ARLEDGE RIDGE WATER SUPPLY CORPORATION

Annual Financial Report

Year Ended December 31, 2021

McClanahan and Holmes, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Arledge Ridge Water Supply Corporation
Bailey, Texas

Opinion

We have audited the accompanying financial statements of Arledge Ridge Water Supply Corporation (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets – modified cash basis as of December 31, 2021, and the related statement of revenues, expenses, and changes in net assets – modified cash basis for the year 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 assets, liabilities, and net assets of the Corporation as of December 31, 2021, and its revenue and expenses for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditors' 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 auditors' 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 the 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 the Corporation's ability to continue as a going concern for a reasonable period of time. The going concern basis of accounting is not relevant to the modified cash basis of accounting on which the financial statements are prepared.

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.

McClanahan and Holmes, LLP
Certified Public Accountants

Bonham, Texas
April 12, 2022

Arledge Ridge Water Supply Corporation
Statement of Assets, Liabilities, and Net Assets - Modified Cash Basis
December 31, 2021

ASSETS

Current Assets		
Cash in Bank - Operating	$	30,432
Restricted Cash in Bank - Construction		313,032
Certificate of Deposit		15,280
Total Current Assets		358,744
Property, Plant, and Equipment		
Land		9,722
Buildings and Improvements		42,149
Water System		1,912,338
Equipment		52,781
		2,016,990
Less Accumulated Depreciation		1,196,187
Net Property, Plant, and Equipment		820,803
Total Assets	$	1,179,547

LIABILITIES AND NET ASSETS

Current Liabilities		
Current Portion of Long-Term Debt	$	28,521
Payroll Taxes Withheld		3,786
Total Current Liabilities		32,307
Long-Term Debt - Net of Current Portion		73,941
Total Liabilities		106,248
Net Assets		
Without Donor Restrictions		1,073,299
Total Liabilities and Net Assets	$	1,179,547

The notes to financial statements are an integral part of this statement.

Arledge Ridge Water Supply Corporation
Statement of Revenues, Expenses, and Changes in
Net Assets - Modified Cash Basis
Year Ended December 31, 2021

Operating Revenues		
Water Sales	$	498,458
Miscellaneous Income		38,637
Total Operating Revenues		537,095
Expenses		
Accounting, Audit, and Legal		29,811
Back-up to General Manager		1,298
Back-up to Office Manager		6,721
Depreciation		66,348
Dues, Fees, and Permits		6,424
Fuel		7,234
Insurance		8,849
Manager- Operational		93,269
Meter Readers		7,506
Miscellaneous Expense		8,672
Office Manager		44,841
Office Supplies		2,846
'Operating Supplies		44,557
Payroll Taxes		11,873
Postage		3,516
Repair and Maintenance		93,800
Utilities		63,620
Total Expenses		501,185
Excess of Operating Revenue Over (Under) Expenses		35,910
Nonoperating Revenues (Expenses)		
Interest Income		768
Capital Improvements		45,930
Interest Expense		(5,572)
Total Nonoperating Revenues (Expenses)		41,126
Increase (Decrease) in Net Assets Without Donor Restrictions		77,036
Increase (Decrease) in Memberships, Net		1,950
Net Assets, Beginning		994,313
Net Assets, Ending	$	1,073,299

The notes to financial statements are an integral part of this statement.

Note 1: Organization and Summary of Significant Accounting Policies

A. Organization - Arledge Ridge Water Supply Corporation was chartered in 1965 under the provisions of the Texas Non-Profit Corporation Act and Article 1434a, of the Revised Civil Statutes of Texas. The Corporation was formed for the purpose of furnishing a water supply for general farm and domestic purposes to individuals residing in the rural community of Arledge Ridge in Fannin County, Texas, and the surrounding rural areas.

B. Members' Equity - The Corporation has no capital stock. Membership in the Corporation entitles the member to one connection to the Corporation's water mains and to one vote in the conduct of affairs of the Corporation. A member may own more than one membership, but each member is entitled to only one vote. Memberships are currently sold for $100 each. As of December 31, 2021, the Corporation had 609 members.

C. Corporate Equity - The Corporation's by-laws prohibit the payment of dividends and specifies that all profits arising from the operation of its business shall be annually paid out to the persons who have, during the past year, transacted business with such Corporation, in direct proportion to the amount of business transacted, provided that no such dividends shall ever be paid while any indebtedness of the Corporation remains unpaid or if the cash reserve is below the acceptable amount necessary to protect the Corporation. Upon dissolution of the Corporation, any property remaining after payment of the debts of the Corporation shall be distributed among the members in direct proportion to the amount of their patronage with the Corporation insofar as practicable.

Any indebtedness to the Corporation by a member for water service or otherwise shall be deducted from such member's share prior to final distribution. By application for and acceptance of membership in the Corporation, each member agrees that, upon the discontinuance of the Corporation by dissolution or otherwise, all assets of the Corporation transferred to that member shall be in turn immediately transferred by the individual member to an entity that provides a water supply or wastewater service, or both, that is exempt from ad valorem taxation.

D. Basis of Presentation - The Corporation prepares its financial statements on the modified cash basis of accounting; consequently, revenue is recognized when received rather than when earned, and expenses are generally recognized when paid rather than when the obligation is incurred. Therefore, the financial statements do not reflect accrued receivables, payables, or other accrued items, and no disclosures will be made for fair value measurements. However, payroll liabilities that the Corporation withholds and remits are shown as current liabilities. The Corporation reports information regarding its financial position and activities according to the two classes of net assets, which are net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions include net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets with donor restrictions include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both. Net assets without donor restrictions include resources over which the Board of Directors has discretionary control. Designated amounts represent those net assets, which the Corporation has set aside for a particular purpose. Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. For the year ended December 31, 2021, the Corporation only has net assets without donor restrictions.

Note 5: Functional Allocation of Expenses

The Corporation allocates its expenses on a functional basis among program expenses and supporting services. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Expenses for the year are classified as follows:

Program Services	$ 403,960
Management and General	97,225
	$ 501,185

Note 6: Subsequent Events

Subsequent events have been evaluated through April 12, 2022, the date the financial statements were available to be issued.