

ALTOGA WATER SUPPLY CORPORATION  
ANNUAL FINANCIAL REPORT  
YEAR ENDED DECEMBER 31, 2015

RUTHERFORD, TAYLOR & COMPANY, P.C.  
*Certified Public Accountants*  
2802 Washington Street  
Greenville, Texas 75401  
(903) 455-6252

**ALTOGA WATER SUPPLY CORPORATION  
ANNUAL FINANCIAL REPORT  
YEAR ENDED DECEMBER 31, 2015**

**TABLE OF CONTENTS**

	<u>Exhibit</u>	<u>Page Number</u>
Officers and Directors.....		3
Independent Auditor's Report .....		4
<u>Financial Statements:</u>		
Balance Sheet .....	A-1	7
Statement of Income .....	A-2	8
Statement of Cash Flows .....	A-3	9
Notes to the Financial Statements .....	A-4	10
<u>Supplementary Information</u>		
Independent Auditor's Report on Supplementary Information .....	B-1	15
Supplementary Information .....	B-2	16

**ALTOGA WATER SUPPLY CORPORATION  
ANNUAL FINANCIAL REPORT  
YEAR ENDED DECEMBER 31, 2015**

**OFFICERS AND DIRECTORS**

President.....Robert Lockhart  
Vice President .....John Robinson  
Secretary/Treasurer .....Billy Boone  
Director .....Jackie Don Miller  
Director .....Larry Riley

  

Operator/Manager .....Rodney McDaniel  
Office Manager .....Shaunna Holt

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Altoga Water Supply Corporation

### **Report on the Financial Statements**

We have audited the accompanying balance sheet of Altoga Water Supply Corporation (Corporation), a non-profit organization, as of December 31, 2015, and the related statements of income and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Altoga Water Supply Corporation as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis as required by the Texas Water Development Board and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

March 23, 2016  
Greenville, Texas

## FINANCIAL STATEMENTS

**ALTOGA WATER SUPPLY CORPORATION**  
**BALANCE SHEET**  
**DECEMBER 31, 2015**

**ASSETS**

## Current Assets:

Cash and Cash Equivalents	\$	322,139
Accounts Receivable		20,158
Accrued Interest Receivable		22
Prepaid Expenses		529

Total Current Assets	\$	<u>342,848</u>
----------------------	----	----------------

## Restricted Assets:

Cash Reserved for Debt Service	\$	61,472
--------------------------------	----	--------

Total Restricted Assets	\$	<u>61,472</u>
-------------------------	----	---------------

## Non-Current Assets:

Debt Issuance Costs, Net	\$	24,022
Property, Plant and Equipment, Net		1,764,136

Total Non-Current Assets	\$	<u>1,788,158</u>
--------------------------	----	------------------

<b>Total Assets</b>	<b>\$</b>	<b><u>2,192,478</u></b>
---------------------	-----------	-------------------------

**LIABILITIES AND EQUITY**

## Current Liabilities:

Accounts Payable	\$	1,237
Accrued Interest Payable		928
Payroll Liabilities Payable		2,017
Accrued Wages Payable		1,885
TCEQ Assessment Payable		1,281
Current Portion of Long-term Debt		54,343

Total Current Liabilities	\$	<u>61,691</u>
---------------------------	----	---------------

## Non-Current Liabilities:

Customer Deposits	\$	36,093
Long-term Debt, less Current Portion		1,196,424

Total Non-Current Liabilities	\$	<u>1,232,517</u>
-------------------------------	----	------------------

<b>Total Liabilities</b>	<b>\$</b>	<b><u>1,294,208</u></b>
--------------------------	-----------	-------------------------

**EQUITY**

Retained Earnings	\$	<u>898,270</u>
-------------------	----	----------------

<b>Total Equity</b>	<b>\$</b>	<b><u>898,270</u></b>
---------------------	-----------	-----------------------

<b>Total Liabilities and Equity</b>	<b>\$</b>	<b><u>2,192,478</u></b>
-------------------------------------	-----------	-------------------------

The accompanying notes are an integral part of this statement.

**ALTOGA WATER SUPPLY CORPORATION**  
**STATEMENT OF INCOME**  
**YEAR ENDED DECEMBER 31, 2015**

**OPERATING INCOME**

Water Sales	\$	273,333
Impact/Installation/Other Fees		<u>164,871</u>
Total Operating Income	\$	<u>438,204</u>

**OPERATING EXPENSES**

Payroll and Benefits	\$	81,002
Water Distribution System		42,255
Contract Labor		27,605
Utilities		32,816
Insurance		7,136
Depreciation		79,254
Amortization		1,413
Professional Fees		45,471
Other Operating Expenses		<u>27,874</u>
Total Operating Expenses	\$	<u>344,826</u>

Net Operating Income Over (Under) Operating Expenses	\$	<u>93,378</u>
--	----	---------------

**NON-OPERATING INCOME (EXPENSE)**

Interest Income	\$	406
Rental Income		23,386
Interest Expense		<u>(11,372)</u>

Total Non-Operating Income (Expense)	\$	<u>12,420</u>
--------------------------------------	----	---------------

Net Income (Expense)	\$	105,798
----------------------	----	---------

Retained Earnings - January 1 (Beginning)		<u>792,472</u>
---	--	----------------

<b>Retained Earnings - December 31 (Ending)</b>	<b>\$</b>	<b><u><u>898,270</u></u></b>
---	-----------	------------------------------

The accompanying notes are an integral part of this statement.



**ALTOGA WATER SUPPLY CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2015**

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 262,095
Cash Payments for Goods and Services	(30,626)
Cash Payments to Employees	(75,917)
	<hr/>
Net Cash Provided by (Used for) Operating Activities	\$ 155,552
Cash Flows from Investing Activities:	
Rents Received	\$ 23,386
Purchase of Capital Assets	(85,037)
Interest Received	406
	<hr/>
Net Cash Provided by (Used for) Investing Activities	\$ (61,245)
Cash Flows from Financing Activities:	
Increase in Restricted Assets for Debt Service	\$ (113)
Interest Paid - Long Term Debt	(11,388)
Principal Paid - Long Term Debt	(29,173)
Change in Customer Deposits	9,000
	<hr/>
Net Cash Provided by (Used for) Financing Activities	\$ (31,674)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 62,633
Cash and Cash Equivalents - Beginning (January 1)	<hr/> 259,506
<b>Cash and Cash Equivalents - Ending (December 31)</b>	<b><u><u>\$ 322,139</u></u></b>
<b>Reconciliation of Change in Equity to Net Cash Provided by Operating Activities</b>	
Operating Income Over (Under) Operating Expense	\$ 93,378
Adjustments to Reconcile Change in Equity to Net Cash Used by Operating Activities:	
Depreciation Expense	79,254
Amortization Expense	1,413
(Increase) Decrease in Accounts Receivable	(11,238)
(Increase) Decrease in Prepaid Expenses	(56)
Increase (Decrease) in Accounts Payable	(2,362)
Increase (Decrease) in TCEQ Assessment Payable	186
Increase (Decrease) in Payroll Liabilities Payable	(5,023)
	<hr/>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b><u><u>\$ 155,552</u></u></b>

The accompanying notes are an integral part of this statement.

**ALTOGA WATER SUPPLY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2015**

A. Statement of Operations

The Altoga Water Supply Corporation (Corporation) is a not-for-profit entity organized under the laws of the State of Texas. The Corporation exists to provide water service to the unincorporated area of northern Collin County north of Princeton, Texas. 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.

B. Summary of Significant Accounting Policies

1. Basis of Accounting

The organization's financials are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). This basis of accounting recognizes revenues in the accounting period in which they are earned, and expenses in the accounting period in which the liability is incurred, regardless of when the related cash flows occur.

2. Basis of Presentation

The Financial Accounting Standards Board issued Accounting Standards Codification Topic 958, *Financial Statements of Not-for-Profit Organizations* (ASC 958). ASC 958 provides standards for external financial statements of certain types of nonprofit organizations. Member owned utility corporations do not meet the definition of a not-for-profit organization under ASC 958. As such, these financial statements are presented in the format of a small business.

3. Use of Estimates

The preparation of financial statements in conformity with the accrual basis of accounting 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash Equivalents are comprised of deposits in financial institutions, including time deposits. For the purpose of the statement of cash flows, a cash equivalent is considered any highly liquid investment with a maturity of ninety days or less.

5. Prepaid, Expenses Supplies and Materials

Prepaid expenses consist of items paid for in the current period to be used in the following accounting period. Prepaid supplies and materials consist of supplies and repair parts for the distribution system, valued at cost. The cost of supplies and materials is recorded as an expense when consumed rather than when purchased.

6. Fair Value of Financial Instruments

The carrying amount of the Corporation's cash and investments approximates market value at year end.

7. Federal Income Taxes

The Altoga Water Supply Corporation is exempt from Federal Income Taxes under Section 501(c)(12) of the Internal Revenue Code. This exemption was approved by the Internal Revenue Service and the service has identified the Corporation as an entity other than a private foundation.

8. Receivables

The Corporation billing cycle requires payment within 10 days of billing. Late penalties are assessed for amounts not paid when due. Each account has a cutoff time period, 25<sup>th</sup> of month, with additional fees assessed to reconnect the service. Any fees unpaid are written off as uncollectible after all attempts to collect the unpaid balance are exhausted.

**ALTOGA WATER SUPPLY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2015**

**B. Summary of Significant Accounting Policies (Continued)**

**9. Depreciation**

Depreciation of property and equipment is provided on a straight-line method over the estimated useful lives of the assets. The following lists the classes of property, plant and equipment and their respective useful lives.

Water Distribution System	5-40 Years
Vehicles, Furniture and Fixtures	5-10 Years
Buildings	10-40 Years

**10. Vacation, Sick Leave and Other Compensated Absences**

Employees are entitled to certain compensated absences based on their length of employment. Compensated absences do not vest or accumulate and are recorded as expenditures when paid.

**C. Cash and Cash Equivalents**

Cash and Investments maintained by the Corporation at year end are as follows:

	Fair Value
First Bank & Trust - Operating Checking	\$ 296,569
First Bank & Trust - Construction Account	1
First Bank & Trust - Certificate of Deposit	25,569
Totals	\$ 322,139

During the year, the Corporation's operating and other funds were at First Bank & Trust. This institution is a member of the Federal Deposit Insurance Corporation (FDIC). Deposits at their institution appear to exceed the balances allowed under FDIC coverage and as such their excess balances are subject to credit risk. The Corporation does not have any agreement for collateralizing excess balances in financial institutions.

**D. Restricted Assets**

The Corporation is required to maintain a Reserve Bank Account to satisfy the provisions of debt authorization. As a covenant to obtaining financing from USDA – Rural Development, the Corporation is to transfer monthly deposits into the Reserve Account in the amount of \$ 129 over a ten (10) year period until the reserve account is fully funded equal to at least \$ 15,390. At year end, the following applies:

Amount Required	\$ 15,390
Amount Available	15,356
Excess (Deficiency)	\$ (34)

As a covenant to obtaining financing from the Texas Water Development Board, the Corporation is to transfer monthly deposits into the Reserve Account in the amount of 1/60 of the average annual debt service requirements on the note until the Reserve Fund contains an amount at least equal to 100% of the average annual debt service requirements of the Note or \$ 46,087. The deposits were to be initiated on or before the first day of the month following the transfer of the first installment of Note proceeds, or February 2010. At year end, the following applies:

Current Amount Required	\$ 46,087
Amount Available	46,116
Excess (Deficiency)	\$ 29

**ALTOGA WATER SUPPLY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2015**

**E. Property, Plant and Equipment**

Property, Plant and Equipment used in the Corporation's operations are recorded at historical cost or estimated historical cost if actual historical cost is not available. Material expenses that increase the estimated useful life of the assets are capitalized. Expenses with a unit value under \$ 5,000 and maintenance and repairs, renewals and betterments which do not extend the assets' useful lives are charged to expense when incurred.

	Beginning Balances	Increases	Decreases	Ending Balances
Land	\$ 24,829	\$ -	\$ -	\$ 24,829
Construction in Progress	-	-	-	-
Buildings and Improvements	682,016	-	-	682,016
Vehicles and Equipment	10,353	-	-	10,353
Water Distribution System	1,479,294	85,037	-	1,564,331
<b>Capital Assets at Historical Cost</b>	<b>\$ 2,196,492</b>	<b>\$ 85,037</b>	<b>\$ -</b>	<b>\$ 2,281,529</b>
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 96,033	\$ 22,538	\$ -	\$ 118,571
Vehicles and Equipment	10,353	-	-	10,353
Water Distribution System	331,753	56,716	-	388,469
<b>Total Accumulated Depreciation</b>	<b>\$ 438,139</b>	<b>\$ 79,254</b>	<b>\$ -</b>	<b>\$ 517,393</b>
<b>Property, Plant and Equipment, Net</b>	<b>\$ 1,758,353</b>	<b>\$ 5,783</b>	<b>\$ -</b>	<b>\$ 1,764,136</b>

**F. Long-Term Obligations**

The Corporation's long-term obligations at year end are as follows:

<u>Lien Holder</u>	<u>Interest Rate</u>	<u>Date of Agreement</u>	<u>Outstanding Balance</u>
USDA - Rural Development #2	4.50%	12/01/04	\$ 199,819
USDA - Rural Development #4	4.50%	12/01/04	50,968
TWDB - DWSRF ARRA Loan	0.00%	01/22/10	999,980
<b>Total</b>			<b>\$ 1,250,767</b>

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion Debt
USDA - #2	\$ 203,118	\$ -	\$ 3,299	\$ 199,819	\$ 3,451
USDA - #4	51,822	-	854	50,968	892
DWSRF	1,025,000	-	25,020	999,980	50,000
<b>Total Debt Payable</b>	<b>\$ 1,279,940</b>	<b>\$ -</b>	<b>\$ 29,173</b>	<b>\$ 1,250,767</b>	<b>\$ 54,343</b>

**ALTOGA WATER SUPPLY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2015**

F. Long-Term Obligations (Continued)

Maturity requirements on the long term obligations at year end are as follows:

Year Ending December 31	Principal	Interest	Total Requirements
2016	\$ 54,343	\$ 11,197	\$ 65,540
2017	54,543	10,997	65,540
2018	64,752	10,788	75,540
2019	64,970	10,570	75,540
2020	65,198	10,342	75,540
2021 - 2025	329,800	47,900	377,700
2026 - 2030	337,304	40,396	377,700
2031 - 2035	166,697	31,003	197,700
2036 - 2040	58,455	19,245	77,700
2041 - 2045	54,705	4,972	59,677
Total	<u>\$ 1,250,767</u>	<u>\$ 197,410</u>	<u>\$ 1,448,177</u>

G. 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; injuries to employees and natural disasters. During the fiscal year, the Corporation purchased commercial insurance to cover these liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Subsequent Events

Subsequent events have been evaluated through March 23, 2016, which is the date the financial statements were available to be issued. There do not appear to be any events occurring after year end that would or could have an impact on the financial statements at year end as presented.

I. Litigation

The Corporation does not appear to be involved in any litigation at year end.

OTHER SUPPLEMENTARY INFORMATION

**RUTHERFORD,  
TAYLOR &  
COMPANY, P.C.**  
*Certified Public Accountants*

---

2802 Washington Street

Greenville, Texas 75401

(903) 455-6252

Fax (903) 455-6667

**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY SCHEDULES**

---

Members of the Board:

In our opinion, the accompanying information is stated accurately in all material respects in relation to the financial statements, taken as a whole, of the Altoga Water Supply Corporation for the year ended December 31, 2015, which are covered by our opinion presented in the first section of this report.

The accompanying information is supplemental to the financial statements and is not essential for a fair presentation of financial position, results of its operations or cash flows.

Our audit, which was made for the purpose of forming an opinion on the financial statements taken as a whole, included such tests of the accounting records, from which the supplementary information was compiled, and such other auditing procedures as we considered necessary in the circumstances.

March 23, 2016  
Greenville, Texas

**ALTOGA WATER SUPPLY CORPORATION  
SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2015**

The following information is presented to comply with requirements of debt acquired from the Texas Water Development Board

A. Reserve Fund Requirements

As a covenant to obtaining financing from the Texas Water Development Board the Altoga Water Supply Corporation is to establish monthly deposits into the Reserve Account in the amount of 1/60 of the average annual debt service requirements on the note until the Reserve Fund contains an amount at least equal to 100% of the average annual debt service requirements of the Note. The deposits were to be initiated on or before the first day of the month following the transfer of the first installment of Note proceeds, or February 2010. At year end, the following applies:

Current Amount Required	\$ 46,087
Amount Available	<u>46,116</u>
Excess (Deficiency)	<u>\$ 29</u>
Required Ultimate Balance	<u>\$ 46,087</u>

B. Insurance Coverage

Commercial insurance was purchased from the AIA Insurance Agency, Inc. for commercial property, general liability, crime coverage and management cyber liability. System assets were covered up to \$ 1,094,500.

C. Water Connections

Total water customers at year end: 337  
The Corporation does not provide any sewer services.

D. Water Usage

Total Gallons Pumped	26,517,400
Total Gallons Sold	<u>23,341,100</u>
Net Gallons Loss/Used	<u><u>3,176,300</u></u>