

LAKE LIVINGSTON WATER SUPPLY CORPORATION

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S 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, 2023 and 2022, 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, 2023 and 2022, 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 21, 2024


CERTIFIED PUBLIC ACCOUNTANTS



FINANCIAL STATEMENTS

LAKE LIVINGSTON WATER SUPPLY CORPORATION
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2023 and 2022

	2023	2022
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1 857 014	\$ 1 631 271
Accounts Receivable:		
Trade (net of allowance of \$37,966 for 2023 and 2022)	778 762	824 124
Contract and Other Receivables	557	-
Prepaid expenses	285 388	227 505
Inventory	318 594	319 765
TOTAL CURRENT ASSETS	3 240 315	3 002 665
Reserve Funds:		
Cash and cash equivalents	3 204 538	3 852 977
TOTAL RESERVE FUNDS	3 204 538	3 852 977
Property, Plant and Equipment:		
Land	928 111	928 308
Buildings	1 768 321	1 772 104
Water supply and distribution	36 276 690	36 113 683
Transportation equipment	871 162	1 037 298
Office furniture and equipment	276 046	308 331
Construction in progress	1 526 856	234 826
Capital lease asset	98 194	98 194
TOTAL PROPERTY, PLANT AND EQUIPMENT	41 745 380	40 492 744
Less: Accumulated depreciation	(17 947 716)	(17 455 016)
TOTAL NET PROPERTY, PLANT AND EQUIPMENT	23 797 664	23 037 728
Other Assets:		
Investments - CoBank	157 217	196 376
TOTAL OTHER ASSETS	157 217	196 376
TOTAL ASSETS	\$ 30 399 734	\$ 30 089 746

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

LAKE LIVINGSTON WATER SUPPLY CORPORATION
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2023 and 2022

	2023	2022
Operating Income:		
Water revenues	\$ 6 663 782	\$ 6 242 517
Tap fees	161 520	161 625
Late charges, and return check charges	93 005	92 346
Disconnect fees	39 400	48 750
Other operating income	78 577	113 862
TOTAL OPERATING INCOME	7 036 284	6 659 100
Operating Expenses:		
Annual meeting	54	832
Bad debts	49 573	39 730
Bank fees	1 751	1 706
Board of Directors expenses and fees	51 994	37 768
Chemical usage	193 366	171 083
Other employee benefits	10 299	2 267
Communications and telephone	43 374	41 836
Commitment fees	1 014	1 014
Computer operations	52 309	58 629
Customer relations	12 921	13 481
Depreciation and amortization	967 739	890 927
Dues and subscriptions	17 681	2 915
Education	7 328	11 057
Flower fund	483	318
Insurance	504 835	480 162
Inventory adjustments	17 793	6 056
Laboratory testing	72 334	91 204
Legal and professional services	238 220	137 154
Meals and travel	4 256	2 651
Office supplies	24 925	29 032
Operational fees	22 860	30 354
Other	21 780	28 817
Payroll taxes	156 885	142 676
Penalties and fines	-	24 625
Pension - 401(k)	46 079	13 811
Postage	20 365	27 232
Rent	23 400	-
Repairs and maintenance	685 492	683 736
Salaries and wages	2 191 025	2 018 398
Uniform services	4 969	8 193
Utilities	222 100	233 750
Vehicle	159 790	180 483
Water purchases and standby fees	82 254	82 254
Water production fees	14 444	11 731
TOTAL OPERATING EXPENSES	5 923 692	5 505 882
OPERATING INCOME	1 112 592	1 153 218
Other Income (Expenses):		
Dividend income	88 857	31 712
Interest income	18 828	7 479
Interest expense	(235 583)	(214 716)
Gain (loss) on disposition of assets	-	29 100
Other income	2 319	21 052
TOTAL OTHER INCOME (EXPENSES)	(125 579)	(125 373)
CHANGE IN UNRESTRICTED NET ASSETS	1 032 613	1 041 445
Unrestricted net assets, beginning of year	14 700 915	12 944 470
UNRESTRICTED NET ASSETS, END OF YEAR	14 972 928	13 985 915
Restricted Net Assets:		
Membership certificates, Beginning of the year	715 000	701 400
Net additions	45 600	13 600
RESTRICTED NET ASSETS BALANCE, END OF YEAR	760 600	715 000
TOTAL NET ASSETS, END OF YEAR	\$ 15 733 528	\$ 14 700 915

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, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities:		
Cash received from members	\$ 7 081 089	\$ 6 578 378
Cash paid for payroll and related taxes	(2 267 266)	(2 150 835)
Cash paid to suppliers for operating expenses	(2 500 542)	(2 606 204)
Interest, dividends and grants received	108 729	60 243
Interest paid	(192 442)	(174 485)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2 229 568	1 707 097
Cash Flows from Investing Activities:		
Cash payments for the purchases of fixed assets	(1 586 993)	(536 644)
Cash proceeds from the disposition of property	-	29 100
Proceeds from retirements of investments	49 180	30 352
Stock dividends	(10 021)	(11 210)
NET CASH (USED) BY INVESTING ACTIVITIES	(1 547 834)	(488 402)
Cash Flows from Financing Activities:		
Proceeds from issuance of debt	-	66 606
Principal payments on long-term debt	(1 169 030)	(1 151 815)
Increase in membership fees	45 600	13 600
Increase (decrease) in customer deposits	19 000	29 850
NET CASH (USED) BY FINANCING ACTIVITIES	(1 104 430)	(1 041 759)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(422 696)	176 936
Cash and cash equivalents, beginning of year	5 484 248	5 307 312
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5 061 552	\$ 5 484 248
Reconciliation of Change in net assets to Net Cash Provided by Operating Activities:		
Change in net assets	\$ 987 013	\$ 1 027 845
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization - Debt issue costs	42 974	43 556
Depreciation	967 739	890 927
(Gain) loss on disposition of assets	34 440	(29 100)
(Increase) decrease in accounts receivable and unbilled revenue	44 805	(80 722)
(Increase) decrease in prepaid expenses	(57 883)	(56 268)
(Increase) decrease in inventory	1 171	(92 394)
Increase (decrease) in accounts payable	82 419	(17 472)
Increase (decrease) in accrued liabilities	126 890	20 725
TOTAL ADJUSTMENTS	1 242 555	679 252
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2 229 568	\$ 1 707 097

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 7,388 members in Polk, Hardin, Liberty, San Jacinto, Trinity, and Walker County areas. The Corporation has 73 water plants serving 113 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, 2023 and 2022). There was approximately \$32,000 of receivables 90 days or more past due at December 31, 2023 and 2022, 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 2020.

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 \$42,857 and \$35,217 of accounts receivable were past due more than 60 days at December 31, 2023 and 2022, respectively.

NOTE B - LONG-TERM DEBT

At December 31, 2023 and 2022, the Corporation was liable for the following long-term debt:

	2023	2022
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.	351 985	497 430
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.	11 080 000	11 935 000
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.	2 145 000	2 295 000
Capital lease Pitney Bowes postage meter issued through and payable to Pitney Bowes; maturing annually through September 6, 2027 with the first maturity due in September 2022; interest at 3.60%	51 059	63 552
Capital Lease Texas Document Solutions copier issued through and payable to Texas Document Solutions, Inc.; maturing annually through March 28, 2024 with the first maturity due in March 2019 ; interest at 3.20%	1 702	8 376
TOTAL NOTES PAYABLE	14 229 746	15 399 358
Less current maturities	(1 766 138)	(1 761 929)
Less debt issue costs	(536 770)	(580 326)
	\$ 11 926 838	\$ 13 057 163

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, 2023 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, 2023.

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, 2023 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 2023 and 2022 were approximately \$2,792 and \$3,422, respectively. The Corporation held \$157,217 and \$196,376 of patronage certificates at December 31, 2023 and 2022, 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, 2022, 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, 2022, 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 2023 and 2022, 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 \$12,205 was amortized to interest expense during December 31, 2023 and 2022, 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, 2022, 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 \$559,721 and \$1,603,885 at December 31, 2023 and 2022, respectively, and is included in reserve funds on the accompanying statements of net position.

Approximate maturities of long-term debt principal at December 31, 2023 for the next five years are as follows:

	NOTES	REVENUE BONDS	LINE OF CREDIT	CAPITAL LEASES	TOTAL
Fiscal Years Ending:					
December 31, 2024	\$ 141 486	\$ 1 010 000	\$ 600 000	\$ 14 652	\$ 1 766 138
December 31, 2025	145 310	1 015 000	-	13 424	1 173 734
December 31, 2026	65 189	1 025 000	-	13 915	1 104 104
December 31, 2027	-	1 030 000	-	10 770	1 040 770
December 31, 2028	-	1 040 000	-	-	1 040 000
Thereafter	-	8 105 000	-	-	8 105 000
TOTALS	\$ 351 985	\$ 13 225 000	\$ 600 000	\$ 52 761	\$ 14 229 746

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, 2023 and 2022, the Corporation contributed \$46,079 and \$13,811 to the plan, respectively.

For the year ended December 31, 2023 and 2022, the Corporation paid approximately \$384,000 and \$359,000, 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 - 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)
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 2023 or 2022.

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, 2023 and 2022, the Corporation incurred approximately \$82,000 and \$82,000 in standby fees, respectively.

The contract expires on December 1, 2040.

NOTE F - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 21, 2024, 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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Total Gallons of Water Pumped	624 401 000	489 478 000
Total Gallons of Water Sold	273 004 000	287 433 000
Total Gallons of Water Used for Flushing Lines	44 272 376	35 323 494
Total Number of Active Connections	7 589	7 502
Average Consumption per Connection	35 972	38 316
Water Loss Due to Flushing Lines	7.1%	7.2%
Total Water Loss Percentage	56.3%	41.3%

See independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Lake Livingston Water Supply Corporation
Livingston, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lake Livingston Water Supply Corporation (the "Corporation"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 21, 2024.

Report On Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report On Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lufkin, Texas
March 21, 2024

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Lake Livingston Water Supply Corporation
Livingston, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Lake Livingston Water Supply Corporation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement*, which could have a direct and material effect on each of the Corporation's major federal programs for the year ended December 31, 2023. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Corporation, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Corporation of Newton and to meet our other 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Corporation of Newton's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Corporation of Newton's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Corporation of Newton's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Corporation of Newton's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of the Corporation of Newton's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Corporation of Newton's internal control over compliance. Accordingly, no such opinion is expressed.

- Identify and assess the risk of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsible to those risk. Such procedures include examining, on a test basis, evidence regarding the Corporation of Kirbyville's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Conclusion

This report is intended for the information and use of management, council members, others within the entity, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lufkin, Texas
March 21, 2024


CERTIFIED PUBLIC ACCOUNTANTS



LAKE LIVINGSTON WATER SUPPLY CORPORATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended December 31, 2023

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: UNMODIFIED

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs: UNMODIFIED

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) Uniform Guidance? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster*
66.458	Clean Water State Revolving Fund - DWSRF

Dollar threshold used to distinguish between Type A and Type B Federal programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

B. Financial Statement Findings

None

C. Federal Compliance Findings

None

LAKE LIVINGSTON WATER SUPPLY CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2023

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL ALN NUMBER	FEDERAL EXPENDITURES
U.S. Environmental Protection Agency:		
Passed through Texas Water Development Board:		
Clean Water State Revolving Fund - DWSRF Project: 62567	66.458	\$ <u>1 114 531</u>
TOTAL U.S. Environmental Protection Agency		<u>1 114 531</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ <u><u>1 114 531</u></u>

See independent auditor's report.

LAKE LIVINGSTON WATER SUPPLY CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2023

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Lake Livingston Water Supply Corporation under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Corporation.
2. For all federal programs, the Corporation uses the proprietary fund type specified in Governmental Accounting Standards.
3. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund types are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in a Proprietary Fund which is not a governmental fund type.

The accrual basis of accounting is used for proprietary fund types. The basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned.
4. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3 Uniform Guidance Compliance Statement - Provisional 6/97.
5. Lake Livingston Water Supply Corporation has not elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

LAKE LIVINGSTON WATER SUPPLY CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2023

Findings/Recommendation	Current Status	Management's Explanation if Not Implemented
None		