



**RCH WATER SUPPLY CORPORATION**  
**Rockwall, Texas**

*FINANCIAL STATEMENT AND*  
*INDEPENDENT AUDITOR'S REPORT*  
December 31, 2023

**RCH WATER SUPPLY CORPORATION**

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September 18, 2024

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

### **Independent Auditor's Report**

#### **Opinion**

We have audited the financial statement of RCH Water Supply Corporation ("the Company"), which comprises the balance sheet as of December 31, 2023, and the related notes to the financial statement.

In our opinion, the accompanying financial statement presents fairly, in all material respects, the financial position of RCH Water Supply Corporation as of December 31, 2023, 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 Statement 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 Statement**

Management is responsible for the preparation and fair presentation of the financial statement 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 a financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, 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 statement is available to be issued.

#### **Auditor's Responsibilities for the Audit of the Financial Statement**

Our objectives are to obtain reasonable assurance about whether the financial statement is 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 statement.

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 statement, 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 statement.
- 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 statement.
- 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, 2023

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$	8,099,733
Accounts receivable - trade		777,459
Inventory		175,000

Total Current Assets 9,052,192

**FIXED ASSETS:**

Construction in progress		225,324
Machinery & equipment		27,076,924
Vehicles		179,414
Land		63,480

Less accumulated depreciation (20,361,557)

Total Fixed Assets, net 7,183,585

**OTHER ASSETS:**

Deposits		10,000
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Total Other Assets 10,000

**TOTAL ASSETS** \$ 16,245,777

**LIABILITIES AND MEMBERS' EQUITY**

**CURRENT LIABILITIES:**

Accounts payable	\$	233,143
Accrued payroll		14,487
Income tax payable		259,105

Total Current Liabilities 506,735

**MEMBERS' EQUITY:**

Members' Equity		15,739,042
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Total Members' Equity 15,739,042

**TOTAL LIABILITIES AND MEMBERS' EQUITY** \$ 16,245,777

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

**RCH WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENT**  
December 31, 2023

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**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 derives its revenues primarily from selling water needed or required by its customers. Revenues are recognized 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 installation, maintenance, connection fees, and customer reimbursements.

RCH Water Supply Corporation has adopted ASC Topic 606, *Revenue from Contracts with Customers*.

The Company does not utilize contracts to recognize revenue. The Company recognizes revenue when it is measurable and collectible.

Cash and Cash Equivalents

RCH Water Supply Corporation 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, 2023. The Company did not have an allowance for credit loss for the year ending December 31, 2023.

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 STATEMENT**  
December 31, 2023

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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. Depreciation expense for the year ended December 31, 2023 was \$1,201,218.

Customer Deposits

The Company collects a refundable \$150 deposit from each customer before the inception of service. If service is terminated, this deposit is used to either settle the account or be refunded. Customer deposits are reported as an asset on the balance sheet and totaled \$10,000 as of December 31, 2023.

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, 2023, 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 Corporation. Upon discontinuance of the Corporation 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. 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 is filing the 2018, 2019, 2020, 2021, 2022, and 2023 income tax returns for the respective years. The income tax payable as of December 31, 2023 for the aforementioned tax periods is \$259,105.

**RCH WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENT**  
December 31, 2023

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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 Corporation insures accounts up to \$250,000. At various times during the year, the Corporation 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 Corporation's operations.

Recent Accounting Pronouncements

*Adopted*

ASU 2016-13

On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell. Adoption of this standard did not have a material impact on the financial statement.

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 statement 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 September 18, 2024, the date the financial statement was available to be issued.

**NOTE 3: ACCOUNTS RECEIVABLE - TRADE**

Trade receivables consist of the following divisions at December 31, 2023:

Water	\$	241,673
Water miscellaneous		533,861
Utility taxes & other		1,925
Total trade receivable	\$	<u>777,459</u>

Accounts receivable balance at January 1, 2023 was \$186,185.