note 14 for additional information regarding the impact of retroactively restating net assets to reflect this change.

## **REVENUE RECOGNITION**

The Corporation generally sells water utility services under short-term, monthly billing cycles, using a tariff schedule approved by the Board of Directors. Revenues are recognized monthly, based on metered readings located at each member's place of residence or business.

## **INVESTMENTS**

The Corporation sometimes carries certain marketable securities, at fair market value (FMV). All increases or decreases in the FMV of the investments are recognized in the Statement of Activities as an unrealized holding gain/loss. Certificates of deposit are reported at cost or net asset value, which approximates cost.

## **INCOME TAXES**

The Corporation is exempt from Federal income taxes (except on unrelated business income) under Internal Revenue Code Section 501(c)(12) and therefore has made no provision for federal income taxes. The Corporation had no uncertain tax positions or unrelated business income in 2025.

## **PROPERTY AND EQUIPMENT**

Property and equipment purchases are recorded at cost or at estimated acquisition value as of the date of purchase or gift. The Corporation follows the practice of capitalizing all expenditures of any significance. Depreciation is provided using the straight-line method over estimated useful lives ranging from five years to fifty years for vehicles, equipment and the water system.

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.

## **CASH AND CASH EQUIVALENTS**

For purposes of the statement of cash flows, the Corporation considers all operating cash without donor restrictions with a maturity of three months or less, and not classified as investments or part of the reserve fund to be cash equivalents.

## **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.

## **INVENTORY**

Inventory consists primarily of supplies and is recorded at the lower of cost (first-in, first-out method) or market.

## **CONCENTRATION OF CREDIT RISK**

When necessary, the Corporation invests its excess and reserve funds in FDIC/FSLIC-insured money market, or other time deposit securities which fall outside the scope of FDIC/FSLIC coverage. Guidelines are established by the Board of Directors relative to diversification and maturities that maintain safety and liquidity. Guidelines are reviewed periodically and modified to take advantage of trends in yields and maturities.

## **FAIR VALUES OF FINANCIAL INSTRUMENTS**

The Corporation utilizes fair value measurements to record certain assets and to determine fair value disclosures. In accordance with FASB ASC Topic 820, "Fair Value Measurements," fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

ASC Topic 820 establishes a three-tier fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access.

Level 2 – Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. As of September 30, 2025, all investments are considered Level 2.

Following is a description of the valuation methodologies used to measure fair value. There have been no changes in the methodologies used at September 30, 2025.

*Certificates of deposit:* Value is based on stated market value (which approximates cost).

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

### **SUPPORT AND REVENUE**

All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor. All donor-restricted support is reported as an increase in net assets with donor restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Corporation reports the support in net assets without donor restrictions. Otherwise, when a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Other revenues consist of income from late charges, tap and system development fees, and other miscellaneous sources. These amounts are recognized as revenue when received due to the uncertainty of payment.

### **NEW ACCOUNTING PRONOUNCEMENTS**

No new accounting pronouncements were adopted in the current year.

The organization is currently reviewing the potential impact, if any, for the following Accounting Standards Updates (ASU) expected to be effective for 2026 and 2027.

ASU 2023-09 Income Taxes (Topic 740): Improvements to Income Tax Disclosures.

ASU 2024-02 Codification Improvements – Amendments to Remove References to the Concepts Statements.

ASU 2025-12 Codification Improvements

## NOTE 2 - PROPERTY AND EQUIPMENT

Changes during 2025 in the property and equipment of the Corporation are as follows:

	Beginning Balance 10/1/2024	Additions	Retirements	Ending Balance 9/30/2025
Land	\$ 22,479	\$ 12,230	\$ -	\$ 34,709
Construction in Progress	74,395	637,755	-	712,150
Buildings	102,833	-	-	102,833
Vehicles	166,204	42,270	(23,700)	184,774
Machinery and Equipment	164,479	-	-	164,479
Water System	3,313,582	451,487	-	3,765,069
Total	3,843,972	1,143,742	(23,700)	4,964,014
Accumulated Depreciation	(2,687,751)	(154,568)	23,700	(2,818,619)
Net Property and Equipment	<u>\$ 1,156,221</u>	<u>\$ 989,174</u>	<u>\$ -</u>	<u>\$ 2,145,395</u>

## NOTE 3 – LONG-TERM DEBT

Long-term debt at September 30, 2025 consisted of the following:

Notes payable to Water Finance Exchange interest at 8.50 – 10.00%, payable in monthly installments of \$1,630.78, secured by equipment, due on or before October 29, 2028

\$ 49,781

Notes payable to USDA-Rural Development interest at 4.75%, monthly payments of \$3,215 including interest, secured by all present and future contract rights, accounts receivable, general intangibles arising in connection with the facility, real estate and chattels, due on or before September 2, 2038

357,479

Total long-term debt

407,260

Less current portion

(39,523)

\$ 367,737

	Balance 10/01/24	Issued	Retired	Balance 09/30/25	Due Within One Year
Notes	\$ 442,017	\$ 57,334	\$ 92,091	\$ 407,260	\$ 39,523

Debt service requirements for long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 39,523	\$ 17,853	\$ 57,376
2027	41,848	16,301	58,149
2028	34,768	14,780	49,548
2029	26,854	13,424	40,278
2030	26,384	12,196	38,580
Thereafter	<u>237,883</u>	<u>46,045</u>	<u>283,928</u>
	<u>\$ 407,260</u>	<u>\$ 120,599</u>	<u>\$ 527,859</u>

The loan agreement with the USDA-Rural Development provides certain requirements as follows:

Reserve Fund

This section requires monthly transfers to the Reserve Fund, commencing on or before the first day of the month following the transfer of the note proceeds, an amount not less than 1/20th of the average annual debt service requirements on the note until the Reserve Fund contains an amount at least equal to 100% of the average annual debt service requirements of the note.

Total amount required to be on deposit in the Reserve Fund compared to actual amounts on deposit are as follows:

	<u>Reserve Fund</u>
Required Ultimate Balance	<u>\$ 38,580</u>
Required Present Balance	<u>\$ 38,580</u>
Actual Present Balance	<u>\$ 38,580</u>

**NOTE 4 – CASH BALANCES**

As of September 30, 2025, the carrying amount of cash and cash equivalents was \$861,534. The Corporation’s investments include a long-term certificate of deposit in the amount of \$100,000.

Custodial credit risk:

Deposits: This is the risk that, in the event of failure of a depository financial institution, an entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of September 30, 2025, all of the cash and certificates of deposit are fully insured.

**NOTE 5 - RESTRICTED CASH**

The balances of restricted cash accounts include amounts set aside for the following:

Refundable Memberships	\$ 139,600
Capacity Improvements	59,563
Reserve Fund	38,580
	<u>\$ 237,743</u>

**NOTE 6 – INVESTMENTS**

The Corporation has an investment, stated at net asset value (which approximates cost), with a financial institution as follows:

	<u>Interest</u> <u>Rate</u>	<u>Maturity</u>	<u>Amount</u>
Edward Jones CD	4.30%	11/03/2025	\$ 100,000

**NOTE 7 – ACCOUNTS RECEIVABLE**

In management’s opinion all accounts receivable at September 30, 2025 are collectible; therefore, no allowance for uncollectible accounts was recorded. Any receivables that are considered uncollectible are written off immediately.

**NOTE 8 – NET ASSETS**

All of South Freestone County Water Supply Corporation’s net assets were without donor restrictions at September 30, 2025. The following is a schedule of net assets:

UNDESIGNATED	
Balance, October 1	\$ 1,860,387
Allocations during the year – Reserve	
Prior period adjustments	123,827
Change in net assets	<u>885,273</u>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ <u>2,869,487</u>

**NOTE 9 – MEMBER INVESTMENT**

Membership in the Corporation is currently sold for \$200 per member, and one membership must be purchased to access system facilities. Membership cost is refundable or transferable. At September 30, 2025 there were 1,262 memberships.

**NOTE 10 – FINANCIAL ASSETS**

The following reflects the Corporation’s financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets, at year-end	\$ 1,231,429
Board designations:	
Amounts set aside for reserve	<u>237,743</u>
Financial assets available to meet cash needs	
for general expenditures within one year	<u>\$ 993,686</u>

The Corporation has \$993,686 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Corporation has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 180 days of normal operating expenses, which are, on average, approximately \$540,000. The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Corporation invests cash in excess of daily requirements in various short-term investments, including certificate of deposits. Occasionally, the board designates a portion of any operating surplus to its reserve.

**NOTE 11 – COMMITMENTS**

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

**NOTE 12 – PENSION PLAN**

The Corporation has a simplified employee pension (SEP) and all employees of the Corporation are eligible to participate in the plan. The Corporation contributed \$19,130 for the year ended September 30, 2025.

**NOTE 13 – COMPENSATED ABSENCES**

Vacation and sick pay is paid when taken by employees. No vacation days are allowed to be carried over and are forfeited at midnight on the last day of the calendar year however they do carry over as of the end of the fiscal year. Sick days can be carried over from year to year. An accrual has been made for vacation and sick time available to be paid as of September 30, 2025.

**NOTE 14 – PRIOR PERIOD ADJUSTMENT**

The net assets as of September 30, 2024 have been restated by a net increase of \$123,827 due to adjustments to record \$135,086 in beginning billed and unbilled accounts receivable less unrecorded accrued liabilities of \$11,259 for the prior year.

**NOTE 15 – SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated subsequent events and transactions for potential recognition or disclosure through January 30, 2026, the date the financial statements were available to be issued.