

ALTOGA WATER SUPPLY CORPORATION
ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2016

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**ALTOGA WATER SUPPLY CORPORATION
ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2016**

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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, 2016, 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, 2016, 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.

April 3, 2017
Greenville, Texas

FINANCIAL STATEMENTS

ALTOGA WATER SUPPLY CORPORATION
BALANCE SHEET
DECEMBER 31, 2016

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	685,165
Accounts Receivable		31,277
Accrued Interest Receivable		23
Prepaid Expenses		603

Total Current Assets	\$	<u>717,068</u>
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Restricted Assets:

Cash Reserved for Debt Service	\$	<u>61,588</u>
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Total Restricted Assets	\$	<u>61,588</u>
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Non-Current Assets:

Debt Issuance Costs, Net	\$	22,609
Property and Equipment, Net		<u>1,683,820</u>

Total Non-Current Assets	\$	<u>1,706,429</u>
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Total Assets	\$	<u><u>2,485,085</u></u>
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LIABILITIES AND EQUITY

Current Liabilities:

Accounts Payable	\$	991
Accrued Interest Payable		912
TCEQ Assessment Payable		2,210
Current Portion of Long-term Debt		<u>54,543</u>

Total Current Liabilities	\$	<u>58,656</u>
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Non-Current Liabilities:

Customer Deposits	\$	38,993
Long-term Debt, less Current Portion		<u>1,141,881</u>

Total Non-Current Liabilities	\$	<u>1,180,874</u>
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Total Liabilities	\$	<u>1,239,530</u>
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EQUITY

Retained Earnings	\$	<u>1,245,555</u>
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Total Equity	\$	<u>1,245,555</u>
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Total Liabilities and Equity	\$	<u><u>2,485,085</u></u>
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The accompanying notes are an integral part of this statement.

ALTOGA WATER SUPPLY CORPORATION
STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2016

OPERATING INCOME

Water Sales	\$	362,562
Penalties and Other Fees		40,329
		<hr/>
Total Operating Income	\$	402,891

OPERATING EXPENSES

Payroll and Benefits	\$	32,701
Water Distribution System		22,505
Management Fees		53,333
Contract Labor		7,140
Utilities		32,562
Insurance		8,935
Depreciation		80,316
Amortization		1,413
Professional Fees		28,226
Other Operating Expenses		35,972
		<hr/>
Total Operating Expenses	\$	303,103

Net Operating Income Over (Under) Operating Expenses	\$	99,788
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NON-OPERATING INCOME (EXPENSE)

Contributions - Members/Developers	\$	240,400
Interest Income		884
Rental Income		17,393
Interest Expense		(11,180)
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Total Non-Operating Income (Expense)	\$	247,497
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Net Income (Expense)	\$	347,285
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Retained Earnings - January 1 (Beginning)		<hr/> 898,270
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Retained Earnings - December 31 (Ending)	\$	<u><u>1,245,555</u></u>
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The accompanying notes are an integral part of this statement.

ALTOGA WATER SUPPLY CORPORATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 391,772
Cash Payments for Goods and Services	(190,081)
Cash Payments to Employees	<u>(34,586)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 167,105</u>
Cash Flows from Investing Activities:	
Rents Received	\$ 17,393
Interest Received	<u>651</u>
Net Cash Provided by (Used for) Investing Activities	<u>\$ 18,044</u>
Cash Flows from Financing Activities:	
Contributions - Members/Developers	\$ 240,400
Increase in Restricted Assets for Debt Service	116
Interest Paid - Long Term Debt	(11,196)
Principal Paid - Long Term Debt	(54,343)
Change in Customer Deposits	<u>2,900</u>
Net Cash Provided by (Used for) Financing Activities	<u>\$ 177,877</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 363,026
Cash and Cash Equivalents - Beginning (January 1)	<u>322,139</u>
Cash and Cash Equivalents - Ending (December 31)	<u><u>\$ 685,165</u></u>
Reconciliation of Change in Equity to Net Cash Provided by Operating Activities	
Operating Income Over (Under) Operating Expense	\$ 99,788
Adjustments to Reconcile Change in Equity to Net Cash Used by Operating Activities:	
Depreciation Expense	80,316
Amortization Expense	1,413
(Increase) Decrease in Accounts Receivable	(11,119)
(Increase) Decrease in Prepaid Expenses	(74)
Increase (Decrease) in Accrued Wages Payable	(1,885)
Increase (Decrease) in Accounts Payable	(246)
Increase (Decrease) in TCEQ Assessment Payable	929
Increase (Decrease) in Payroll Liabilities Payable	<u>(2,017)</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ 167,105</u></u>

The accompanying notes are an integral part of this statement.

**ALTOGA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

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 by the 10th of the month. Late penalties are assessed for amounts not paid when due. Each account has a cutoff time period, 21st 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, 2016**

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
Petty Cash/Change Drawer	\$ 200
First Bank & Trust - Operating Checking	656,313
First Bank & Trust - Construction Account	2,980
First Bank & Trust - Certificate of Deposit	25,672
Totals	\$ 685,165

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). The Corporation has entered into an agreement for collateralizing excess balances at this financial institution. However, at the end of the year there was a minimal amount of funds left unsecured. Management is aware of this and is working to resolve it in the subsequent year.

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	15,380
Excess (Deficiency)	\$ (10)

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	46,208
Excess (Deficiency)	\$ 121

**ALTOGA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

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	1,564,331	-	-	1,564,331
Capital Assets at Historical Cost	\$ 2,281,529	\$ -	\$ -	\$ 2,281,529
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 118,571	\$ 22,538	\$ -	\$ 141,109
Vehicles and Equipment	10,353	-	-	10,353
Water Distribution System	388,469	57,778	-	446,247
Total Accumulated Depreciation	\$ 517,393	\$ 80,316	\$ -	\$ 597,709
Property, Plant and Equipment, Net	\$ 1,764,136	\$ (80,316)	\$ -	\$ 1,683,820

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	\$ 196,368
USDA - Rural Development #4	4.50%	12/01/04	50,076
TWDB - DWSRF ARRA Loan	0.00%	01/22/10	949,980
Total			\$ 1,196,424

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion Debt
USDA - #2	\$ 199,819	\$ -	\$ 3,451	\$ 196,368	\$ 3,609
USDA - #4	50,968	-	892	50,076	934
DWSRF	999,980	-	50,000	949,980	50,000
Total Debt Payable	\$ 1,250,767	\$ -	\$ 54,343	\$ 1,196,424	\$ 54,543

**ALTOGA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

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
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	65,437	10,103	75,540
2022 - 2026	331,169	46,531	377,700
2027 - 2031	339,018	38,682	377,700
2032 - 2036	108,842	28,858	137,700
2037 - 2041	61,140	16,560	77,700
2042 - 2046	41,355	2,782	44,137
Total	<u>\$ 1,196,424</u>	<u>\$ 186,213</u>	<u>\$ 1,382,637</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 April 3, 2017, 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 is involved in a pending litigation concerning the service boundaries of the Corporation.

OTHER SUPPLEMENTARY INFORMATION

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

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**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, 2016, 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.

April 3, 2017
Greenville, Texas

**ALTOGA WATER SUPPLY CORPORATION
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2016**

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>46,208</u>
Excess (Deficiency)	<u>\$ 121</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: 369
The Corporation does not provide any wastewater services.

D. Water Usage

Total Gallons Pumped	37,077,000
Total Gallons Sold	<u>29,494,200</u>
Net Gallons Loss/Used	<u>7,582,800</u>