

ALTOGA WATER SUPPLY CORPORATION  
ANNUAL FINANCIAL REPORT  
YEAR ENDED DECEMBER 31, 2013

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ALTOGA WATER SUPPLY CORPORATION  
ANNUAL FINANCIAL REPORT  
YEAR ENDED DECEMBER 31, 2013

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ALTOGA WATER SUPPLY CORPORATION  
ANNUAL FINANCIAL REPORT  
YEAR ENDED DECEMBER 31, 2013

**OFFICERS AND DIRECTORS**

President.....Richard Leflar  
Vice President .....Robert Lockhart  
Secretary/Treasurer .....Billy Boone  
Director .....Jackie Don Miller  
Director .....James Riley

Operator/Manager .....Rodney McDaniel  
Office Manager .....Maureen Ashley

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees of  
Altoga Water Supply Corporation

We have audited the accompanying balance sheet of Altoga Water Supply Corporation (Corporation), a non-profit organization, as of December 31, 2013, 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, 2013, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Corporation taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis as required by the Texas Water Development Board and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

April 6, 2014  
Greenville, Texas

## FINANCIAL STATEMENTS

ALTOGA WATER SUPPLY CORPORATION  
BALANCE SHEET  
DECEMBER 31, 2013

**ASSETS**

## Current Assets:

Cash and Cash Equivalents	\$	160,911
Accounts Receivable		18,582
Accrued Interest Receivable		22
Prepaid Expenses		858

Total Current Assets	\$	<u>180,373</u>
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## Restricted Assets:

Cash Reserved for Debt Service	\$	<u>60,546</u>
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Total Restricted Assets	\$	<u>60,546</u>
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## Non-Current Assets:

Debt Issuance Costs, Net	\$	26,848
Property, Plant and Equipment, Net		<u>1,822,598</u>

Total Non-Current Assets	\$	<u>1,849,446</u>
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<b>Total Assets</b>	<b>\$</b>	<b><u><u>2,090,365</u></u></b>
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**LIABILITIES AND EQUITY**

## Current Liabilities:

Accounts Payable	\$	38,487
Accrued Interest Payable		958
Payroll Liabilities Payable		6,793
Accrued Wages Payable		1,885
TCEQ Assessment Payable		1,019
Current Portion of Long-term Debt		<u>23,970</u>

Total Current Liabilities	\$	<u>73,112</u>
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## Non-Current Liabilities

Customer Deposits	\$	26,350
Long-term Debt, less Current Portion		<u>1,279,940</u>

Total Non-Current Liabilities	\$	<u>1,306,290</u>
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<b>Total Liabilities</b>	<b>\$</b>	<b><u><u>1,379,402</u></u></b>
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**EQUITY**

Retained Earnings	\$	<u>710,963</u>
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<b>Total Equity</b>	<b>\$</b>	<b><u><u>710,963</u></u></b>
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<b>Total Liabilities and Equity</b>	<b>\$</b>	<b><u><u>2,090,365</u></u></b>
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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, 2013

**OPERATING INCOME**

Water Sales	\$	186,018
Impact/Installation/Other Fees		137,507
		<hr/>
Total Operating Income	\$	323,525

**OPERATING EXPENSES**

Payroll and Benefits	\$	57,346
Water Distribution System		33,215
Contract Labor		39,300
Utilities		21,315
Insurance		8,148
Depreciation		73,495
Amortization		1,413
Professional Fees		14,906
Bad Debts Expense		18,976
Other Operating Expenses		29,824
		<hr/>
Total Operating Expenses	\$	297,938

Net Operating Income Over (Under) Operating Expenses	\$	25,587
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**NON-OPERATING INCOME (EXPENSE)**

Interest Income	\$	212
Rental Income		4,600
Developer Contributions		7,460
Interest Expense		(11,730)
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Total Non-Operating Income (Expense)	\$	542
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Net Income (Expense)	\$	26,129
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Retained Earnings - January 1 (Beginning)		684,834
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<b>Retained Earnings - December 31 (Ending)</b>	<b>\$</b>	<b>710,963</b>
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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, 2013

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 340,278
Cash Payments for Goods and Services	(131,964)
Cash Payments to Employees	<u>(49,100)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 159,214</u>
Cash Flows from Investing Activities:	
Rents Received	\$ 4,600
Purchase of Capital Assets	(45,351)
Interest Received	222
Developer Contributions	<u>7,460</u>
Net Cash Provided by (Used for) Investing Activities	<u>\$ (33,069)</u>
Cash Flows from Financing Activities:	
Increase in Restricted Assets for Debt Service	\$ (29,719)
Interest Paid - Long Term Debt	(11,744)
Principal Reduced - Long Term Debt	(18,796)
Change in Customer Deposits	<u>2,850</u>
Net Cash Provided by (Used for) Financing Activities	<u>\$ (57,409)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 68,736
Cash and Cash Equivalents - Beginning (January 1)	<u>92,175</u>
<b>Cash and Cash Equivalents - Ending (December 31)</b>	<b><u>\$ 160,911</u></b>
<b>Reconciliation of Change in Equity to Net Cash Provided by Operating Activities</b>	
Operating Income Over (Under) Operating Expense	\$ 25,587
Adjustments to Reconcile Change in Equity to Net Cash Used by Operating Activities:	
Depreciation Expense	73,495
Amortization Expense	1,413
(Increase) Decrease in Accounts Receivable	16,753
Increase (Decrease) in Accounts Payable	34,216
Increase (Decrease) in TCEQ Assessment Payable	21
Increase (Decrease) in Accrual Wages Payable	1,885
Increase (Decrease) in Payroll Liabilities Payable	<u>5,844</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b><u>\$ 159,214</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, 2013

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 community of Northern Collin County and the surrounding area. 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 December 31, 2013.

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.

ALTOGA WATER SUPPLY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2013

B. Summary of Significant Accounting Policies (Continued)

8. 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

9. 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 December 31, 2013 are as follows:

	Fair Value
Citizens State Bank - Operating Checking	\$ 135,544
Citizens State Bank - Construction Account	1
Citizens State Bank - Certificate of Deposit	25,366
	<hr/>
Totals	\$ 160,911

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 Altoga Water Supply Corporation is to establish monthly deposits into the Reserve Account in the amount of \$ 127 over a ten (10) year period until the reserve account is fully funded equal to at least \$ 15,390. At December 31, 2013, the following applies:

Amount Required	\$ 13,788
Amount Available	<u>15,606</u>
Excess (Deficiency)	<u>\$ 1,818</u>

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 December 31, 2013, the following applies:

Current Amount Required	\$ 36,102
Amount Available	<u>44,940</u>
Excess (Deficiency)	<u>\$ 8,838</u>

ALTOGA WATER SUPPLY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2013

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
Const. in Progress	-	12,500	-	12,500
Buildings and Improvements	682,016	-	-	682,016
Vehicles and Equipment	10,353	-	-	10,353
Water Distribution System	1,421,773	32,851	-	1,454,624
Capital Assets at Historical Cost	\$ 2,138,971	\$ 45,351	\$ -	\$ 2,184,322
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 49,281	\$ 23,452	\$ -	\$ 72,733
Vehicles and Equipment	9,318	1,035	-	10,353
Water Distribution System	229,631	49,008	-	278,639
Total Accumulated Depreciation	\$ 288,230	\$ 73,495	\$ -	\$ 361,725
Property, Plant and Equipment, Net	\$ 1,850,741	\$ (28,144)	\$ -	\$ 1,822,597

F. Long-Term Obligations

The Corporation's long-term obligations at December 31, 2013 are as follows:

Lien Holder	Interest Rate	Date of Agreement	Outstanding Balance
USDA - Rural Development #3	4.50%	12/01/04	\$ 206,272
USDA - Rural Development #4	4.50%	12/01/04	52,638
TWDB - DWSRF ARRA Loan	0.00%	01/22/10	1,045,000
Total			\$ 1,303,910

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion Debt
USDA - #3	\$ 209,288	\$ -	\$ 3,016	\$ 206,272	\$ 3,154
USDA - #4	53,418	-	780	52,638	816
DWSRF	1,060,000	-	15,000	1,045,000	20,000
Total Debt Payable	\$ 1,322,706	\$ -	\$ 18,796	\$ 1,303,910	\$ 23,970

ALTOGA WATER SUPPLY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2013

F. Long-Term Obligations (Continued)

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

Year Ending December 31	Principal	Interest	Total Requirements
2014	\$ 23,970	\$ 11,570	\$ 35,540
2015	29,153	11,387	40,540
2016	54,343	11,197	65,540
2017	54,543	10,997	65,540
2018	64,752	10,788	75,540
2019 - 2023	327,240	50,460	377,700
2024 - 2028	334,099	43,601	377,700
2029 - 2033	282,685	35,015	317,700
2034 - 2038	53,433	24,267	77,700
2039 - 2043	66,887	10,813	77,700
2044 - 2045	12,805	271	13,076
Total	<u>\$ 1,303,910</u>	<u>\$ 220,366</u>	<u>\$ 1,524,276</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 2013 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 6, 2014, 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 December 31, 2013 as presented.

OTHER SUPPLEMENTARY INFORMATION

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

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**Members of the Board:**

In our opinion, the accompanying information is stated accurately in all material respects in relation to the basic financial statements, taken as a whole, of the Altoga Water Supply Corporation for the year ended December 31, 2013, which are covered by our opinion presented in the first section of this report.

The accompanying information is supplemental to the basic 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 basic 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 6, 2014  
Greenville, Texas

ALTOGA WATER SUPPLY CORPORATION  
 SUPPLEMENTARY INFORMATION  
 YEAR ENDED DECEMBER 31, 2013

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 December 31, 2013, the following applies:

Current Amount Required	\$ 36,102
Amount Available	<u>44,940</u>
Excess (Deficiency)	<u>\$ 8,838</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: 239  
 The Corporation does not provide any sewer services.

D. Water Usage

Total Water Pumped	22,042,800
Total Water Sold	<u>18,606,700</u>
Net Water Loss/Used	<u>3,436,100</u>