

**CREEDMOOR-MAHA WATER  
SUPPLY CORPORATION  
(A NONPROFIT CORPORATION)**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**YEARS ENDED OCTOBER 31, 2022 AND 2021**

**CREEDMOOR-MAHA WATER SUPPLY CORPORATION**  
**(A NONPROFIT CORPORATION)**  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Creedmoor-Maha Water Supply Corporation

### **Opinion**

We have audited the accompanying financial statements of Creedmoor-Maha Water Supply Corporation (a Texas nonprofit corporation), which comprise the statements of financial position as of October 31, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, 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 Creedmoor-Maha Water Supply Corporation as of October 31, 2022 and 2021, and the results of its operations 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 (GAAS). 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 Creedmoor-Maha 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 Creedmoor-Maha 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 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 Creedmoor-Maha 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 Creedmoor-Maha 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.

*Valentine & Associates, CPAs, PC*

Valentine & Associates, CPAs, PC  
Marble Falls, Texas  
February 9, 2023

**CREEDMOOR-MAHA WATER SUPPLY CORPORATION**  
**(A NONPROFIT CORPORATION)**  
**STATEMENTS OF FINANCIAL POSITION**  
**OCTOBER 31, 2022 AND 2021**

| <u>ASSETS</u>  | 2022          | 2021          |
|--|---------------|---------------|
| Current assets:  |               |               |
| Cash and cash equivalents (Note 2)   | \$ 16,842,909 | \$ 10,134,579 |
| Investments (Note 3)   | 104,052       | 103,819       |
| Accounts receivable, net of allowance for doubtful<br>accounts of \$318,616 and \$318,616, respectively          | 391,844       | 417,467       |
| Government receivable  | 209,355       | 165,166       |
| Prepaid expenses   | 37,332        | 59,173        |
| Total current assets   | 17,585,492    | 10,880,204    |
| Patronage stock (Note 3)   | 65,602        | 59,769        |
| Property and equipment, net of accumulated depreciation<br>of \$6,771,048 and \$6,389,954, respectively (Note 4) | 8,651,884     | 7,760,535     |
| Construction in progress (Note 4)  | 257,074       | 869,297       |
| Goodwill   | 52,215        | 52,215        |
| Total assets   | \$ 26,612,267 | \$ 19,622,020 |
| <u>LIABILITIES AND NET ASSETS</u>  |               |               |
| Current liabilities:   |               |               |
| Accounts payable   | \$ 171,895    | \$ 92,857     |
| Accrued expenses   | 26,562        | 23,246        |
| Unearned revenue   | 21,541        | 51,056        |
| Current portion of long-term debt (Note 6)   | 455,133       | 290,529       |
| Total current liabilities  | 675,131       | 457,688       |
| Noncurrent liabilities:  |               |               |
| Contribution in Aid of Construction  | 5,806,006     | 4,821,262     |
| Long-term debt net of current portion (Note 6)   | 9,774,915     | 5,651,863     |
| Total liabilities  | 16,256,052    | 10,930,813    |
| Net assets:  |               |               |
| Without donor restrictions:  |               |               |
| Designated by board (Note 7)   | 295,870       | 297,210       |
| Undesignated   | 10,060,345    | 8,393,997     |
| Total net assets   | 10,356,215    | 8,691,207     |
| Total liabilities and net assets   | \$ 26,612,267 | \$ 19,622,020 |

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

**CREEDMOOR-MAHA WATER SUPPLY CORPORATION**  
**(A NONPROFIT CORPORATION)**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED OCTOBER 31, 2022 AND 2021**

|   | October 31, 2022                 |                            |               |
|---|----------------------------------|----------------------------|---------------|
|   | Without<br>Donor<br>Restrictions | With Donor<br>Restrictions | Total         |
| Revenue:  |                                  |                            |               |
| Water and meter sales, net of cost of sales<br>of \$522,616 | \$ 3,993,063                     | \$ -                       | \$ 3,993,063  |
| Other revenue:  |                                  |                            | -             |
| Operations, maintenance, and expansion fees                 | 1,561,687                        | -                          | 1,561,687     |
| Membership fees   | 11,410                           | -                          | 11,410        |
| Interest income and late fees                               | 11,085                           | -                          | 11,085        |
| Patronage dividend  | 17,498                           | -                          | 17,498        |
| Gain / (Loss) on sale of assets                             | 4,500                            | -                          | 4,500         |
| Total revenue   | 5,599,243                        | -                          | 5,599,243     |
| Expense:  |                                  |                            |               |
| Program services  | 3,280,451                        | -                          | 3,280,451     |
| Management and general                                      | 653,784                          | -                          | 653,784       |
| Fundraising   | -                                | -                          | -             |
| Total expense   | 3,934,235                        | -                          | 3,934,235     |
| Increase in net assets                                      | 1,665,008                        | -                          | 1,665,008     |
| Net assets, beginning of year (as restated see Note 9)      | 8,691,207                        | -                          | 8,691,207     |
| Net assets, end of year                                     | \$ 10,356,215                    | \$ -                       | \$ 10,356,215 |

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

**CREEDMOOR-MAHA WATER SUPPLY CORPORATION**  
**(A NONPROFIT CORPORATION)**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED OCTOBER 31, 2022 AND 2021**

|   | October 31, 2021                 |                            |              |
|---|----------------------------------|----------------------------|--------------|
|   | Without<br>Donor<br>Restrictions | With Donor<br>Restrictions | Total        |
| Revenue:  |                                  |                            |              |
| Water and meter sales, net of cost of sales<br>of \$499,577 | \$ 3,544,100                     | \$ -                       | \$ 3,544,100 |
| Other revenue:  |                                  |                            | -            |
| Operations, maintenance, and expansion fees                 | 771,128                          | -                          | 771,128      |
| Membership fees   | 12,145                           | -                          | 12,145       |
| Interest income and late fees                               | 4,821                            | -                          | 4,821        |
| Patronage dividend  | 11,441                           | -                          | 11,441       |
| Gain / (Loss) on sale of assets                             | 16,067                           | -                          | 16,067       |
| Total revenue   | 4,359,702                        | -                          | 4,359,702    |
| Expense:  |                                  |                            |              |
| Program services  | 3,169,289                        | -                          | 3,169,289    |
| Management and general                                      | 581,485                          | -                          | 581,485      |
| Fundraising   | -                                | -                          | -            |
| Total expense   | 3,750,774                        | -                          | 3,750,774    |
| Increase in net assets                                      | 608,928                          | -                          | 608,928      |
| Net assets, beginning of year                               | 8,082,279                        | -                          | 8,082,279    |
| Net assets, end of year (as restated see Note 9)            | \$ 8,691,207                     | \$ -                       | \$ 8,691,207 |

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

**CREEDMOOR-MAHA WATER SUPPLY CORPORATION**  
**(A NONPROFIT CORPORATION)**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**YEARS ENDED OCTOBER 31, 2022 AND 2021**

|                                     | October 31, 2022    |                           |             |                    |
|-------------------------------------|---------------------|---------------------------|-------------|--------------------|
|                                     | Program<br>Services | Management<br>and General | Fundraising | Total              |
| Salaries, wages and benefits        | \$ 564,871          | \$ 87,121                 | \$ -        | \$ 651,992         |
| Repairs and maintenance             | 1,346,176           | 421                       | -           | 1,346,597          |
| Utilities                           | 95,204              | -                         | -           | 95,204             |
| Office and general business expense | 164,682             | 54,284                    | -           | 218,966            |
| Advertising                         | -                   | 3,088                     | -           | 3,088              |
| Interest expense                    | 172,099             | -                         | -           | 172,099            |
| Insurance                           | 30,809              | 319                       | -           | 31,128             |
| Depreciation & amortization         | 369,220             | 19,215                    | -           | 388,435            |
| Legal and professional              | 537,390             | 449,728                   | -           | 987,118            |
| Dues and fees                       | -                   | 39,608                    | -           | 39,608             |
| Bad debts and provision for loss    | -                   | -                         | -           | -                  |
|                                     | <b>\$3,280,451</b>  | <b>\$ 653,784</b>         | <b>\$ -</b> | <b>\$3,934,235</b> |

|                                     | October 31, 2021    |                           |             |                    |
|-------------------------------------|---------------------|---------------------------|-------------|--------------------|
|                                     | Program<br>Services | Management<br>and General | Fundraising | Total              |
| Salaries, wages and benefits        | \$ 498,008          | \$ 70,825                 | \$ -        | \$ 568,833         |
| Repairs and maintenance             | 1,353,127           | -                         | -           | 1,353,127          |
| Utilities                           | 89,557              | 957                       | -           | 90,514             |
| Office and general business expense | 134,864             | 58,159                    | -           | 193,023            |
| Advertising                         | -                   | 5,335                     | -           | 5,335              |
| Interest expense                    | 193,208             | -                         | -           | 193,208            |
| Insurance                           | 24,065              | 5,534                     | -           | 29,599             |
| Depreciation & amortization         | 375,271             | 19,534                    | -           | 394,805            |
| Legal and professional              | 501,189             | 392,151                   | -           | 893,340            |
| Dues and fees                       | -                   | 28,990                    | -           | 28,990             |
| Bad debts and provision for loss    | -                   | -                         | -           | -                  |
|                                     | <b>\$3,169,289</b>  | <b>\$ 581,485</b>         | <b>\$ -</b> | <b>\$3,750,774</b> |

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



**CREEDMOOR-MAHA WATER SUPPLY CORPORATION**  
**(A NONPROFIT CORPORATION)**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED OCTOBER 31, 2022 AND 2021**

|   | 2022                 | 2021                 |
|---|----------------------|----------------------|
| Cash flows from operating activities:   |                      |                      |
| Increase in net assets  | \$ 1,665,008         | \$ 608,928           |
| Adjustments to reconcile net assets<br>to net cash flows from operating activities: |                      |                      |
| Depreciation  | 384,310              | 390,679              |
| Amortization  | 4,126                | 4,126                |
| (Gain) / Loss on sale of asset  | (4,500)              | (16,067)             |
| (Increase) decrease in:   |                      |                      |
| Accounts receivable, net  | 25,623               | (9,076)              |
| Government receivable   | (44,189)             | (165,166)            |
| Prepaid expenses  | 21,843               | (35,966)             |
| Goodwill  | -                    | -                    |
| Increase (decrease) in:   |                      |                      |
| Accounts payable  | 79,038               | (91,349)             |
| Accrued expenses  | 3,313                | (22,044)             |
| Unearned revenue  | (29,515)             | 22,096               |
|   | <u>2,105,057</u>     | <u>686,161</u>       |
| Net cash flows from operating activities  |                      |                      |
| Cash flows from investing activities:   |                      |                      |
| Purchase of property and equipment  | (865,288)            | (759,460)            |
| Proceeds from sale of property  | 4,500                | 39,500               |
| Purchase of patronage stock   | (5,833)              | (3,793)              |
| Change in contribution in aid of construction                                       | 1,186,597            | 3,320,762            |
| Change in certificate of deposit  | (233)                | (871)                |
|   | <u>319,743</u>       | <u>2,596,138</u>     |
| Net cash flows from investing activities:   |                      |                      |
| Cash flows from financing activities:   |                      |                      |
| Proceeds from new loans   | 4,575,980            | 817,912              |
| Principal payments on long-term debt  | (292,450)            | (1,092,746)          |
|   | <u>4,283,530</u>     | <u>(274,834)</u>     |
| Net cash flows from financing activities:   |                      |                      |
| Net increase (decrease) in cash and cash equivalents                                | 6,708,330            | 3,007,465            |
| Cash and cash equivalents, beginning of year  | <u>10,134,579</u>    | <u>7,127,114</u>     |
| Cash and cash equivalents, end of year  | <u>\$ 16,842,909</u> | <u>\$ 10,134,579</u> |
| Supplemental disclosures of cash flow information:                                  |                      |                      |
| Cash paid for interest  | <u>\$ 167,845</u>    | <u>\$ 193,636</u>    |

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

**CREEDMOOR-MAHA WATER SUPPLY CORPORATION**  
**(A NONPROFIT CORPORATION)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED OCTOBER 31, 2022 AND 2021**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization:**

Creedmoor-Maha Water Supply Corporation is a Texas nonprofit corporation, member owned and controlled corporation (the "Corporation"). The Corporation furnishes water services to homes and businesses in the central Texas area and is headquartered in Buda, Texas. The Corporation's operating policies, rates and regulations are adopted by a Board of Directors, who are elected by the members of the Corporation.

The management of the Corporation is responsible for the accuracy and internal consistency of the preparation of the financial statements and notes contained in this annual report.

**Federal income tax:**

The Corporation is exempt from federal income tax under section 501(c)(12) of the Internal Revenue Code. In addition, the Corporation has been classified as an organization that is not a private foundation.

There was no unrelated business income for the years ended October 31, 2022 and 2021.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 740, Income Taxes, requires extensive disclosures about uncertain tax positions. The requirements of this standard are applicable to nonprofit organizations. The Corporation evaluates any uncertain tax positions using the provisions of FASB ASC 450, Contingencies. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management's judgment with respect to the likely outcome of each uncertain tax position.

The Corporation does not believe that it has engaged in any situations that would result in an uncertain tax position. As a result, management does not believe that any uncertain tax positions currently exist and therefore, no loss contingency has been recognized in the accompanying financial statements. Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination. Currently, the Corporation does not have any open examinations with either the Internal Revenue Service or state taxing authorities.

**Basis of accounting:**

The financial statements of the Corporation have been prepared utilizing the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America (GAAP) applicable to nonprofit organizations.

**CREEDMOOR-MAHA WATER SUPPLY CORPORATION**  
**(A NONPROFIT CORPORATION)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED OCTOBER 31, 2022 AND 2021**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**– CONTINUED**

**Revenue recognition:**

The Corporation derives its revenues primarily from the sale of water needed or required by its members. Revenues are recognized when control of these services is transferred to its members, in an amount that reflects the consideration the Corporation expects to be entitled to in exchange for those services. Other taxes the Corporation collects concurrent with revenue-producing activities are included in revenue. The Company does not have any significant financing components as payment is received shortly after the point of sale. Costs incurred to obtain a contract will be expensed as incurred when the amortization period is less than a year.

Disaggregation of revenue from contracts with customers

Revenue from performance obligations satisfied at a point in time consists of sales of water services, feasibility services, and meter installations. These services are sold to members within the area designated by their certificate of convenience and necessity (CCN).

Revenue from performance obligations satisfied over time consists of capital improvements through contributions in aid of construction to offset the acquisition, improvement, or construction costs of the Corporation property, facilities, or equipment used to provide utility services to the public. Revenues from contributions in aid of construction are not recognized as related expenses are incurred and are offset directly with the contribution. These services are sold to developers who are developing construction projects in the Corporations CCN.

Performance Obligations

For performance obligations related to the sale of water and meter installations, control transfers to the customer at a point in time. The Corporation’s principal terms of sales of water are billed monthly for water service provided for the month before. The Corporation is billing one month in arrears. Performance obligations related to the installation of meters and feasibility studies, control transfers to the customer at the point the meter is installed, and the feasibility study has been presented.

For performance obligations related to capital improvements, control transfers to the customer as the construction progresses and the expenses have been incurred. These funds are recorded as a liability and the liability is reduced as the Corporation uses the contributions on capital plan improvements for expansion into the new developments.

The following table disaggregates the Corporation’s revenue based on timing of satisfaction of performance obligations for the year end December 31, 2022:

|  |                     |
|--|---------------------|
| Performance obligations satisfied over time          | \$ 1,353,606        |
| Performance obligations satisfied at a point in time | 4,588,580           |
| Less: Cost of goods sold for U.S. GAAP               | <u>(522,616)</u>    |
| Total revenue recognized                             | <u>\$ 5,419,570</u> |

**CREEDMOOR-MAHA WATER SUPPLY CORPORATION**  
**(A NONPROFIT CORPORATION)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED OCTOBER 31, 2022 AND 2021**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**– CONTINUED**

**Revenue recognition-continued:**

Contract Balances

Contact assets consists of the Corporations right to payment from customers for water services that have been provided to the customers. The balances of contract receivables at October 31, 2022, October 31, 2021, and November 1, 2021 was \$391,844, \$417,467, and \$408,391 for accounts receivable with customer contracts and \$209,355, \$165,166, and \$0 for a government receivable from contract grants. The Corporation's revenue is generally from water and meter sales and providing services to its customers. Revenue is recognized when the water is consumed by the customer and other sales or services are recognized when the product is delivered, or service is provided.

Contract liabilities consist of the Corporation's obligation to supply water for customers for which the Corporation has received prepayment for the customer's account. Contract liabilities primarily relate to unearned revenue which will be recognized once the prepaid amount has been utilized against the customer's future billings. Balances of contract liabilities at October 31, 2022, October 31, 2021, and November 1, 2021 was \$21,541, \$51,056, and \$28,960, respectively.

Variable Consideration

The nature of the Company's business gives rise to variable consideration, including rebates, allowances, and returns that generally decrease the transaction price which reduces revenue. These variable amounts are generally credited to the customer, based on achieving certain levels of sales activity, service returns or price concessions. Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration are estimated based upon historical experience and known trends

**Reclassifications:**

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

**Financial statement presentation:**

Financial statement presentation follows the authoritative provisions of accounting guidance on financial statement presentation, the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Sections 958-205, Not-for-Profit Entities. The Organization is required to report information regarding its financial position and activities according to three classes based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

**CREEDMOOR-MAHA WATER SUPPLY CORPORATION**  
**(A NONPROFIT CORPORATION)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED OCTOBER 31, 2022 AND 2021**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**– CONTINUED**

**Financial statement presentation - Continued:**

With Donor Restrictions – Net assets subject to donor- (or certain grantor-) 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 was restricted has been fulfilled, or both. The Organization has no net assets with donor restrictions.

**Advertising:**

Advertising costs are expensed as incurred. For the years then ended October 31, 2022 and 2021 advertising expenses were \$3,088 and \$5,335, respectively.

**Use of estimates:**

The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**Concentrations of credit risk:**

Financial instruments that potentially expose the Corporation to credit risk consist of cash. Cash is maintained at high-quality financial institutions. The Corporation's balances at these financial institutions may at times exceed federally insured limits; however, the Corporation has not experienced any losses on its cash.

The Corporation's customer base consists of commercial entities and individuals. The Corporation regularly extends credit to these customers in the form of monthly utility billings and rarely requires collateral. Management monitors credit levels and the financial condition of its customers to minimize credit risk and management believes that adequate provision for credit loss has been made.

The Corporation purchases maintenance and repair services, parts and supplies from more than twenty vendors. Purchases from one of our largest vendors approximate 32.6% and 18.2% for 2022 and two our largest vendors approximate 36.8% and 14.7% for 2021.

**Cash and cash equivalents:**

For the purpose of the statement of financial position and the statement of cash flows, the Corporation considers all short-term investments with an original maturity of three months or less to be cash and cash equivalents.

**CREEDMOOR-MAHA WATER SUPPLY CORPORATION**  
**(A NONPROFIT CORPORATION)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED OCTOBER 31, 2022 AND 2021**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**– CONTINUED**

**Accounts receivable:**

Accounts receivable are presented in the balance sheets less an allowance for doubtful accounts. The allowance for doubtful accounts is based on the Corporation's projected and actual losses, the existing economic conditions in the community, and the financial stability of its customers. Accounts receivable are granted on a thirty-day basis, at which time the account is classified as past due. Late fees are charged on balances after ten days past due. Past due accounts are charged-off after all reasonable attempts of collection are exhausted. Interest is not accrued on past due balances.

**Property and equipment:**

Property and equipment acquired by the Corporation is considered to be owned by the Corporation. The Corporation follows the practice of capitalizing, at historical cost, all expenditures over \$5,000 for property and equipment. The cost of ordinary repairs and maintenance is expensed as incurred. Depreciation is computed on the straight-line basis over the useful lives of the assets generally as follows:

|                                   |             |
|-----------------------------------|-------------|
| Buildings and improvements        | 20-40 years |
| Storage tanks and pressure system | 40 years    |
| Water wells, lines, and meters    | 40 years    |
| Machinery and equipment           | 3-10 years  |
| Trucks, tractors, and cutters     | 3-10 years  |
| Furniture and fixtures            | 3-10 years  |
| Computers and software            | 3-10 years  |

**Goodwill and Other Intangible Assets:**

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquire, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. The Corporation's goodwill does not have an indefinite life and is amortized over the useful life of the tangible assets that were acquired during the business combination.

**Fair Value Measurements:**

FASB ASC 820-10, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority to unobservable inputs. See Note 9 for further detail and summary of financial assets and liabilities measured at fair value.

**CREEDMOOR-MAHA WATER SUPPLY CORPORATION**  
**(A NONPROFIT CORPORATION)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED OCTOBER 31, 2022 AND 2021**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**– CONTINUED**

**Functional Allocation of Expenses:**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, wages and benefits, repairs and maintenance, office and general business expenses, utilities, interest, professional fees, and other, which are allocated on the basis of estimates of time and effort. The Corporation did not incur any fundraising expenses during the current or previous year.

**Legal Proceedings:**

The Corporation currently has no lawsuits, actions, or other legal proceedings pending claims against them that would have a material impact on the statement of financial condition. However, the Corporation could, from time to time, be involved in litigation proceedings arising out of its normal course of business.

**Adoption of New Accounting Standard:**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014- 09, “Revenue from Contracts with Customers (Topic 606)”. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Corporation adopted the new standard effective January 1, 2020, the first day of the Corporation’s fiscal year using the modified retrospective approach.

As part of the adoption of the ASU, the Corporation elected the following transition practical expedients: (i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; and (ii) to apply the standard only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of bank accounts that are available for use in current operations. Cash and cash equivalents totaled \$16,842,909 and \$10,134,579 at October 31, 2022 and 2021, respectively, which are equivalent to their fair market value. Cash and cash equivalents in the amounts of \$295,870 and \$297,210 at October 31, 2022 and 2021, respectively, have been set aside by the board of directors to cover designated net assets (Note 5). As of October 31, 2022 and 2021, the Corporation had funds in the amount of \$11,859,463 and \$9,727,188, respectively that were uninsured.

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**NOTE 3 – INVESTMENTS AND PATRONAGE STOCK**

Investments consisting of certificates of deposit are recorded at fair value in the amounts of \$104,052 and \$103,819 as of October 31, 2022 and 2021, respectively.

The Corporation receives qualified patronage allocations of cash and A-stock from a financial institution. Patronage stock is recorded at the allocated value and consists of A-Stock totaling \$65,602 and \$59,769, as of October 31, 2022 and 2021, respectively.

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment as of October 31, 2022 and 2021 are as follows:

|                                   | <u>2022</u>         | <u>2021</u>         |
|-----------------------------------|---------------------|---------------------|
| Land                              | \$ 1,082,192        | \$ 861,897          |
| Buildings and improvements        | 1,190,301           | 185,252             |
| Storage tanks and pressure system | 2,525,955           | 2,525,955           |
| Water wells, lines, and meters    | 10,375,571          | 10,371,949          |
| Machinery and equipment           | 810,445             | 810,445             |
| Trucks, tractors, and cutters     | 85,949              | 68,460              |
| Furniture and fixtures            | 30,182              | 25,174              |
| Computers and software            | <u>42,487</u>       | <u>42,487</u>       |
| Total property and equipment      | 16,143,082          | 14,891,619          |
| Less: Accumulated depreciation    | <u>(7,491,198)</u>  | <u>(7,131,084)</u>  |
| Property and equipment, net       | \$ <u>8,651,884</u> | \$ <u>7,760,535</u> |

Depreciation expense as of October 31, 2022 and 2021 was \$384,309 and \$390,679, respectively

The Organization had completed the construction of a new office building and is still in process of upgrading the water distribution system.

|                                | <u>2022</u>       | <u>2021</u>       |
|--------------------------------|-------------------|-------------------|
| Office building                | \$ -              | \$ 685,750        |
| Water distribution system      | <u>257,074</u>    | <u>183,547</u>    |
| Total construction in progress | \$ <u>257,074</u> | \$ <u>869,297</u> |



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**NOTE 5 – UNRESTRICTED NET ASSETS-DESIGNATED BY BOARD**

The Corporation’s board of directors has designated unrestricted net assets for the following specific purposes:

|                             | 2022       | 2021       |
|-----------------------------|------------|------------|
| Debt service                | \$ 295,870 | \$ 297,210 |
| Contingencies               | -          | -          |
| Total designated net assets | \$ 295,870 | \$ 297,210 |

**NOTE 6 – LONG-TERM DEBT**

Long-term debt consisted of the following, at October 31:

|   | 2022       | 2021       |
|---|------------|------------|
| Note payable to a financial institution bearing interest at the institution's weekly quoted variable rate, which was 5.68% and 2.55% on October 31, 2022 and 2021, plus principal, with monthly payments approximating \$10,600 per month, payable until amortized; secured by first lien on all equity that the Corporation may own in the financial institution and first priority lien (shared pro rata with Rural Development) on all real and personal property. Matures January, 20, 2028 | \$ 609,517 | \$ 699,360 |
| Note payable to a financial institution bearing interest at the institution's weekly quoted variable rate, which was 4.93% and 1.84% on October 31, 2022 and 2021, plus principal, with monthly payments approximating \$3,110 per month, payable until amortized; secured by first lien on all equity that the Corporation may own in the financial institution and first priority lien (shared pro rata with Rural Development) on all real and personal property. Matures March 20, 2021     | 254,363    | 278,929    |
| Note payable to a financial institution bearing interest at the institution's weekly quoted variable rate, which was 3.25% and 3.25% on October 31, 2022 and 2021, plus principal, with monthly payments approximating \$4,009 per month, payable until amortized; secured by first lien on all equity that the Corporation may own in the financial institution and first priority lien (shared pro rata with Rural Development) on all real and personal property. Matures December 31, 2025  | 778,037    | 800,078.00 |

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**NOTE 6 – LONG-TERM DEBT-CONTINUED**

Note payable to the Texas Water Development Board (TWDB) bearing interest at the institution's monthly quoted variable rate, which was 2.22% and 1.99% on October 31, 2022 and 2021, plus principal, with monthly payments approximating \$23,576 per month, payable until amortized; secured by first lien on all equity that the Corporation may own in the financial institution and first priority lien (shared pro rata with Rural Development) on all real and personal property. Matures May 1, 2049. Net of loan closing costs of \$109,349, respectively.

4,012,151                      4,164,025

Note payable to the Texas Water Development Board (TWDB) bearing interest at the institution's monthly quoted variable rate, which was 3.75% on October 31, 2022, plus principal, with monthly payments approximating \$31,292 per month, payable until amortized; secured by first lien on all equity that the Corporation may own in the financial institution and first priority lien (shared pro rata with Rural Development) on all real and personal property. Matures October 31, 2052. Net of loan closing costs of \$91,520, respectively.

4,575,980                      -

|   |                     |                     |
|---|---------------------|---------------------|
| Total long-term debt                    | █ 10,230,048        | █ 5,942,392         |
| Less: current portion of long-term debt | <u>(455,133)</u>    | <u>(290,529)</u>    |
| Long-term debt, net of current portion  | \$ <u>9,774,915</u> | \$ <u>5,651,863</u> |

Current maturities of long-term debt for the next five years ending October 31 is as follows:

|            |  |                      |
|------------|--|----------------------|
| 2023       |  | \$ 455,133           |
| 2024       |  | 462,641              |
| 2025       |  | 470,697              |
| 2026       |  | 479,122              |
| 2027       |  | 488,007              |
| Thereafter |  | <u>7,874,448</u>     |
| Total      |  | \$ <u>10,230,048</u> |

The Corporation must maintain certain debt covenants in accordance with a master loan agreement with a financial institution dated October 19, 2006.

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**NOTE 7 – NET ASSETS**

Net assets consist of member assessments and accumulated net assets. Each member is entitled to one vote upon membership qualification and payment of a membership fee of \$100. All customers must be members and memberships contain no right of dividend and are non-transferable except under certain circumstances, without compensation, related to the allowable transfer of service. Memberships may be transferred to the Corporation without compensation.

**NOTE 9 – LIQUIDITY AND AVAILABILITY**

The Corporation strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures.

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

|                           | 2022          | 2021          |
|---------------------------|---------------|---------------|
| Cash and cash equivalents | \$ 16,842,909 | \$ 10,134,579 |
| Investments               | 104,052       | 103,819       |
| Accounts receivable       | 391,844       | 417,467       |
| Government receivable     | 209,355       | 165,166       |
|                           | \$ 17,548,160 | \$ 10,821,031 |

**NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

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**NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED**

Authoritative guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, authoritative guidance establishes a fair value hierarchy for

valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs - Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Certificate of Deposits – Certificate of Deposits (CDs) are valued at quoted market prices in active markets.

Patronage Stock – Patronage stock are valued at cost of share price.

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**NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED**

|                         | October 31, 2022  |                   |                   | Total Fair<br>Value |
|-------------------------|-------------------|-------------------|-------------------|---------------------|
|                         | Level 1<br>Inputs | Level 2<br>Inputs | Level 3<br>Inputs |                     |
| Financial Assets:       |                   |                   |                   |                     |
| Certificate of deposits | \$ 104,052        | \$ -              | \$ -              | \$ 104,052          |
| Patronage stock         | -                 | 65,602            | -                 | 65,602              |
| Total financial assets  | <u>\$ 104,052</u> | <u>\$ 65,602</u>  | <u>\$ -</u>       | <u>\$ 169,654</u>   |

|                         | October 31, 2021  |                   |                   | Total Fair<br>Value |
|-------------------------|-------------------|-------------------|-------------------|---------------------|
|                         | Level 1<br>Inputs | Level 2<br>Inputs | Level 3<br>Inputs |                     |
| Financial Assets:       |                   |                   |                   |                     |
| Certificate of deposits | \$ 103,819        | \$ -              | \$ -              | \$ 103,819          |
| Patronage stock         | -                 | 59,769            | -                 | 59,769              |
| Total financial assets  | <u>\$ 103,819</u> | <u>\$ 59,769</u>  | <u>\$ -</u>       | <u>\$ 163,588</u>   |

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The estimated fair value amounts of financial instruments have been determined by the Corporation using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

**NOTE 11 – DATE OF MANAGEMENT'S EVALUATION OF SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 9, 2023, the date on which the financial statements were available to be issued.