

WHITE OAK WATER SUPPLY CORPORATION
MONTGOMERY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2021

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

WHITE OAK WATER SUPPLY CORPORATION

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2021

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McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708

PO Box 29584
Austin, TX 78755-5126
(512) 610-2209
www.mgsbpllc.com
E-Mail: mgsb@mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
White Oak Water Supply Corporation
Montgomery County, Texas

Opinion

We have audited the accompanying financial statements of White Oak Water Supply Corporation (the "Corporation"), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and cash flows for the year 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 the Corporation as of December 31, 2021 and the changes in net assets and its 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. 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 Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 the Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Board of Directors
White Oak Water Supply Corporation

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, including omissions, 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 the 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 the 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.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

March 26, 2022

WHITE OAK WATER SUPPLY CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021

ASSETS

Current Assets

| | |
|--|--------------|
| Cash and Cash Equivalents Without Donor Restrictions | \$ 434,151 |
| Investment Without Donor Restrictions | 247,194 |
| Accrued Interest | 142 |
| Service Accounts Receivable | 18,684 |
| Prepaid Insurance | <u>6,201</u> |

Total Current Assets \$ 706,372

Noncurrent Assets

| | |
|---|-------------------|
| Property and Equipment, Net of Accumulated Depreciation | <u>\$ 421,217</u> |
|---|-------------------|

TOTAL ASSETS \$ 1,127,589

LIABILITIES AND NET ASSETS

Liabilities

| | |
|-------------------------|---------------|
| Accounts Payable | \$ 44,215 |
| Customer Meter Deposits | <u>86,900</u> |

Total Liabilities \$ 131,115

Net Assets

| | |
|----------------------------|-------------------|
| Without Donor Restrictions | <u>\$ 996,474</u> |
|----------------------------|-------------------|

TOTAL LIABILITIES AND NET ASSETS \$ 1,127,589

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

WHITE OAK WATER SUPPLY CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

| | Without Donor Restrictions |
|--|-------------------------------|
| REVENUES, GAINS AND OTHER SUPPORT | |
| Water Service | \$ 198,054 |
| Tap Connection and Inspection Fees | 15,195 |
| Regulatory Agencies Fees | 107,930 |
| Investment Revenues | 1,094 |
| Miscellaneous Revenues | 3,985 |
| TOTAL REVENUES, GAINS AND OTHER SUPPORT | \$ 326,258 |
| EXPENSES AND LOSSES | |
| Program Costs-Water Services: | |
| Chemicals | \$ 1,335 |
| Depreciation | 36,760 |
| Engineering Fees | 7,355 |
| Laboratory Fees | 8,961 |
| Operator Fees | 22,534 |
| Permit Fees | 7,785 |
| Repairs and Maintenance | 52,565 |
| San Jacinto River Authority Assessments | 109,053 |
| Tap Connection and Inspection Fees | 5,105 |
| TCEQ Assessments | 957 |
| Utilities | 16,298 |
| Total Program Costs-Water Services: | \$ 268,708 |
| Management and General: | |
| Audit Fees | \$ 7,250 |
| Bookkeeping Fees | 10,445 |
| Dues and Memberships | 1,475 |
| Insurance | 5,690 |
| Legal Fees | 25,667 |
| Miscellaneous | 12,022 |
| Office Supplies and Postage | 18,892 |
| Total Management and General: | \$ 81,441 |
| TOTAL EXPENSES AND LOSSES | \$ 350,149 |
| CHANGE IN NET ASSETS | \$ (23,891) |
| NET ASSETS - JANUARY 1, 2021 | 1,020,365 |
| NET ASSETS - DECEMBER 31, 2021 | \$ 996,474 |

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

WHITE OAK WATER SUPPLY CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

| | |
|---|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in Net Assets | \$ (23,891) |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | |
| Depreciation | 36,760 |
| (Increase) Decrease in Assets: | |
| Accounts Receivable | (2,839) |
| Accrued Interest | 209 |
| Prepaid Costs | (511) |
| Increase (Decrease) in Liabilities: | |
| Accounts Payable | 7,182 |
| Customer Meter Deposits | <u>12,350</u> |
| NET CASH USED BY OPERATING ACTIVITIES | <u>\$ 29,260</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of Short-term Investments | <u>\$ (983)</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | \$ 28,277 |
| CASH AND CASH EQUIVALENTS - JANUARY 1, 2021 | <u>405,874</u> |
| CASH AND CASH EQUIVALENTS - DECEMBER 31, 2021 | <u>\$ 434,151</u> |

Note: Federal Income Taxes paid in 2021 - \$-0-.
Interest Paid in 2021 - \$-0-.

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

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WHITE OAK WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1. INCORPORATION

White Oak Water Supply Corporation (the “Corporation”), pursuant to Article 1434a of the Revised Civil Statutes of Texas, is a non-profit, member-owned, member-controlled water supply and sewer service corporation incorporated on April 30, 2001, under the provisions and definitions of Texas Water Code Chapter 67. The Corporation was formed to furnish a water supply for the White Oak Estates Subdivision. White Oak Estates subdivision is located north of Houston, Texas, and east of Interstate Highway 45 in Montgomery County, Texas.

The Corporation shall have all powers invested in water supply or sewer service corporations by the Texas Non-Profit Corporation Act, the Texas Water Code and the administrative rules of the Texas Commission on Environmental Quality.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.

- A. Basis of Accounting - The financial statements were prepared using the accrual basis of accounting. Under this method, revenues were recorded in the period earned and when the amount and timing of the revenue can be reasonably determined. Expenses and asset additions are recognized at the time a liability arises which is normally at the time title passes or a service is received.
- B. Basis of Presentation - The financial statements are presented on the basis of net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor restrictions. Assets with donor restrictions contributions are shown as restricted support in the period earned and reclassified to net assets without donor restrictions when the restriction has been removed by time or actions of the Board.
- C. Cash and Cash Equivalents - The Corporation considers all checking accounts, money market deposit accounts and all highly liquid investments with a maturity of 90 days or less when purchased to be cash and cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.
- D. Investments – The Corporation currently invests in certificates of deposit. These investments are recorded at acquisition cost, which the Corporation considers to be fair value. Investment revenues are reported as increases or decreases in net assets without donor restrictions unless a donor or law restricts their use. Certificate of deposit balances are kept below the FDIC limits of coverage with maturities typically less than one year.

WHITE OAK WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- E. Income Taxes - The Corporation was granted an exemption under Section 501(c)(12) of the Internal Revenue Code July 19, 2002. This exemption was subsequently revoked May 15, 2010. The Corporation is in the process of having the exemption reinstated. No provision for income taxes has been made.
- F. Capital Assets – The Corporation has established a policy of capitalizing all capital assets with a useful life of at least two years and a total cost of \$5,000 or more. Capital assets are capitalized at cost as of the date of acquisition or at fair market value as of the date contributed. The Corporation depreciates its capital assets over estimated useful lives of 7 to 45 years using a straight-line method. Additional disclosure is provided in Note 4.
- G. Budgeting – The Board of Directors annually adopts an unappropriated budget which was not amended during the current fiscal year.
- H. Estimates - The preparation of financial statements to 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- I. Service Account Receivables – The Corporation provides for uncollectible accounts receivable through the allowance method of accounting. Under this method a provision for uncollectible accounts is charged to bad debt expense, and the allowance account is increased based on past collection history and management’s evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account, and recoveries of previously charged off accounts are added to the account. At December 31, 2021, the Corporation had no allowance for doubtful accounts.
- J. Subsequent Events - In preparing these financial statements, management has evaluated and disclosed all material subsequent events through March 26, 2022, which is the date these statements were available to be issued.

WHITE OAK WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, an entity will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At fiscal year end, the carrying amount of the Corporation's deposits was \$681,345 and the bank balance was \$707,346. The Corporation was not exposed to custodial credit risk at year-end.

NOTE 4. CAPITAL ASSETS

The following schedule provides a summary of capital assets, depreciation expense and accumulated depreciation by asset classification. At December 31, 2021, capital assets net of accumulated depreciation was \$421,217.

| | January 1, 2021 | Increases | Decreases | December 31, 2021 |
|--|--------------------|--------------------|-----------------|----------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land and Land Improvements | \$ 11,508 | \$ - 0 - | \$ - 0 - | \$ 11,508 |
| Capital Assets Subject to Depreciation | | | | |
| Buildings | \$ 34,400 | \$ | \$ | \$ 34,400 |
| Water Production Facilities | 801,038 | | | 801,038 |
| Interconnect Facilities | 142,994 | | | 142,994 |
| Total Capital Assets Subject to Depreciation | \$ 978,432 | \$ - 0 - | \$ - 0 - | \$ 978,432 |
| Accumulated Depreciation | | | | |
| Buildings | \$ 26,208 | \$ 1,376 | \$ | \$ 27,584 |
| Water Production Facilities | 446,278 | 30,326 | | 476,604 |
| Interconnect Facilities | 59,477 | 5,058 | | 64,535 |
| Total Accumulated Depreciation | \$ 531,963 | \$ 36,760 | \$ - 0 - | \$ 568,723 |
| Total Depreciable Capital Assets, Net of Accumulated Depreciation | \$ 446,469 | \$ (36,760) | \$ - 0 - | \$ 409,709 |
| Total Capital Assets, Net of Accumulated Depreciation | \$ 457,977 | \$ (36,760) | \$ - 0 - | \$ 421,217 |

WHITE OAK WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 5. WATER SUPPLY AGREEMENT

On September 27, 2005, the Corporation entered into a water supply agreement with Montgomery County Municipal Utility District No. 99 (“District No. 99”). District No. 99 agrees to provide the Corporation up to 68,000 gallons per day of capacity in District No. 99’s water well and will charge the Corporation the minimum rate paid by District No. 99 residents for each 1,000 gallons of water used over the minimum monthly water rate. In consideration for the water capacity, the Corporation paid District No. 99 \$85,000. District No. 99 owns, operates and maintains the metering equipment at its sole cost and the Corporation is responsible for maintaining the water line on its side of the interconnect. The term of this agreement is 40 years from the effective date.

NOTE 6. RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which the Corporation carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 7. SAN JACINTO RIVER AUTHORITY

On June 1, 2010, the Corporation entered into the Contract for Groundwater Reduction Planning, Alternative Water Supply, and Related Goods and Services with the San Jacinto River Authority (the “Authority”). The Corporation and the Authority operate within the boundaries of the Lone Star Groundwater Conservation District (the “Conservation District”). The Authority has developed supplies of surface water that, when taken together with groundwater withdrawals to be permitted by the Conservation District, are reasonably believed to be adequate to satisfy the total water demands of Montgomery County. The Authority charges a fee, currently \$2.88 per 1,000 gallons, based on the amount of groundwater and surface water used. The term of this contract expires on December 31, 2089. During the current fiscal year, the Corporation paid \$109,053 in relation to this contract.

NOTE 8. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

As part of the Corporation’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. As of December 31, 2021, the Corporation has cash and cash equivalents without donor restrictions of \$434,151 and a certificate of deposit maturing in March 2022 of \$247,194. Water service revenues of \$25,034 were collected in January 2021, which were used to defray operating costs of the Corporation.

WHITE OAK WATER SUPPLY CORPORATION

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2021

WHITE OAK WATER SUPPLY CORPORATION
SCHEDULE OF ACTIVITIES - NET ASSETS WITHOUT DONOR
RESTRICTIONS - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2021

| | Original and Final Budget | Actual | Variance Favorable (Unfavorable) |
|--|------------------------------|-------------------|--|
| REVENUES, GAINS AND OTHER SUPPORT | | | |
| Water Service | \$ 210,000 | \$ 198,054 | \$ (11,946) |
| Tap Connection and Inspection Fees | 5,000 | 15,195 | 10,195 |
| Regulatory Agencies Fees | 132,000 | 107,930 | (24,070) |
| Investment Revenues | 5,000 | 1,094 | (3,906) |
| Miscellaneous Revenues | <u> </u> | <u>3,985</u> | <u>3,985</u> |
| TOTAL REVENUES, GAINS AND OTHER SUPPORT | <u>\$ 352,000</u> | <u>\$ 326,258</u> | <u>\$ (25,742)</u> |
| EXPENSES AND LOSSES | | | |
| Program Costs-Water Services: | | | |
| Chemicals | \$ 2,000 | \$ 1,335 | \$ 665 |
| Capital Outlay/Depreciation | 400,000 | 36,760 | 363,240 |
| Engineering Fees | 10,000 | 7,355 | 2,645 |
| Laboratory Fees | 9,000 | 8,961 | 39 |
| Operator Fees | 25,000 | 22,534 | 2,466 |
| Permit Fees | 5,000 | 7,785 | (2,785) |
| Repairs and Maintenance | 63,000 | 52,565 | 10,435 |
| San Jacinto River Authority Assessments | 134,500 | 109,053 | 25,447 |
| Tap Connection and Inspection Fees | 2,500 | 5,105 | (2,605) |
| TCEQ Assessments | <u> </u> | <u>957</u> | <u>(957)</u> |
| Utilities | <u>13,500</u> | <u>16,298</u> | <u>(2,798)</u> |
| Total Program Costs-Water Services: | <u>\$ 664,500</u> | <u>\$ 268,708</u> | <u>\$ 395,792</u> |
| Management and General: | | | |
| Audit Fees | \$ 7,000 | \$ 7,250 | (250) |
| Bookkeeping Fees | 11,000 | 10,445 | 555 |
| Dues and Memberships | 675 | 1,475 | (800) |
| Insurance | 6,500 | 5,690 | 810 |
| Legal Fees | 17,500 | 25,667 | (8,167) |
| Miscellaneous | 14,500 | 12,022 | 2,478 |
| Office Supplies and Postage | <u>15,000</u> | <u>18,892</u> | <u>(3,892)</u> |
| Total Management and General: | <u>\$ 72,175</u> | <u>\$ 81,441</u> | <u>\$ (9,266)</u> |
| TOTAL EXPENSES AND LOSSES | <u>\$ 736,675</u> | <u>\$ 350,149</u> | <u>\$ 386,526</u> |
| CHANGE IN NET ASSETS | \$ (384,675) | \$ (23,891) | \$ 360,784 |
| NET ASSETS - JANUARY 1, 2021 | <u>1,020,365</u> | <u>1,020,365</u> | <u> </u> |
| NET ASSETS - DECEMBER 31, 2021 | <u>\$ 635,690</u> | <u>\$ 996,474</u> | <u>\$ 360,784</u> |

See accompanying independent auditor's report.

WHITE OAK WATER SUPPLY CORPORATION
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2021

Mailing Address - White Oak Water Supply Corporation
c/o Mitchell & Zientek, LLP
24624 Interstate 45 N., Suite 200
The Woodlands, TX 77386

Telephone No. - (281) 719-1990

| <u>Board Members</u> | <u>Terms Of Office</u> | <u>Fees of Office for the year ended December 31, 2021</u> | <u>Expense Reimbursements for the year ended December 31, 2021</u> | <u>Title</u> |
|----------------------------------|----------------------------|--|--|--------------------------------------|
| Todd Sullivan | 03/21 03/24 | \$ -0- | \$ -0- | President |
| Karen DuPont (Resigned 11-21) | 03/20 03/23 | \$ -0- | \$ -0- | Vice President |
| LeQuintiss Taylor | 05/21 03/23 | \$ -0- | \$ -0- | Secretary/ Treasurer |
| Erica Pulido | 03/21 03/22 | \$ -0- | \$ -0- | Assistant Secretary/ Treasurer |
| Michael Engle | 03/19 03/22 | \$ -0- | \$ -0- | Director |

See accompanying independent auditor's report.

WHITE OAK WATER SUPPLY CORPORATION
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2021

| Consultants: | <u>Date Hired</u> | <u>Fees for the year ended December 31, 2021</u> | <u>Title</u> |
|---|-------------------|--|-----------------------|
| Mitchell & Zientek, LLP | 08/01/2020 | \$ 25,667 | Attorney |
| McCall Gibson Swedlund Barfoot PLLC | 07/07/05 | \$ 7,250 | Auditor |
| Myrtle Cruz, Inc. | 10/01/01 | \$ 11,339 | Bookkeeper |
| Baxter & Woodman, Inc. | 09/24/09 | \$ 7,355 | Engineer |
| The GMS Group, L.L.C. | 03/04/03 | \$ -0- | Financial Advisor |
| Bill Russell Myrtle Cruz, Inc. | 03/25/06 | \$ -0- | Investment Officer |
| Municipal Operations & Consulting, Inc. | 10/26/12 | \$ 102,743 | Operator |

See accompanying independent auditor's report.

