

LAKE LIVINGSTON WATER SUPPLY CORPORATION

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

December 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lake Livingston Water Supply Corporation
Livingston, Texas

Opinion

We have audited the accompanying financial statements of Lake Livingston Water Supply Corporation (a Texas nonprofit organization), which comprise the statements 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lake Livingston 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Lake Livingston Water Supply Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Lake Livingston Water Supply Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 Lake Livingston 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 Lake Livingston 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Water Usage Details and Statistics is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lufkin, Texas
March 24, 2022


CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL STATEMENTS

LAKE LIVINGSTON WATER SUPPLY CORPORATION
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1 732 884	\$ 1 467 383
Accounts Receivable:		
Trade (net of allowance for doubtful accounts of \$37,966 for 2021 and 2020)	743 402	757 651
Prepaid expenses	171 237	133 323
Inventory	<u>227 371</u>	<u>241 184</u>
TOTAL CURRENT ASSETS	<u>2 874 894</u>	<u>2 599 541</u>
Reserve Funds:		
Cash and cash equivalents	<u>3 574 428</u>	<u>3 366 605</u>
TOTAL RESERVE FUNDS	<u>3 574 428</u>	<u>3 366 605</u>
Property, Plant and Equipment:		
Land	924 588	924 588
Buildings	1 772 104	1 772 104
Water supply and distribution	35 896 341	35 678 281
Transportation equipment	913 574	723 947
Office furniture and equipment	300 410	181 674
Construction in progress	<u>227 354</u>	<u>225 354</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	40 034 371	39 505 948
Less: Accumulated depreciation	<u>(16 654 994)</u>	<u>(15 787 197)</u>
TOTAL NET PROPERTY, PLANT AND EQUIPMENT	<u>23 379 377</u>	<u>23 718 751</u>
Other Assets:		
Investments - CoBank	<u>215 518</u>	<u>235 893</u>
TOTAL OTHER ASSETS	<u>215 518</u>	<u>235 893</u>
TOTAL ASSETS	<u>\$ 30 044 217</u>	<u>\$ 29 920 790</u>

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

	<u>2021</u>	<u>2020</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 77 946	\$ 50 423
Accrued liabilities	214 899	219 765
Customer deposits	243 851	224 976
Current portion of long-term debt	<u>1 734 137</u>	<u>1 125 607</u>
TOTAL CURRENT LIABILITIES	<u>2 270 833</u>	<u>1 620 771</u>
Long-Term Liabilities:		
Long-term debt	<u>14 111 708</u>	<u>15 810 901</u>
TOTAL LONG-TERM LIABILITIES	<u>14 111 708</u>	<u>15 810 901</u>
TOTAL LIABILITIES	<u>16 382 541</u>	<u>17 431 672</u>
Net Assets:		
Membership certificates	<u>701 400</u>	<u>683 800</u>
Unrestricted Net Assets:		
Reserved	3 574 428	3 366 605
Unreserved	<u>9 385 848</u>	<u>8 438 713</u>
TOTAL UNRESTRICTED NET ASSETS	<u>12 960 276</u>	<u>11 805 318</u>
TOTAL NET ASSETS	<u>13 661 676</u>	<u>12 489 118</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 30 044 217</u>	<u>\$ 29 920 790</u>

LAKE LIVINGSTON WATER SUPPLY CORPORATION
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2021 and 2020

	2021	2020
Operating Income:		
Water revenues	\$ 5 957 249	\$ 5 779 060
Tap fees	140 225	115 246
Late charges, and return check charges	68 552	66 488
Disconnect fees	39 000	27 250
Other operating income	98 972	69 145
TOTAL OPERATING INCOME	6 303 998	6 057 189
Operating Expenses:		
Annual meeting	1 228	527
Bad debts	49 521	35 888
Bank fees	860	1 020
Board of Directors expenses and fees	35 220	36 231
Chemical usage	97 799	92 287
Other employee benefits	949	3 157
Communications and telephone	43 615	39 626
Commitment fees	1 014	1 017
Computer operations	61 288	61 843
Customer relations	16 156	11 454
Depreciation	877 892	879 685
Dues and subscriptions	8 577	8 479
Education	7 058	5 505
Flower fund	633	640
Insurance	439 833	452 040
Inventory adjustments	42 497	536
Laboratory testing	81 723	86 803
Legal and professional services	119 193	84 195
Meals and travel	1 730	38
Office supplies	23 696	23 862
Operational fees	30 040	28 354
Other	28 372	45 293
Payroll taxes	133 468	141 564
Penalties and fines	311	5 646
Pension - 401(k)	16 186	17 646
Postage	25 418	35 220
Repairs and maintenance	553 507	526 937
Salaries and wages	1 868 294	1 811 222
Uniform services	5 742	5 670
Utilities	222 476	200 391
Vehicle	162 680	125 758
Water purchases and standby fees	82 244	82 760
Water production fees	39 212	17 396
TOTAL OPERATING EXPENSES	5 078 432	4 868 690
OPERATING INCOME	1 225 566	1 188 499
Other Income (Expenses):		
Dividend income	20 606	31 542
Grant proceeds	10 000	10 000
Interest income	7 073	8 620
Interest expense	(197 778)	(208 095)
Loan forgiveness income	-	423 805
Other income	89 491	4 169
TOTAL OTHER INCOME (EXPENSES)	(70 608)	270 041
CHANGE IN NET ASSETS	1 154 958	1 458 540
Net assets, beginning of year	11 805 318	10 346 778
NET ASSETS, END OF YEAR	\$ 12 960 276	\$ 11 805 318

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

LAKE LIVINGSTON WATER SUPPLY CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities:		
Cash received from members	\$ 6 318 247	\$ 6 087 416
Cash paid for payroll and related taxes	(2 023 182)	(1 989 348)
Cash paid to suppliers for operating expenses	(2 165 710)	(2 153 829)
Interest, dividends and grants received	127 170	478 137
Interest paid	(153 855)	(162 110)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2 102 670	2 260 266
Cash Flows from Investing Activities:		
Cash payments for the purchases of fixed assets	(551 978)	(374 879)
Cash proceeds from the disposition of property	-	12 203
Proceeds from retirements of investments	32 960	34 995
Stock dividends	(12 585)	(13 980)
NET CASH (USED) BY INVESTING ACTIVITIES	(531 603)	(341 661)
Cash Flows from Financing Activities:		
Proceeds from issuance of debt	-	433 805
Forgiveness of loan	-	(423 805)
Principal payments on long-term debt	(1 134 218)	(1 136 150)
Increase in membership fees	17 600	12 900
Increase (decrease) in customer deposits	18 875	3 575
NET CASH (USED) BY FINANCING ACTIVITIES	(1 097 743)	(1 109 675)
NET INCREASE IN CASH AND CASH EQUIVALENTS	473 324	808 930
Cash and cash equivalents, beginning of year	4 833 988	4 025 058
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5 307 312	\$ 4 833 988
Reconciliation of Change in net assets to Net Cash Provided by Operating Activities:		
Change in net assets	\$ 1 154 958	\$ 1 458 540
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization - Debt issue costs	43 555	43 556
Depreciation	877 892	879 685
(Gain) loss on disposition of assets	13 460	-
(Increase) decrease in accounts receivable and unbilled revenue	14 249	30 227
(Increase) decrease in prepaid expenses	(37 914)	24 997
(Increase) decrease in inventory	13 813	(30 649)
Increase (decrease) in accounts payable	27 523	(129 604)
Increase (decrease) in accrued liabilities	(4 866)	(16 486)
TOTAL ADJUSTMENTS	947 712	801 726
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2 102 670	\$ 2 260 266

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

LAKE LIVINGSTON WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Lake Livingston Water Supply Corporation (the "Corporation") is a member-owned non-profit corporation incorporated pursuant to the provisions of Texas Water Code Chapter 67, for the purpose of furnishing a potable water. The Corporation provides water to 7,004 members in Polk, Hardin, Liberty, San Jacinto, Trinity, Walker, and Tyler County areas. The Corporation has 73 water plants serving 112 subdivisions. The Corporation's water quality is regulated by the Texas Commission on Environmental Quality ("TCEQ").

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles, in all material respects.

Cash and Cash Equivalents

Cash and cash equivalents represent all cash on hand and in banks and all short-term, highly liquid investments that are readily convertible to known amounts of cash within three months or less.

Accounts Receivable

Accounts receivable are carried at cost. The Corporation uses the allowance method to account for uncollectible accounts. Receivables from employees and others not incurred while providing water service is reported as other receivables on the balance sheet (none as of December 31, 2021 and 2020). There was approximately \$38,000 of receivables 90 days or more past due at December 31, 2021 and 2020, shown in the allowance account. Accounts deemed uncollectible are offset with the respective customer deposit and any amount remaining is charged off as a bad debt.

Inventory

Inventory is comprised of spare meters and supplies used in maintenance and operations and is carried at cost, which is the lower of cost or net realizable value on a first in first out basis. As inventory is used, it is expensed to operations.

Property and Equipment

Property, plant, and equipment are recorded at cost. Major renewals and betterments including the original cost of construction or installation, the cost of contracted services, direct labor and materials, and appropriate overhead items are charged to the property accounts while replacements, maintenance and repairs which do not extend the life of the respective assets are expensed currently.

Property, plant, and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

Construction in progress is accumulated in an asset account, "construction in progress," until such time as the additions to plant and equipment are complete and placed in service. Upon placing the asset in service it is transferred to the appropriate fixed asset account and depreciated. The corporation capitalizes interest amounts incurred due to long-term construction to the assets being constructed. These costs are included in construction in progress until the asset is placed in service.

Depreciation

For financial reporting purposes, provisions for depreciation of utility plant are determined using the straight-line method at rates applied to individual classes of property in accordance with depreciable lives established by the TCEQ. Depreciation of non-utility property and equipment is recorded using various straight-line methods. Depreciation lives are as follows:

Water supply and distribution system	5 - 20 years
Buildings	30 years
Office furniture and equipment	5 - 7 years
Transportation	5 years

Investments

Investment in CoBank is accounted for using the original cost. This method results in carrying amount that approximates the fair value due to the investment in CoBank being a condition of the note payable.

Use of 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.

LAKE LIVINGSTON WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

The Corporation qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code of 1986 and no provision for federal income tax has been made in the accompanying financial statements. Financial Accounting Standards Board Codification Section 740 requires recognition, measurement and disclosure of uncertain tax positions. The Corporation currently accounts for uncertain tax positions based on the estimated likelihood of assessment and has not determined that any tax positions require an accrual based on current standards of accounting. The Corporation is generally no longer subject to Federal tax examination for years before 2018.

Comprehensive Income

The Corporation has no items of comprehensive income other than income from normal operations; therefore, comprehensive income is equal to net income and no statement of comprehensive income is presented.

Revenue Recognition

The Corporation follows the guidance in ASC 606 revenues from contracts with customers. The Corporation's policies with respect to its various revenue streams are detailed below. In general, the Corporation applies the invoicing practical expedient to recognize revenue for the revenue streams detailed below, except in circumstances where the invoiced amount does not represent the value transferred to the customer.

Gross revenues for water sales to retail customers, who are members of the Corporation, are recognized as the Corporation transfers the promised water to the customer. The Corporation's performance obligation with the customer is satisfied over time.

Variable components of transaction price, such as late fees, are not recognized until uncertainty around the Corporation's right to charge them are resolved. Because the Corporation bills its customers monthly as water is consumed and because pricing is reflective of market conditions and value delivered to the customer, management has elected to apply the invoicing practical expedient to recognize revenue.

The Corporation accrues for revenues to the extent deliveries have occurred but for which a bill has not been issued. The amount of estimated revenue accrued would represent the revenue associated with the water consumed by the members in the current month, but not billed until the following month.

Accounts receivable represents sales of water and other charges made to members. They are recorded at the amount billed less an allowance for uncollectible accounts. An allowance is provided for accounts which management estimates there is doubt as to their collections (allowance for bad debts). This estimate is based on knowledge of particular customers as well as historical losses on accounts. The Corporation does not assess interest on past due accounts receivable. Approximately \$43,680 and \$32,036 of accounts receivable were past due more than 60 days at December 31, 2021 and 2020, respectively.

NOTE B - LONG-TERM DEBT

At December 31, 2021 and 2020, the Corporation was liable for the following long-term debt:

	<u>2021</u>	<u>2020</u>
Advances on CoBank revolving line of credit.	\$ 600 000	\$ 600 000
Single advance term loan of \$1,642,826 from CoBank to refinance the United States Department of Agriculture Rural Utilities Service (USDA) loan for capital improvements, due April 20, 2026; principal and interest payable monthly, variable interest; secured by all real and personal property of the Corporation.	639 727	778 945
Multiple advance water system revenue bonds, taxable series 2007, issued through and payable to the Texas Water Development Board; maturing annually through December 1, 2039 with first maturity due in December, 2010; callable at 100 on December 1, 2017; interest at 0%; secured by first lien and pledge of gross revenues of water and sewer system and all real and personal property of the Corporation; \$17,500,000 total approved issue; \$710,086 available for issue at December 31, 2018.	12 790 000	13 645 000
Single advance water system revenue bonds taxable series 2013, \$3,130,000 issued through and payable to the Texas Water Development Board; maturing annually through December 1, 2034 with first maturity due in December 2015; callable at 100 on December 1, 2023; interest at 0.95-4.73%; secured by first lien and pledge of gross revenues of water and sewer system and all real and personal property of the Corporation.	2 440 000	2 580 000
TOTAL NOTES PAYABLE	<u>16 469 727</u>	<u>17 603 945</u>
Less current maturities	(1 734 137)	(1 125 607)
Less debt issue costs	<u>(623 882)</u>	<u>(667 437)</u>
	<u>\$ 14 111 708</u>	<u>\$ 15 810 901</u>

The Corporation has a \$1,000,000 revolving line of credit with CoBank to finance the operating needs of the Corporation. The line of credit is a supplement to the master loan agreement dated April 1, 1997, bears interest at a variable rate and matures March 1, 2022 and was extended for an additional year before the date of the audit report. The Corporation had a balance of \$600,000 drawn on the line as of December 31, 2021.

LAKE LIVINGSTON WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE B - LONG-TERM DEBT - CONTINUED

The CoBank notes contain various covenants including but not limited to the maintenance of certain debt service and operating ratios, future incurrence of debt or long-term leases, the maintenance of a debt cash reserve, and changes in the corporate structure. In the event the Corporation fails to comply with these covenants and other restrictions, it could be in default under the agreements, and substantially all of its debt maturities could be accelerated. In addition, if the Corporation prepays all or any portion of the notes, prepayment penalties will be assessed by CoBank.

The covenant with CoBank relating to the reserve cash account requires the Corporation to establish and maintain a reserve balance of \$150,000. CoBank has a security interest in these accounts and, in the event of default, the right to claim these funds. As of December 31, 2021 the balance in the reserve account was \$175,572 and is included in reserve funds on the accompanying statement of financial position.

The loan agreement with CoBank requires the Corporation to purchase non-voting participation certificates in CoBank. Equity is earned through patronage dividends and can be redeemed by CoBank after the loan is paid in full. These dividends are accrued annually using an estimate provided by CoBank; estimated dividends for 2021 and 2020 were approximately \$7,864 and \$9,344, respectively. The Corporation held \$215,518 and \$235,893 of patronage certificates at December 31, 2021 and 2020, respectively. These are included in investments on the accompanying statements of net position.

The 2007 water system revenue bond order with the Texas Water Development Board requires the maintenance of a reserve fund in an amount at least equal to the average annual debt service requirements of the bonds and any additional bonds issued. The reserve is to be funded over a 60-month period with monthly deposits of \$9,722 beginning October 25, 2007. At December 31, 2021, the Corporation had deposited the required reserve to-date of \$730,487, shown as reserve funds on the accompanying balance sheet. The bond order also requires that all funds and reserve funds established pursuant thereto will be secured by a pledge by a financial institution of general obligations of the United States or obligations unconditionally guaranteed by the United States or be invested as provided in the Public Funds Investment Act Chapter 2256, Texas Government Code (PFIA). As of December 31, 2021, the reserve funds were invested in interest-bearing transaction and certificate of deposit accounts in financial institutions the accounts are 100% insured by the Federal Deposit Insurance Corporation and as such are authorized investments under the PFIA.

Debt issue costs of \$922,263 were incurred in connection with the series 2007 bond issue. The majority (99.9%) of these costs were funded with the initial issue of \$1,055,000. They are being amortized to interest expense over a 30-year period using the straight-line method, the results of which, will not differ materially from the effective interest or constant yield method. During 2021 and 2020, approximately \$31,350 and \$31,350 was amortized to interest expense.

Debt issue costs of \$244,104 were incurred in connection with the series 2013 bond issue. The majority (99.9%) of these costs were funded with the initial issue of \$3,130,000. Debit issues costs are being amortized to interest expense over a 21-year period using the straight-line method, the results of which, will not differ materially from the effective interest or constant yield method. Approximately \$12,205 and \$12,206 was amortized to interest expense during December 31, 2021 and 2020, respectively.

The 2013 water system revenue bond order with the Texas Water Development Board requires the maintenance of escrow accounts regarding the obligations of the 2013 series bonds and loan forgiveness grant. The escrow accounts are to be maintained at a bank on behalf of the Corporation and TWDB and shall not be commingled with any other accounts or with any other proceeds or funds. The escrowed funds are held for the purpose of replacing existing water meters and amounts shall be disbursed in accordance with the bond order and solely upon written authorization from the TWDB. The funds in escrow are to be held in an authorized institution and invested in accordance with the Public Funds Investment Act, Texas Government Code, Chapter 2256 and Public Funds Collateral Act, Texas Government Code, Chapter 2257(PFIA). Accordingly, at December 31, 2020, the escrowed funds were invested in short term cash management funds which are invested in U.S. Government obligations, which qualify as permissible investments under the PFIA. The escrowed funds amounted to \$1,592,055 and \$1,591,892 at December 31, 2021 and 2020, respectively, and is included in reserve funds on the accompanying statements of net position.

Approximate maturities of long-term debt principal at December 31, 2021 for the next five years are as follows:

	NOTES	REVENUE BONDS	LINE OF CREDIT	TOTAL
Fiscal Years Ending:				
December 31, 2022	\$ 134 137	\$ 1 000 000	\$ 600 000	\$ 1 734 137
December 31, 2023	137 762	1 005 000	-	1 142 762
December 31, 2024	141 486	1 010 000	-	1 151 486
December 31, 2025	145 310	1 015 000	-	1 160 310
December 31, 2026	81 032	1 025 000	-	1 106 032
Thereafter	-	10 175 000	-	10 175 000
TOTALS	\$ 639 727	\$ 15 230 000	\$ 600 000	\$ 16 469 727

LAKE LIVINGSTON WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE C - EMPLOYEE BENEFIT PLANS

During 1998, the Corporation established a 401(k) retirement plan for the benefit of substantially all of its employees. Under the plan and trust document, the employee may elect to reduce their salary by contributions to the plan. In 2007, the plan was amended to require employer matching contributions. Employer contributions are 35% of the first 6% of the respective employees' salary reduction. The Corporation may elect to make a discretionary contribution to the plan. For the years ended December 31, 2021 and 2020, the Corporation contributed \$16,186 and \$17,646 to the plan, respectively.

For the year ended December 31, 2021 and 2020, the Corporation paid approximately \$325,000 and \$335,000, respectively, in health insurance premiums for the employees. This amount is included in insurance expense on the accompanying income statement.

NOTE D - CONCENTRATIONS

Substantially all of the Corporations revenue is derived from water sales to its members in Polk County, Texas and surrounding counties. The economic conditions in these areas have a large effect on the results of operations of the Corporation.

NOTE E - MEMBERSHIP CERTIFICATES

A summary of changes in membership certificates follows:

	2021	2020
Balance - Beginning of year	\$ 683 800	\$ 670 900
Net additions	17 600	12 900
BALANCE - END OF YEAR	\$ 701 400	\$ 683 800

NOTE F - COMMITMENTS AND CONTINGENCIES

Raw Water Supply Contract

In August, 2007, the Corporation entered into a "Raw Water Supply Contract" with the Trinity River Authority of Texas (the Authority). The purpose of the contract is to provide an additional source of water supply for the Corporation. The basic terms of the contract provide the Corporation with the right to purchase raw water from Livingston Reservoir at the Authority's rates in effect over the following periods and in the following amounts:

FISCAL YEARS	AVERAGE DAILY AMOUNTS	TOTAL ANNUAL AMOUNTS IN ACRE-FEET (AF)
2016 - 2020	0.767 MGD	859 AF/Year
2021 - 2025	0.797 MGD	893 AF/Year
2026 - 2030	0.815 MGD	913 AF/Year
2031 - 2035	0.833 MGD	933 AF/Year
2036 - 2040	0.852 MGD	954 AF/Year

The acronym "MGD" means millions of gallons per day and the acronym "AF" means acre-feet.

The Corporation did not purchase any raw water in 2021 or 2020.

The contract also provides for the Corporation to pay annual standby fees to the Authority that are calculated pursuant to formulas based upon the amount of water that the Authority is obligated to sell to the Corporation on each annual basis. Standby fees are assessed whether or not the Corporation purchases any water. For the year ended December 31, 2021 and 2020, the Corporation incurred approximately \$87,000 and \$85,000 in standby fees, respectively.

The contract expires on December 1, 2040.

The coronavirus outbreak is still impacting the global economy and the market environment. The short-term and long-term impact on the coronavirus outbreak on the operations of the Corporation is difficult to predict. Any potential impact on such operations and performance will depend to a large extent on future developments and actions taken by authorities and other entities to contain the coronavirus outbreak and its economic impact. These potential impacts, while uncertain, could adversely affect the performance of the Corporation.

NOTE G - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 24, 2022, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

LAKE LIVINGSTON WATER SUPPLY CORPORATION
 SCHEDULE OF WATER USAGE DETAILS AND STATISTICS
 December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Total Gallons of Water Pumped	<u>525 784 000</u>	<u>567 608 000</u>
Total Gallons of Water Sold	<u>254 503 000</u>	<u>253 103 000</u>
Total Gallons of Water Used for Flushing Lines	<u>18 761 824</u>	<u>14 066 013</u>
Total Number of Active Connections	<u>7 388</u>	<u>7 221</u>
Average Consumption per Connection	<u>34 449</u>	<u>35 049</u>
Water Loss Due to Flushing Lines	<u>3.6%</u>	<u>2.5%</u>
Total Water Loss Percentage	<u>51.6%</u>	<u>55.4%</u>

See independent auditors' report.