



RCH WATER SUPPLY CORPORATION
Rockwall, Texas

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
December 31, 2024

FOUNDED ON PRINCIPLE
FOCUSED ON SERVICE

RCH WATER SUPPLY CORPORATION

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May 1, 2025

**Board of Directors
RCH Water Supply Corporation
Rockwall, Texas**

Independent Auditor's Report

Opinion

We have audited the financial statements of RCH Water Supply Corporation ("the Company"), which comprise the balance sheet as of December 31, 2024, and the related statements of operations, members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of RCH Water Supply Corporation as of December 31, 2024 and the results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 the Company and have fulfilled our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe 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 is 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 the Company's ability to continue as a going concern within one year after the date that the financial statements is 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 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than 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 GAAS, 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 to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies and the reasonableness of significant accounting estimates made by management and the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable 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.

Condley and Company, L.L.P.

Certified Public Accountants

RCH WATER SUPPLY CORPORATION
BALANCE SHEET

December 31, 2024

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 2,678,106
Accounts receivable - trade	348,896
Inventory	175,000
Prepaid expenses	<u>59,631</u>

Total Current Assets	<u>3,261,633</u>
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FIXED ASSETS:

Property, plant and equipment	32,945,877
Less: accumulated depreciation	<u>(21,230,817)</u>

Total Fixed Assets, net	<u>11,715,060</u>
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OTHER ASSETS:

Restricted funds	<u>17,792,144</u>
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Total Other Assets	<u>17,792,144</u>
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TOTAL ASSETS	\$ <u>32,768,837</u>
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LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 1,007,213
Accrued expenses	82,682
Accrued interest payable	<u>102,245</u>

Total Current Liabilities	<u>1,192,140</u>
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LONG-TERM LIABILITIES

Line of credit	<u>18,116,000</u>
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Total Long-Term Liabilities	<u>18,116,000</u>
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Total Liabilities	<u>19,308,140</u>
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MEMBERS' EQUITY:

Members' Equity	<u>13,460,697</u>
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Total Members' Equity	<u>13,460,697</u>
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TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ <u>32,768,837</u>
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The accompanying notes are an integral part of the financial statement.

RCH WATER SUPPLY CORPORATION
STATEMENT OF OPERATIONS

For the Year Ended December 31, 2024

REVENUES:

Water revenues	\$ 4,604,196
Total Revenues	<u>4,604,196</u>

EXPENSES:

Purchased water	1,904,464
Salaries and benefits	560,840
Depreciation	1,135,312
Professional fees	1,251,938
Administrative services	334,765
Dues and fees	37,650
Insurance	32,716
Supplies and postage	13,165
Operating supplies	1,039,675
Vehicle expense	10,010
Repairs and maintenance	90,641
Miscellaneous expense	<u>100,996</u>
Total Expenses	<u>6,512,172</u>

OTHER REVENUES (EXPENSES):

Interest income	191,648
Interest expense	(370,837)
In-kind contribution	21,600
Loss on disposal of assets	<u>(210,688)</u>
Total Other Revenues	<u>(368,277)</u>

NET LOSS BEFORE INCOME TAX (2,276,253)

Income tax 79,342

NET LOSS \$ (2,355,595)

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

RCH WATER SUPPLY CORPORATION
STATEMENT OF MEMBERS' EQUITY

For the Year Ended December 31, 2024

	<u>Members</u>		<u>Members'</u> <u>Certificates</u>		<u>Retained</u> <u>Earnings</u>		<u>Members'</u> <u>Equity</u>
Balance at January 1, 2024	2,761	\$	414,150	\$	15,324,892	\$	15,739,042
Net increase in membership	310		77,250				77,250
Net loss					(2,355,595)		(2,355,595)
Balance at December 31, 2024	<u>3,071</u>	<u>\$</u>	<u>491,400</u>	<u>\$</u>	<u>12,969,297</u>	<u>\$</u>	<u>13,460,697</u>

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

RCH WATER SUPPLY CORPORATION
STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2024

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (2,355,595)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,135,312
Loss on disposal of assets	210,688
(Increase) Decrease in:	
Accounts receivable	428,563
Prepaid expenses	(59,631)
Other assets	207,856
Increase (Decrease) in:	
Accounts payable	774,070
Deposits	10,000
Accrued expenses	68,195
Accrued interest payable	102,245
Accrued taxes payable	(259,105)
Net Cash Provided by Operating Activities	<u>262,598</u>

Cash Flows from Investing Activities:

Purchase of fixed assets	(5,877,475)
Funds prepaid for construction in progress - restricted	<u>(18,000,000)</u>
Net Cash Used in Investing Activities	<u>(23,877,475)</u>

Cash Flows from Capital and Related Financing Activities:

Proceeds from line of credit	18,116,000
Memberships purchased	<u>77,250</u>
Net Cash Provided by Capital and Related Financing Activities	<u>18,193,250</u>

Net Decrease in Cash and Cash Equivalents	(5,421,627)
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Cash and Cash Equivalents at Beginning of Year	<u>8,099,733</u>
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Cash and Cash Equivalents at End of Year	<u><u>\$ 2,678,106</u></u>
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Supplementary Information:

Interest paid	\$ 270,396
Income taxes paid	\$ 338,447

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

RCH WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2024

NOTE 1: STATEMENT OF ORGANIZATION AND PURPOSE

RCH Water Supply Corporation (the "Company") was incorporated on July 24, 1961, under the laws of the State of Texas. The Company exists to provide potable water service to the unincorporated areas of central and southeast Rockwall County and includes parts of the incorporated area known as McLendon-Chisolm. Management rests with the Board of Directors elected by the members. The Board controls the issuance of contracts, payment of funds, investment decisions and establishment of accounting guidelines.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of RCH Water Supply Corporation conform to accounting principles generally accepted in the United States of America. Policies and practices which materially affect the determination of financial position are summarized as follows:

Method of Accounting

RCH Water Supply Corporation uses the accrual method of accounting. Revenue and support are recognized when the right to receive them occurs, and expenses are recognized when incurred.

Revenue Recognition

The Company has adopted ASC Topic 606, *Revenue from Contracts with Customers*. The Company generally applies the invoicing practical expedient to recognize revenue except in circumstances where the invoiced amount does not represent the value transferred to the customer. The Company recognizes revenue when it is measurable and collectible.

The Company derives its revenues primarily from the sale of water needed or required by its customers. Revenues from the sale of water are recognized over time when control of these services is transferred to its customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. Revenue from performance obligations satisfied at a point in time consists of other charges, including installation, maintenance, and connection fees.

Variable components of the transaction price, such as late fees, are not recognized until uncertainty around the Corporation's right to charge them is resolved.

Cash and Cash Equivalents

The Company considers any short-term investment convertible to cash within three months or less with little or no change in the principal amount to be a cash equivalent.

Accounts Receivable

The Company writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized in income or an offset to credit loss expense in the year of recovery, in accordance with the entity's accounting policy election. The total amount of write-offs was immaterial to the financial statements as a whole for the year ending December 31, 2024. The Company did not have an allowance for credit losses for the year ending December 31, 2024.

Inventory

Inventories are stated at the lower standard cost based on a first-in, first-out, or net realizable value.

RCH WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2024

Fixed Assets

Fixed assets are reported at cost. Depreciation of exhaustible fixed assets is provided by the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings, lines, and storage	20-30 years
Pumps and equipment	5-30 years
Office equipment	5-10 years
Operations equipment	5-30 years

Maintenance and repairs are charged to operations as incurred, and improvements or betterments that extend the useful lives of fixed assets are capitalized. The Company purchases water meters in large quantities. Individually, the water meters are below the \$2,500 capitalization threshold; therefore, these purchases are included on the income statements as "Operating supplies."

Customer Deposits

The Company collects a refundable deposit from each customer before the inception of service. The refundable deposit is \$150 through June 2024 and increased to \$300 beginning July 2024. If service is terminated, this deposit is used to either settle the account or be refunded.

Other Assets

The Company has restricted funds that are held by a contractor that is performing construction in progress for the Company. See **NOTE 5**.

Contract Assets and Liabilities

A contract asset is the Company's right to receive a payment in exchange for the goods or services that the Company has transferred to a customer, when that right is contingent upon something other than the passage of time (for example, billing or delivery of other elements, part of the contract). The Company presents the contract assets as current assets, since they are expected to be realized within the normal operating cycle.

Contract liabilities constitute the Company's obligation to transfer goods or services to a customer for which the Company has received payment from the end customer or if the amount is past due.

Accounts receivable – trade represents the Company's contract assets. As of December 31, 2024, the Company had no contract liabilities.

Members' Equity

In accordance with the bylaws of the Company, no dividends are to be paid based on membership in the Company. Upon discontinuance of the Company by dissolution or otherwise, all assets remaining after debts are satisfied will be distributed among members in direct proportion to the amount of their patronage with the Company insofar as practicable.

Income Taxes

The Company is subject to federal income tax and state margin tax (which is treated as an income tax). Tax expense includes federal taxes currently payable, deferred taxes arising from temporary differences between income for financial reporting and income tax purposes, and the state margin tax.

In accordance with ASC 740-10 FASB Interpretation (FIN) 48, *Accounting for Uncertainty in Income Taxes*, management evaluated the Company's tax positions. It concluded that the Company had taken no uncertain tax positions that required adjustment to the financial statements to comply with the provisions of this guidance.

RCH WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2024

The Company is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities, with few exceptions for any tax filings before the three most recent filings.

The Company accounts for interest and penalties related to uncertain tax positions as part of its income tax provision. For the year ended December 31, 2024, the Company expensed \$79,342 of taxes, interest, and penalties, which is reflected in income tax on the statement of operations.

The Company filed for tax exemption status in October 2024. As of the date of issuance, the Company is waiting for the Internal Revenue Service (IRS) to approve the status.

Concentrations of Risk

The concentration of credit risk is the risk that, in the event of a bank failure, the Company deposits may not be returned to it. The Company maintains cash balances at various financial institutions. The Federal Deposit Insurance Company insures accounts up to \$250,000. At various times during the year, the Company may have balances at financial institutions above these limits.

The Company's principal water source is the City of Rockwall. The continued receipt of water from this supplier is dependent on the continuation of the Company's operations.

Substantially all of the Company's revenue is derived from water sales to its members in McLendon-Chisholm, Texas and surrounding areas.

Recent Accounting Pronouncements

The Company did not adopt any recent accounting pronouncements during the current audit period.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force) and the American Institute of Certified Public Accountants did not or are not believed by management to have a material impact on the Company's present or future 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

RCH Water Supply Corporation has evaluated subsequent events through May 1, 2025, the date the financial statements were available to be issued. The Company's Board of Directors approved increasing the monthly rates for water service for all members. The new rates took effect on February 15, 2025, and will appear in the March 2025 billing.

RCH WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2024

NOTE 3: ACCOUNTS RECEIVABLE - TRADE

Trade receivables consist of the following divisions on December 31, 2024:

Water	\$ 305,872
Water miscellaneous	41,142
Utility taxes & other	1,882
Total trade receivable	<u>\$ 348,896</u>

The accounts receivable balance on January 1, 2024 was \$777,459.

NOTE 4: FIXED ASSETS

Fixed asset balances consist of the following on December 31:

	2024
Land	\$ 4,627,027
Machinery and equipment	24,951,253
Pumps and tanks	1,879,726
Vehicles	179,415
Construction in process	1,308,456
Totals at cost	<u>32,945,877</u>
Total accumulated depreciation	<u>(21,230,817)</u>
Fixed assets, net	<u>\$ 11,715,060</u>

Depreciation expense for the year ended December 31, 2024 was \$1,135,312.

NOTE 5: RESTRICTED FUNDS

The Company established an agreement with a contractor for construction with the North Texas Municipal Water District. The funds paid to the contractor on September 18, 2024, are held in a money market account with a financial institution in the contractor's name. As the construction progresses, the funds are drawn down. These funds are considered restricted as of December 31, 2024 in the amount of \$17,792,144.

NOTE 6: LINE OF CREDIT

The Company had a line-of-credit with a financial institution with an outstanding balance of \$18,116,000 as of December 31, 2024. The line was initiated on September 13, 2024, and had a maximum borrowing limit of \$20,000,000. The line accrued interest at 6.31%, matures on August 20, 2045, and was secured by the Company's current construction in progress that is performed by a contractor.

The Company paid interest expense totaling \$361,081 for the year ended December 31, 2024. Of this amount, \$359,277 is recognized on the income statement as "Interest expense," and \$1,804 is capitalized and recognized on the balance sheet classified as "Property, plant and equipment."

NOTE 7: RETIREMENT PLAN

The Company established a 401(k) retirement plan for its employees. The plan is a defined contribution plan. The Company matches the contributions up to a maximum of 5% of the employee's compensation.

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

December 31, 2024

Contributions to the plan totaled \$14,862 for the year ended December 31, 2024. Under a 401(k) retirement plan, all participants are 100% vested and are subject to substantial penalties for premature withdrawal.

NOTE 8: FAIR VALUE OF FINANCIAL INSTRUMENTS AND MEASUREMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following methods and assumptions were used in estimating fair value disclosures for those financial instruments for which it was practical to estimate that value:

Restricted funds

Fair values for restricted funds are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on discounted cash flow analysis based on observable inputs (Level 2 per professional standards) or unobservable inputs (Level 3 per professional standards).

The approximate fair values of assets and liabilities presented on the balance sheet measured on a recurring basis on December 31, 2024, is as follows:

FAIR VALUE MEASUREMENTS AT REPORTING DATE				
	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Restricted funds	\$ 17,792,144	\$ 17,792,144	\$ -	\$ -
Total	\$ 17,792,144	\$ 17,792,144	\$ -	\$ -

RCH WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2024

NOTE 9: INCOME TAXES

A reconciliation of income tax expense at the statutory rate to income tax expense at the Company's effective rate is as follows:

	<u>2024</u>
Computed income tax expense at the expected statutory rate	\$ -
Changes in prior year tax estimate	65,568
Estimated tax penalty	<u>13,774</u>
Total income tax expense	\$ <u>79,342</u>

As of December 31, 2024, the Company had no operating loss or tax credit carryovers for tax purposes.