

**Kempner
Water Supply Corporation**

September 30, 2022 and 2021

Financial Statements



KEMPNER WATER SUPPLY CORPORATION

FINANCIAL STATEMENTS

For the Years Ended September 30, 2022 and 2021

**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

Opinion

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, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kempner Water Supply Corporation as of September 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Kempner 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 Kempner 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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:

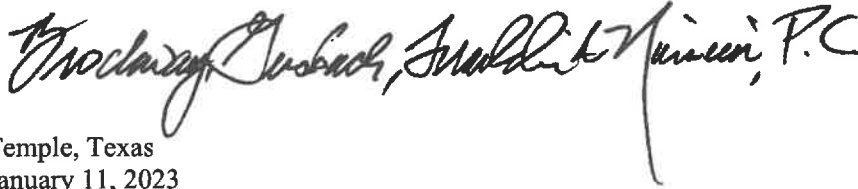
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, 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 Kempner 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 Kempner 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2023, 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 "Tracy J. Busch, CPA". The signature is written in a cursive style and is positioned above the typed name and date.

Temple, Texas
January 11, 2023

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FINANCIAL STATEMENTS

KEMPNER WATER SUPPLY CORPORATION
STATEMENTS OF FINANCIAL POSITION
September 30, 2022 and 2021

	ASSETS		<u>2022</u>	<u>2021</u>
Current Assets				
Cash and cash equivalents			\$ 7,804,143	\$ 5,812,559
Investments			2,291,458	2,690,346
Accounts receivable, net of allowance for doubtful accounts of \$ -0- and \$ 245,514, respectively			740,153	793,426
Other receivables			329,502	-
Inventory			<u>129,091</u>	<u>120,202</u>
 Total Current Assets			 11,294,347	 9,416,533
 Property, Plant and Equipment				
Property, plant and equipment			58,967,473	55,757,927
Less: accumulated depreciation			<u>(23,514,908)</u>	<u>(21,898,340)</u>
 Total Property, Plant and Equipment			 35,452,565	 33,859,587
 Other Assets				
Deposits			600	600
Investment in CoBank			<u>208,130</u>	<u>103,890</u>
 Total Other Assets			 <u>208,730</u>	 <u>104,490</u>
 Total Assets			 <u>\$ 46,955,642</u>	 <u>\$ 43,380,610</u>

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

LIABILITIES

	<u>2022</u>	<u>2021</u>
Current Liabilities		
Current portion of long-term debt	\$ 1,199,134	\$ 1,095,292
Current portion of settlement agreement	-	67,408
Accounts payable	282,970	95,309
Accrued payroll	18,757	15,282
Accrued vacation	73,896	64,689
Accrued interest	<u>119,142</u>	<u>109,989</u>
 Total Current Liabilities	 1,693,899	 1,447,969
 Long-Term Debt		
 Long-term debt, net of current portion	 <u>35,355,985</u>	 <u>33,786,490</u>
 Total Liabilities	 37,049,884	 35,234,459

NET ASSETS

Net Assets		
Without Member Restrictions:		
Membership reserve	125,000	125,000
CoBank reserve	1,360,000	1,210,000
Undesignated	<u>8,420,758</u>	<u>6,811,151</u>
Total Net Assets	<u>9,905,758</u>	<u>8,146,151</u>
 Total Liabilities and Net Assets	 <u><u>\$ 46,955,642</u></u>	 <u><u>\$ 43,380,610</u></u>

KEMPNER WATER SUPPLY CORPORATION
STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2022 and 2021

	2022	2021
Operating Revenues		
Service Revenue	\$ 9,449,398	\$ 8,526,720
Total Operating Revenues	9,449,398	8,526,720
Operating Expenses		
<i>Program</i>		
Depreciation	1,678,125	1,611,745
Interest expense	1,404,214	1,452,390
Payroll and related benefits	812,212	765,440
Field operating costs	914,011	755,543
CTWS fees	983,435	732,031
BRA fees	748,211	552,853
Utilities	306,080	237,679
Insurance	229,545	216,688
Engineering	46,367	121,565
Administrative	105,464	95,381
Regulatory fees	58,936	56,549
Travel	12,273	7,215
<i>Subtotal Program Expenses</i>	7,298,873	6,605,079
<i>General and Administrative</i>		
Depreciation	11,872	12,091
Payroll and related benefits	541,474	510,294
Utilities	421,777	265,223
Insurance	95,172	90,161
Administrative	90,587	111,530
Professional fees	57,650	107,268
Travel	5,587	1,150
<i>Subtotal General and Administrative</i>	1,224,119	1,097,717
Total Expenses	8,522,992	7,702,796
Excess of operating revenues over operating expenses	926,406	823,924
Other Income (Expense)		
Interest and dividend income	458,843	353,297
Loss on investments	(173,888)	(34,069)
Gain on sale of fixed assets	127,984	25,526
Contributions in aid of construction	213,363	-
Legal settlement proceeds	188,056	-
Sale of CCN rights	-	280,676
Miscellaneous	18,843	22,052
Total Other Income (Expense)	833,201	647,482
Changes in net assets from operations	1,759,607	1,471,406
Changes in Net Assets		
Membership reserve	-	5,900
Change in net assets	1,759,607	1,477,306
Net assets - beginning of year	8,146,151	6,668,845
Net assets - end of year	\$ 9,905,758	\$ 8,146,151

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, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Changes in net assets from operations	\$ 1,759,607	\$ 1,471,406
Adjustments to reconcile net assets to net cash flows provided by operating activities:		
Depreciation and amortization	1,692,307	1,625,794
Loss on investments	173,888	34,069
Gain on sale of capital assets	(127,984)	(5,288)
(Increase) decrease in:		
Accounts receivable	53,273	(74,463)
Other receivables	(329,502)	-
Inventory	(8,889)	(1,666)
Increase (decrease) in:		
Accounts payable	187,661	(165,263)
Accrued liabilities	12,682	(5,756)
Accrued interest	9,153	109,989
Total Adjustments	1,662,589	1,517,416
Net cash provided by operating activities	3,422,196	2,988,822
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,475,000	1,895,000
Purchase of investments	(1,250,000)	(2,498,475)
Proceeds from sale of capital assets	202,082	5,288
Purchase of capital assets	(3,357,073)	(2,149,345)
Investment in CoBank	(104,240)	(101,248)
Net cash used by investing activities	(3,034,231)	(2,848,780)
Cash Flows from Financing Activities		
Proceeds from the issue of memberships, net	-	5,900
Proceeds from the issuance of long-term debt	2,779,300	2,300,000
Principal payments on long-term debt	(1,175,681)	(1,160,125)
Net cash provided by financing activities	1,603,619	1,145,775
Net increase in cash	1,991,584	1,285,817
Cash and cash equivalents - Beginning of Year	5,812,559	4,526,742
Cash and cash equivalents - End of Year	\$ 7,804,143	\$ 5,812,559

Supplemental Cash Flow Information

During the years ended September 30, 2022 and 2021, interest payments were made in the amounts of \$ 1,395,061 and \$ 1,342,401, 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, 2022 and 2021 the allowance for uncollectible amounts was \$ -0- and \$ 245,514, respectively.

KEMPNER WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

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.

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, 2022 and 2021 was \$ 2,993 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.

Revenue Recognition Policy

The Corporation derives its revenues primarily from the sale of water and installation of water meters. Revenues are recognized when control of these products or services is transferred to its customers, in an amount that reflects the consideration the Corporation expects to be entitled to in exchange for those products and services. Sales and other taxes the Corporation collects concurrent with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The Corporation does not have any significant financing components as payment is received at or shortly after the point of sale. Costs incurred to obtain a contract will be expenses as incurred when the amortization period is less than a year.

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

Advertising

Advertising expense is expensed in the period incurred. Advertising amounted to \$ 4,803 and \$ 141 for the years ended September 30, 2022 and 2021, 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 2019-2021.

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, 2022 and 2021, the Corporation maintained cash balances of \$ 7,343,547 and \$ 5,174,890, 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. Cost and fair value of investments at September 30, 2022 and 2021, are as follows:

	2022		2021	
	Fair Value	Historical Cost	Fair Value	Historical Cost
Commercial paper	\$ 1,174,961	\$ 1,250,000	\$ 999,855	\$ 1,000,000
Federal agency securities	819,073	850,000	884,307	850,000
Municipal bonds	297,424	300,000	806,184	775,000
Total	<u>\$ 2,291,458</u>	<u>\$ 2,400,000</u>	<u>\$ 2,690,346</u>	<u>\$ 2,625,000</u>

KEMPNER WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

5. Other Receivables

Other receivables consisted of the following at September 30:

	2022	2021
Insurance proceeds	\$ 116,685	\$ -
Contributions in aid of construction	24,761	-
Legal settlement proceeds	188,056	-
	<u>\$ 329,502</u>	<u>\$ -</u>

6. Property and Equipment

Property and equipment consisted of the following at September 30:

	2022	2021
Water distribution system	\$ 55,899,907	\$ 51,143,826
Land	1,256,134	1,256,134
Automobiles and trucks	503,987	441,773
Buildings	261,031	247,357
Equipment	517,025	430,528
Furniture and fixtures	54,871	54,871
Construction in progress	474,518	2,183,438
Total property, plant and equipment	<u>58,967,473</u>	<u>55,757,927</u>
Less: accumulated depreciation	<u>(23,514,908)</u>	<u>(21,898,340)</u>
	<u>\$ 35,452,565</u>	<u>\$ 33,859,587</u>

Depreciation expense was \$ 1,689,997 and \$ 1,623,836 for the years ended September 30, 2022 and 2021, respectively.

7. 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 \$ 208,130 and \$ 103,890 as of September 30, 2022 and 2021, respectively. This investment is categorized as Level 2.

KEMPNER WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

8. 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.

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.

9. Long-Term Debt

Long-term debt at September 30, 2022 and 2021 consisted of the following:

	2022	2021
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.	\$ 25,622,438	\$ 26,128,635
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.	4,745,799	5,184,501
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.	2,254,614	2,296,704
Note payable to CoBank, maturing July 2042, with an interest rate of 5.25%, Principal and interest payments are due in monthly payments of \$ 18,892.	2,787,308	-
Notes payable to FSB of Burnet, maturing April 22, 2022, with a 3.90% interest rate, and monthly payments of \$ 1,730.	-	11,903
Note payable to USDA, maturing October 7, 2056, with a 1.88% interest rate, and monthly payments of \$ 1,133.	338,330	345,510

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

Note payable to Prosperity Bank, maturing May 20, 2032, with a 5.35% interest rate, and monthly payments of \$ 9,133	815,573	877,117
Notes payable to National United, maturing March 19, 2023, with a 3.09% interest rate, and monthly payments of \$ 1,558	9,218	27,319
Note payable to Extraco, maturing September 2024, with a 3.50% interest rate, and monthly payments of \$ 899	<u>20,790</u>	<u>30,653</u>
Total Long-Term Debt	36,594,070	34,902,342
Less unamortized debt issuance costs	(38,951)	(20,560)
Less Current Portion	<u>(1,199,134)</u>	<u>(1,095,292)</u>
Long-Term Debt, net of current portion	<u>\$ 35,355,985</u>	<u>\$ 33,786,490</u>

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

Repayment of the long-term debt, at September 30, 2022, is scheduled as follows:

<u>Years Ending September 30,</u>	
2023	\$ 1,199,134
2024	1,198,582
2025	1,232,973
2026	1,286,295
2027	1,338,598
Thereafter	<u>30,338,488</u>
	<u>\$ 36,594,070</u>

10. 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, 2022 and 2021 the remaining portion to be paid to the City of Lampasas was \$ -0- and \$ 67,408, respectively, which is recorded as a liability of the Corporation.

11. 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, 2022 and 2021, total memberships were 5,132 and 5,028, respectively. The board has a membership reserve account of \$ 125,000, shown as membership reserve in net assets.

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

12. 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.

13. 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, 2022 and 2021 were \$ 32,799 and \$ 32,630, respectively.

14. 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, 2022 and 2021 were \$ 983,435 and \$ 732,031 to CTWS and \$ 748,211 and \$ 552,853 to BRA, respectively.

15. Reserve Funds

A reserve fund is required by CoBank in relation to the loans received by the Corporation. The total reserve amount required totaled \$ 1,360,000 and \$ 1,210,000 for the years ended September 30, 2022 and 2021, respectively. As of September 30, 2022 and 2021, the reserve fund was fully funded.

16. 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.

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

17. 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 its CCN rights to surrounding areas. During the years ended September 30, 2022, and 2021 the Corporation received \$ -0- and \$ 280,676, respectively, related to the sale of CCN rights.

18. 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.

In October 2022, the litigation with Central Texas Water Supply Corporation was settled in favor of Kemper Water Supply Corporation when the Supreme Court of Texas upheld the judgement of the district courts. In December 2022, the Corporation received \$ 188,056 as full settlement of the judgement. This amount has been recorded as other receivables in the statement of financial position as of September 30, 2022.

19. Liquidity

As of September 30, 2022 and 2021, 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:

	2022	2021
Financial Assets:		
Cash and cash equivalents	\$ 7,804,143	\$ 5,812,559
Investments	2,291,458	2,690,346
Accounts receivable	740,153	793,426
Other receivables	329,502	-
Total financial assets	11,165,256	9,296,331
Less amounts not available within one year:		
Membership reserve	125,000	125,000
CoBank reserve	1,360,000	1,210,000
Financial assets available to meet general expenditures over the next twelve months	\$ 9,680,256	\$ 7,961,331

KEMPNER WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

20. Subsequent Events

Management has evaluated subsequent events through January 11, 2023, which is the date of the independent auditors' report. No change to the financial statements for the fiscal year ending September 30, 2022 deemed necessary as a result of this evaluation.

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, 2022 and 2021, 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 11, 2023.

Report on 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) as a basis for designing 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 Kempner Water Supply Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 or significant deficiencies may exist that were not 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)**

Report on 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 financial statements. 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 Kempner Water Supply Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kempner Water Supply Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Temple, Texas
January 11, 2023