

**Kempner
Water Supply Corporation**

September 30, 2021 and 2020

Financial Statements



KEMPNER WATER SUPPLY CORPORATION

FINANCIAL STATEMENTS

For the Years Ended September 30, 2021 and 2020

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORT THEREON
AND SUPPLEMENTARY INFORMATION**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kempner Water Supply Corporation
Kempner, Texas

We have audited the accompanying financial statements of Kempner Water Supply Corporation, (a nonprofit organization), which comprise the statements of financial position as of September 30, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

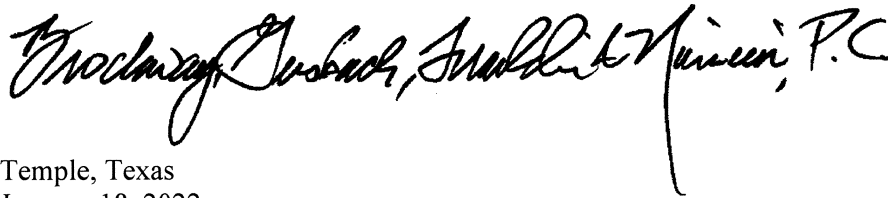
**INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kempner Water Supply Corporation as of September 30, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2022, on our consideration of Kempner Water Supply Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Kempner Water Supply Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kempner Water Supply Corporation's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Christopher J. Busch, Matthew K. Minner, P.C." The signature is written in a cursive style with a long vertical line extending downwards from the end.

Temple, Texas
January 18, 2022

FINANCIAL STATEMENTS

KEMPNER WATER SUPPLY CORPORATION
STATEMENTS OF FINANCIAL POSITION
September 30, 2021 and 2020

	ASSETS		
		2021	2020
Current Assets			
Cash and cash equivalents		\$ 5,812,559	\$ 4,526,742
Investments		2,690,346	2,120,940
Accounts receivable, net of allowance for doubtful accounts of \$ 245,514 and \$ 241,341, respectively		793,426	718,963
Inventory		120,202	118,536
Total Current Assets		9,416,533	7,485,181
Property, Plant and Equipment			
Property, plant and equipment		55,757,927	53,637,388
Less: accumulated depreciation		(21,898,340)	(20,303,310)
Total Property, Plant and Equipment		33,859,587	33,334,078
Other Assets			
Deposits		600	600
Investment in CoBank		103,890	2,642
Total Other Assets		104,490	3,242
 Total Assets		 <u>\$ 43,380,610</u>	 <u>\$ 40,822,501</u>

The accompanying notes are an integral part of the financial statements.

LIABILITIES

	2021	2020
Current Liabilities		
Current portion of long-term debt	\$ 1,095,292	\$ 1,040,105
Current portion of settlement agreement	67,408	134,816
Accounts payable	95,309	260,572
Accrued payroll	15,282	10,884
Accrued vacation	64,689	74,843
Accrued interest	109,989	-
Total Current Liabilities	1,447,969	1,521,220
Long-Term Debt		
Long-term debt, net of current portion	33,786,490	32,565,029
Settlement agreement	-	67,407
Total Liabilities	35,234,459	34,153,656

NET ASSETS

Net Assets		
Without Member Restrictions:		
Membership reserve	125,000	125,000
CoBank reserve	1,210,000	1,060,000
Undesignated	6,811,151	5,483,845
Total Net Assets	8,146,151	6,668,845
Total Liabilities and Net Assets	\$ 43,380,610	\$ 40,822,501

KEMPNER WATER SUPPLY CORPORATION
STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2021 and 2020

	2021	2020
Operating Revenues		
Service Revenue	\$ 8,526,720	\$ 8,481,475
Total Operating Revenues	8,526,720	8,481,475
Operating Expenses		
<i>Program</i>		
Depreciation	1,611,745	1,589,013
Interest expense	1,452,390	1,377,231
Payroll and related benefits	765,440	739,616
Field operating costs	755,543	797,306
CTWS fees	732,031	659,485
BRA fees	552,853	480,863
Utilities	237,679	186,081
Insurance	216,688	201,576
Engineering	121,565	111,112
Administrative	95,381	112,622
Regulatory fees	56,549	53,373
Travel	7,215	9,407
<i>Subtotal Program Expenses</i>	6,605,079	6,317,685
<i>General and Administrative</i>		
Depreciation	12,091	13,064
Payroll and related benefits	510,294	493,077
Utilities	265,223	216,092
Insurance	90,161	80,333
Administrative	111,530	118,549
Professional fees	107,268	130,190
Travel	1,150	2,246
<i>Subtotal General and Administrative</i>	1,097,717	1,053,551
Total Expenses	7,702,796	7,371,236
Excess of operating revenues over operating expenses	823,924	1,110,239
Other Income (Expense)		
Interest and dividend income	353,297	64,441
Gain (loss) on investments	(34,069)	39,073
Gain on sale of fixed assets	25,526	2,976
Sale of CCN rights	280,676	3,077
Miscellaneous	22,052	13,485
Total Other Income (Expense)	647,482	123,052
Changes in net assets from operations	1,471,406	1,233,291
Changes in Net Assets		
Membership reserve	5,900	9,300
Change in net assets	1,477,306	1,242,591
Net assets - beginning of year	6,668,845	5,426,254
Net assets - end of year	\$ 8,146,151	\$ 6,668,845

The accompanying notes are an integral part of the financial statements.

KEMPNER WATER SUPPLY CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Changes in net assets from operations	\$ 1,471,406	\$ 1,233,291
Adjustments to reconcile nets assets to net cash flows provided by operating activities:		
Depreciation and amortization	1,625,794	1,604,035
(Gain) loss on investments	34,069	(39,072)
Gain on sale of capital assets	(5,288)	-
(Increase) decrease in:		
Accounts receivable	(74,463)	(39,757)
Inventory	(1,666)	1,603
Increase (decrease) in:		
Accounts payable	(165,263)	92,265
Accrued liabilities	(5,756)	(14,005)
Accrued interest	109,989	-
Total Adjustments	<u>1,517,416</u>	<u>1,605,069</u>
Net cash provided by operating activities	2,988,822	2,838,360
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,895,000	6,820,019
Purchase of investments	(2,498,475)	(6,236,734)
Proceeds from sale of capital assets	5,288	-
Purchase capital assets	(2,149,345)	(834,324)
Investment in CoBank	<u>(101,248)</u>	<u>-</u>
Net cash used by investing activities	(2,848,780)	(251,039)
Cash Flows from Financing Activities		
Proceeds from the issue of memberships, net	5,900	9,300
Proceeds from the issuance of long-term debt	2,300,000	32,808,599
Principal payments on long-term debt	<u>(1,160,125)</u>	<u>(33,179,695)</u>
Net cash provided by (used) by financing activities	<u>1,145,775</u>	<u>(361,796)</u>
Net increase in cash	1,285,817	2,225,525
Cash and cash equivalents - Beginning of Year	<u>4,526,742</u>	<u>2,301,217</u>
Cash and cash equivalents - End of Year	<u><u>\$ 5,812,559</u></u>	<u><u>\$ 4,526,742</u></u>

Supplemental Cash Flow Information

During the years ended September 30, 2021 and 2020, interest payments were made in the amounts of \$ 1,342,401 and \$ 1,377,231, respectively.

The accompanying notes are an integral part of the financial statements.

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KEMPNER WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Nature of Activities

Kempner Water Supply Corporation (the Corporation) is a Texas non-profit corporation chartered on October 13, 1973. Its purpose is to operate a water supply system for rural residents residing in portions of Bell, Coryell, Burnet, and Lampasas counties. The Corporation is owned by the members, which hold an annual meeting to elect the board of directors. The Corporation is for the benefit of its members and earns its revenue from the sale of water, related fees and from installation fees to the members. Therefore, these financial statements are presented on a proprietary basis similar to an enterprise fund of a municipal water fund.

2. Summary of Significant Accounting Policies

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements of the Corporation.

Recent Accounting Pronouncements Issued Not Yet Effective

In February 2016, the FASB issued ASU 2016-02, leases (Topic 842), which requires the recognition of a “right to use” asset and a lease liability, initially measured at the present value of the lease payments, on all of the Corporation’s lease obligations. This ASU is effective for fiscal years beginning on or after December 15, 2021. Management does not expect this ASU to have a significant impact on the Corporation’s financial statements.

Basis of Presentation

The financial statements of the Corporation have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America, which require the Corporation to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Member Restrictions: Net assets that are not subject to member-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation. These net assets may be used at the discretion of the Corporation’s management and the board of directors.

Net Assets With Member Restrictions: Net assets subject to stipulations imposed by members and grantors. Some member restrictions are temporary in nature; those restrictions will be met by actions of the Corporation or by the passage of time. Other member restrictions are perpetual in nature, whereby the member has stipulated the funds be maintained in perpetuity.

Member restricted contributions are reported as increases in net assets with member restrictions. When a restriction expires, net assets are reclassified from net assets with member restrictions to net assets without member restrictions in the statements of activities and changes in net assets.

KEMPNER WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenue is recognized when earned regardless of when collected and expenses are recognized when the obligation is incurred regardless of when paid.

Cash and Cash Equivalents

The Corporation considers all highly liquid investments with an original maturity of three months or less and not designated as a component of the Reserve Fund, to be cash equivalents.

Investments and Fair Value Measurements

Investments, primarily consisting of equity securities and certificates of deposit, are stated at fair value. Gains and losses, both realized and unrealized are reflected in the statement of activities.

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguish between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.

Level 3 inputs are unobservable inputs for the investment.

Accounts Receivable

Accounts receivable are recorded at the value of the revenue earned and require payment within thirty days. Account balances with charges over thirty days old are considered delinquent and collection efforts begin at this time. When members do not pay the current balance due, their membership investment is forfeited. If an unpaid bill exceeds \$100 over a 90-day period it is written off. Accounts receivable are shown net of an allowance for uncollectible amounts, if applicable. As of September 30, 2021 and 2020 the allowance for uncollectible amounts was \$ 245,514 and \$ 241,341, respectively.

Inventory

Inventory is recorded at the lower of cost or market (first-in-first-out basis) and consists of pipe, meters and other items used in the installation and maintenance of the water distribution system.

KEMPNER WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

Property and Equipment

Property and equipment is carried on the basis of historical cost. Depreciation has been provided using the straight-line method in an amount sufficient to amortize the cost of such assets over their estimated useful lives.

The following table summarizes the estimated useful lives in depreciating the fixed assets:

<u>Property</u>	<u>Life</u>
Water Distribution System	5 - 40 years
Automobile and Trucks	5 - 7 years
Buildings	20 - 40 years
Equipment	5 - 7 years
Furniture and Fixtures	5 - 10 years

Expenses that materially extend useful lives or increase values of assets are capitalized whereas routine maintenance, repair and replacement costs are charged against current operations. Upon routine sales or retirement of property and equipment, the cost and related accumulated depreciation are removed from the respective accounts and any gain or loss is included in the statement of activities.

Debt Issuance Costs

Loan closing costs in connection with financing agreements are amortized using the interest method over the life of the debt and are reported in interest expense in the statement of activities. Amortization expense for the years ended September 30, 2021 and 2020 was \$ 1,958 and \$ 1,958, respectively.

Revenue Recognition

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

Advertising

Advertising expense is expensed in the period incurred. Advertising amounted to \$ 141 and \$ 1,851 for the years ended September 30, 2021 and 2020, respectively.

Tax Exempt Status

The Corporation qualifies under state franchise tax regulations as an exempt organization. The Corporation was granted federal tax exempt status under Section 501(c)(12) of the Internal Revenue Code. A required information return (Form 990) is filed annually. The Corporation has not been examined by any major tax jurisdictions for the open fiscal years 2018-2020.

KEMPNER WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

3. Cash and Cash Equivalents

The Corporation maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$ 250,000. As of September 30, 2021 and 2020, the Corporation maintained cash balances of \$ 5,174,890 and \$ 4,078,680, respectively, in excess of FDIC insured limits.

4. Investments

The Corporation classifies their investments as available-for-sale, Level 1 securities, and are recorded at fair value. Unrealized gain or loss is reflected in the current year statement of activities. Certificates of deposit are included in investments and not cash equivalents due to the maturity date being greater than three months.

Cost and fair value of investments at September 30, 2021 and 2020, are as follows:

	2021		2020	
	Fair Value	Historical Cost	Fair Value	Historical Cost
Commercial paper	\$ 999,855	\$ 1,000,000	\$ 899,276	\$ 900,000
Federal agency securities	884,307	850,000	396,185	350,000
Municipal bonds	806,184	775,000	579,053	525,000
Certificates of deposit	-	-	246,426	245,000
Total	<u>\$ 2,690,346</u>	<u>\$ 2,625,000</u>	<u>\$ 2,120,940</u>	<u>\$ 2,020,000</u>

KEMPNER WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

Property and equipment consisted of the following at September 30:

	2021	2020
Water distribution system	\$ 51,143,826	\$ 51,022,892
Land	1,256,134	1,256,134
Automobiles and trucks	441,773	422,606
Buildings	247,357	247,357
Equipment	430,528	264,249
Furniture and fixtures	54,871	54,871
Construction in progress	2,183,438	369,279
Total property, plant and equipment	55,757,927	53,637,388
Less: accumulated depreciation	(21,898,340)	(20,303,310)
	<u>\$ 33,859,587</u>	<u>\$ 33,334,078</u>
Total property, plant and equipment, net	<u>\$ 33,859,587</u>	<u>\$ 33,334,078</u>

Depreciation expense was \$ 1,623,836 and \$ 1,602,077 for the years ended September 30, 2021 and 2020, respectively.

6. Investment in Other Organizations

CoBank, a banking co-operative for rural infrastructure projects, approved the Corporation for loans needed to make system improvements. A requirement of CoBank lending policies is membership in the Co-operative. Membership requires payment of \$ 1,000 and entitles members to participate in patronage dividends as declared by the CoBank board of directors. The Corporation's investment in CoBank, including patronage dividends was \$ 103,890 and \$ 2,642 as of September 30, 2021 and 2020, respectively. This investment is categorized as level 2.

7. Accrued Vacation

Vacation time off with pay is available to all of the Corporation's employees. The amount of paid vacation time an employee can accrue each year increases with the length of their employment. Upon initial eligibility, the employee is entitled to 10 vacation days each year, 15 days after five years of eligible service and 20 and 30 days after ten and twenty years of eligible service, respectively. If the total amount of unused vacation time reaches a "cap" equal to two times the annual vacation amount, further vacation accrual will stop. Vacation time off is paid at the employee's hourly pay rate at the time of vacation.

KEMPNER WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

Vacation days accrued can be carried over from one calendar year to the next. Upon resignation, retirement or layoff, an employee shall be entitled to receive payment for accrued but unused vacation time. When an employee is discharged from employment for cause, an employee shall not be entitled to receive payment for accrued but unused vacation time.

8. Long-Term Debt

Long-term debt at September 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Note payable to CoBank, maturing October 2049, with an interest rate of 4.05%, Principal and interest payments are due in monthly payments of \$ 130,797.	\$ 26,128,635	\$ 26,614,501
Note payable to CoBank, maturing October 2031, with an interest rate of 3.35%, Principal and interest payments are due in monthly payments of \$ 50,665.	5,184,501	5,608,574
Note payable to CoBank, maturing August 2051, with an interest rate of 3.75%, Principal and interest payments are due in monthly payments of \$ 10,652.	2,296,704	-
Notes payable to FSB of Burnet, maturing April 22, 2022, with a 3.90% interest rate, and monthly payments of \$ 1,730.	11,903	31,726
Note payable to USDA, maturing October 7, 2056, with a 1.88% interest rate, and monthly payments of \$ 1,133.	345,510	352,556
Note payable to Prosperity Bank, maturing May 20, 2032, with a 5.35% interest rate, and monthly payments of \$ 9,133	877,117	935,268
Notes payable to National United, maturing March 19, 2023, with a 3.09% interest rate, and monthly payments of \$ 1,558	27,319	44,854
Note payable to Extraco, maturing September 2024, with a 3.50% interest rate, and monthly payments of \$ 899	<u>30,653</u>	<u>40,173</u>
Total Long-Term Debt	34,902,342	33,627,652
Less unamortized debt issuance costs	(20,560)	(22,518)
Less Current Portion	<u>(1,095,292)</u>	<u>(1,040,105)</u>
Long-Term Debt, net of current portion	<u>\$ 33,786,490</u>	<u>\$ 32,565,029</u>

The buildings, equipment, and water distribution system of the Corporation secure the above notes payable.

**KEMPNER WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS**

Repayment of the long-term debt, at September 30, 2021, is scheduled as follows:

Years Ending September 30,	
2022	\$ 1,095,292
2023	1,116,612
2024	1,147,821
2025	1,186,779
2026	1,232,655
Thereafter	29,123,183
	<u>\$ 34,902,342</u>

9. Settlement Agreement

In January of 2019 a final judgement was issued by the Thirteenth Court of Appeals on the case between the Corporation and the City of Lampasas. The court ruled in favor of the City of Lampasas and ordered the Corporation to pay \$ 404,447 in attorney's fees, damages and interest. Beginning March of 2019, the Corporation was authorized to pay the City that sum over a three year payout at a rate of \$ 11,235 per month. As of September 30, 2021 and 2020 the remaining portion to be paid to the City of Lampasas was \$ 67,408 and \$ 202,223, respectively, which is recorded as a liability of the Corporation.

10. Membership Investment

Members are required to purchase a membership fee in the amount of \$ 200 to use the water system. The membership is refundable to a member upon withdrawal from the system. At September 30, 2021 and 2020, total memberships were 5,805 and 5,451, respectively. The board has a membership reserve account of \$ 125,000, shown as membership reserve in net assets.

11. Membership Reserve

During the 2010 fiscal year, the Corporation submitted a request to the Texas Water Development Board (TWDB) to utilize the membership reserve for completing necessary improvements to serve its existing customers. The request was reviewed by the Board staff for engineering issues and also by financial staff to determine if the Corporation could still meet the bonds test after using the funds. The Board staff had no issues in approving the request to utilize funds in the membership reserve account, for the purposes indicated in the request, and therefore the request was approved. Membership funds above \$ 125,000 can be utilized for system improvements.

KEMPNER WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

12. Pension Plan

On January 1, 2002, the Corporation established an optional SIMPLE IRA pension plan, covering employees who earned \$ 5,000 or more per year, during any two prior years of employment. The Corporation will make a matching contribution to each eligible employee's IRA equal to the employee's salary reduction contribution up to a limit of 3% of the employee's compensation for the year. The Corporation's contributions for the years ended September 30, 2021 and 2020 were \$ 32,630 and \$ 31,069, respectively.

13. Concentrations

The Corporation is dependent on a major portion of revenue received from residents in Bell, Coryell, Burnet, and Lampasas counties. The population in these areas is subject to fluctuation due to its involvement with Ft. Hood.

The Corporation is also dependent on Central Texas Water Supply Corporation (CTWS) and Brazos River Authority (BRA) to provide water which the Corporation serves to its members. Amounts paid for water in the years ended September 30, 2021 and 2020 were \$ 732,031 and \$ 659,485 to CTWS and \$ 552,853 and \$ 480,863 to BRA, respectively.

14. Reserve Funds

A reserve fund is required by CoBank in relation to the loans received by the Corporation. The total reserve amount required totaled \$ 1,210,000 and \$ 1,060,000 for the years ended September 30, 2021 and 2020, respectively. As of September 30, 2021 and 2020, the reserve fund was fully funded.

15. Pass-Through Funds

The Corporation collects a .05% regulatory fee from customers for the State of Texas. It also collects a 5% franchise fee for the City of Kempner from all customers who are a resident of the City of Kempner. The fees collected are reported in total sales. The payments of the regulatory fees and franchise fees paid to the state of Texas and the City of Kempner are reflected as expenses in the financial statements.

16. Sale of CCN Rights

When a retail water or wastewater utility obtains a certificate of convenience and necessity (CCN) from the Public Utility Commission of Texas (PUC), it secures the exclusive right to supply water or sewer service to a specified area. At times, the Corporation will sell a portion of their CCN rights to surrounding areas. During the year ended September 30, 2021, and 2020 the Corporation received \$ 280,676 and \$ 3,077, respectively, related to the sale of CCN rights.

KEMPNER WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

17. Litigation

During 2018, the Corporation was sued in state district court by Central Texas Water Supply Corporation, a water supplier to the Corporation, for breach of contract as a result of the Corporation withholding payment of a portion of the billed charges. The estimated cost difference involved at present is \$ 300,000 but could ultimately be higher over a multi-year contract. The Corporation withheld this portion of the payment because they believe that the charges were not being calculated in accordance with the contract. Due to the possibility of recoupment of all or a part of the disputed amount, it is not currently possible to estimate the overall financial exposure. This litigation remains pending as of September 30, 2021.

18. Liquidity

As of September 30, 2021 and 2020, the financial assets available for general expenditure without member or other restrictions limiting their use, within one year of the statement of financial position date are as follows:

	2021	2020
Financial Assets:		
Cash and cash equivalents	\$ 5,812,559	\$ 4,526,742
Investments	2,690,346	2,120,940
Accounts receivable	793,426	718,963
Total financial assets	9,296,331	7,366,645
Less amounts not available within one year:		
Membership reserve	125,000	125,000
CoBank reserve	1,210,000	1,060,000
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 7,961,331</u>	<u>\$ 6,181,645</u>

19. Subsequent Events

Management has evaluated subsequent events through January 18, 2022, which is the date of the independent auditors' report. No change to the financial statements for the fiscal year ending September 30, 2021 deemed necessary as a result of this evaluation.

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REQUIRED SUPPLEMENTARY INFORMATION

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**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
Kempner Water Supply Corporation
Kempner, 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 Kempner Water Supply Corporation (a nonprofit organization), which comprise the statements of financial position as of September 30, 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, and have issued our report thereon dated January 18, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kempner Water Supply 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kempner Water Supply Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Kempner Water Supply 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.

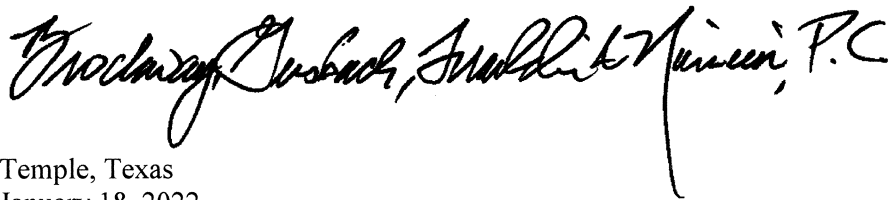
**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(CONTINUED)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kempner Water Supply 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, reading "Brockway Busbach, Matthew M. Menden, P.C." The signature is written in a cursive, flowing style.

Temple, Texas
January 18, 2022