ARLEDGE RIDGE WATER SUPPLY CORPORATION

Annual Financial Report

Year Ended December 31, 2023

McClanahan and Holmes, LLP
CERTIFIED PUBLIC ACCOUNTANTS

GEORGE H. STRUVE, CPA
DEBRA J. WILDER, CPA
TEFFANY A. KAVANAUGH, CPA
APRIL J. HATFIELD, CPA
BRITTANY L. MARTIN, CPA

STEVEN W. MOHUNDRO, CPA,
OF COUNSEL

228 SIXTH STREET S.E.
PARIS, TEXAS 75460
903-784-4316
FAX 903-784-4310
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304 WEST CHESTNUT
DENISON, TEXAS 75020
903-465-6070
FAX 903-465-6093

1400 WEST RUSSELL
BONHAM, TEXAS 75418
903-583-5574
FAX 903-583-9453

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, 2023, 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, 2023, 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 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.

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 4, 2024

Arledge Ridge Water Supply Corporation
Statement of Assets, Liabilities, and Net Assets - Modified Cash Basis
December 31, 2023

ASSETS

Current Assets		
Cash in Bank - Operating	$	46,869
Restricted Cash in Bank - Construction		180,199
Certificate of Deposit		15,715
Total Current Assets		242,783
Property, Plant, and Equipment		
Land		9,722
Buildings and Improvements		42,149
Water System		2,182,189
Equipment		87,627
		2,321,687
Less Accumulated Depreciation		1,354,584
Net Property, Plant, and Equipment		967,103
Total Assets	$	1,209,886

LIABILITIES AND NET ASSETS

Current Liabilities		
Current Portion of Long-Term Debt	$	31,358
Payroll Taxes Withheld		2,733
Total Current Liabilities		34,091
Long-Term Debt - Net of Current Portion		12,641
Total Liabilities		46,732
Net Assets		
Without Donor Restrictions		1,163,154
Total Liabilities and Net Assets	$	1,209,886

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, 2023

Operating Revenues		
Water Sales	$	575,888
Miscellaneous Income		10,200
Total Operating Revenues		586,088
Expenses		
Accounting, Audit, and Legal		7,530
Back-up to General Manager		2,438
Back-up to Office Manager		27,450
Depreciation		86,343
Dues, Fees, and Permits		16,009
Fuel		6,303
Insurance		8,503
Manager- Operational		111,146
Meter Readers		16,875
Miscellaneous Expense		9,636
Office Manager		55,000
Office Supplies		5,627
Operating Supplies		64,702
Payroll Taxes		14,333
Postage		5,346
Repair and Maintenance		115,409
Training		595
Utilities		67,304
Total Expenses		620,549
Excess of Operating Revenue Over (Under) Expenses		(34,461)
Nonoperating Revenues (Expenses)		
Interest Income		678
Capital Improvements		60,895
Interest Expense		(2,867)
Total Nonoperating Revenues (Expenses)		58,706
Increase (Decrease) in Net Assets Without Donor Restrictions		24,245
Increase (Decrease) in Memberships, Net		1,900
Net Assets, Beginning		1,137,009
Net Assets, Ending	$	1,163,154

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, 2023, the Corporation had 640 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 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. As of and for the year ended December 31, 2023, the Corporation only has net assets without donor restrictions.

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

E. Property, Plant, and Equipment - Property, plant, and equipment are valued at cost. If an expenditure results in an asset having an estimated useful life substantially beyond the year of acquisition and costs in excess of $2,500, the expenditure is capitalized and depreciated over the estimated useful life of the asset using the straight line method. Donated capital assets are recorded at estimated fair value at the date of donation. The estimated useful lives are as follows:

Buildings and Improvements	10-40 years
Water System	5-40 years
Equipment	5-10 years

F. Income Taxes - The Corporation files an information return of an organization exempt from Federal income tax under the provisions of section 501 (c) (12) of the Internal Revenue Code.

G. Cash and Restricted Cash - Cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition are considered to be cash and cash equivalents. Restricted cash consists of resources set aside in separate bank accounts to be used for construction projects. The Corporation maintains deposits in one financial institution, which may, at times, exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Corporation has not experienced any losses related to amounts in excess of FDIC limits and it is management's opinion that there is no significant exposure to credit risk. At December 31, 2023, the Corporation does not have deposits in excess of FDIC limits. The Corporation's certificate of deposit totaling $15,715 is considered a deposit for this footnote, but is classified as Certificate of Deposit on the face of the financial statements.

H. Certificate of Deposit - Certificates of deposit are acquired with cash and have an original maturity term that exceeds three months. Certificates of deposit are carried at cost plus interest earned, which approximates fair value.

I. Liquidity and Availability - The Corporation has $62,584 of financial assets available within one year of the financial statements to meet cash needs for general expenditures for the year ended December 31, 2023. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the financial statements. As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Corporation invests excess cash in certificates of deposit.

J. Use of Estimates - The financial statements are prepared in conformity with the modified cash basis of accounting, which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2: Long-Term Debt

The Corporation's long-term debt consists of the following:

A $400,000 note payable dated September 12, 2003, was received by the Corporation for water system improvements. The note was refinanced during the year ended December 31, 2013, to receive a lower interest rate of 4.75%, down from 6.75%. The monthly installments of $3,041 were reduced to $2,733. The note remains secured by the Corporation's accounts receivables, property, and equipment. The note matures in May, 2025. The balance as of December 31, 2023, is $43,999.

Future scheduled maturities of the note payable is as follows:

Note 2: Long-Term Debt (Continued)

Years ending December 31:

2024	$ 31,358
2025	12,641
Total	$ 43,999

Note 3: Net Assets

All of the Corporation's net assets are unrestricted and are comprised of the following:

Designated for Construction	$ 180,199
Memberships	54,800
Other	928,155
Total Net Assets	$ 1,163,154

Note 4: Board of Directors and Officers

Name and Address	Title	Telephone
Alan Mcdonald [redacted]	President	[redacted]
Pete Slaughter [redacted]	Vice President	[redacted]
Steve Collida [redacted]	Secretary/Treasurer	[redacted]
Penni Smallwood [redacted]	Office Manager	[redacted]
Michael Granstaff [redacted]	General Manager	[redacted]
Mike Hartley [redacted]	Director	[redacted]
Nathaniel Wahlquist [redacted]	Director	[redacted]
John Anderson [redacted]	Director	[redacted]

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	$ 500,849
Management and General	119,700
	$ 620,549

Note 6: Subsequent Events

Subsequent events have been evaluated through April 4, 2024, the date the financial statements were available to be issued.