

**CENTRAL WASHINGTON COUNTY
WATER SUPPLY CORPORATION**

Financial Statements

with

Report of Independent Auditor

For the Years Ended March 31, 2018 and 2017

**CENTRAL WASHINGTON COUNTY
WATER SUPPLY CORPORATION**
March 31, 2018 and 2017

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CERTIFIED PUBLIC ACCOUNTANTS / BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Central Washington County Water Supply Corporation
Brenham, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Central Washington County Water Supply Corporation (a non-profit organization) which comprise the statements of financial position as of March 31, 2018 and 2017, and the related statements of activities and cash flows for the years 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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Central Washington County Water Supply Corporation as of March 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2018, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Washington County Water Service Corporation's internal control over financial reporting and compliance.

Brenham, Texas
August 8, 2018

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CENTRAL WASHINGTON COUNTY WATER SUPPLY CORPORATION
 Statements of Financial Position
 March 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 415,982	\$ 278,628
Certificate of deposit	102,216	100,631
Accounts receivable, net of allowance for uncollectible accounts	71,469	58,981
Insurance proceeds receivable	22,250	-
Prepaid insurance and other current assets	6,706	6,706
Total Current Assets	618,623	444,946
Property, Plant and Equipment		
Land and easements	40,843	40,843
Lines and storage	3,477,246	3,477,246
Wells and pumps	422,343	422,343
Iron filter system	350,831	350,831
Recycling system	155,200	155,200
Furniture and fixtures	11,339	11,339
Construction in progress	189,544	19,071
Total: Property, Plant and Equipment	4,647,346	4,476,873
Less: Accumulated depreciation	(2,239,176)	(2,073,821)
Net Property, Plant and Equipment	2,408,170	2,403,052
Other Assets		
Restricted cash - construction	2,634,627	-
Restricted cash - debt service	15,430	-
Restricted investment - debt service	135,108	133,389
Total Other Assets	2,785,165	133,389
Total Assets	\$ 5,811,958	\$ 2,981,387
LIABILITIES & NET ASSETS		
Current Liabilities		
Accounts payable	\$ 117,297	\$ 29,236
Accrued expenses	43,454	1,478
Customer deposits and prepayments	9,601	9,049
Current portion of long-term debt	73,288	70,511
Total Current Liabilities	243,640	110,274
Long term debt, net of current portion	4,613,947	1,973,604
Total Liabilities	4,857,587	2,083,878
Net Assets		
Unrestricted	954,371	897,509
Total Liabilities and Net Assets	\$ 5,811,958	\$ 2,981,387

See accompanying notes to the financial statements.

CENTRAL WASHINGTON COUNTY WATER SUPPLY CORPORATION

Statements of Activities

For the Years Ended March 31, 2018 and 2017

	2018	2017
REVENUES		
Water service revenues	\$ 656,589	\$ 561,212
Member fees and assessments	16,778	9,212
Interest income	14,083	2,845
Tap and capital improvement fees	24,684	13,546
Other	5,771	-
Total Revenues	717,905	586,815
EXPENSES		
Chemicals	7,277	5,463
Insurance expense	7,843	7,964
Director training expense	2,868	387
Administrative expense	56,836	52,713
Professional fees	7,225	23,220
Purchased and contract services	4,644	16,671
Repairs and maintenance	116,776	104,213
Electricity	36,038	32,593
Operations expense	126,197	121,412
Depreciation	165,355	156,388
Interest expense	128,944	86,850
Other	1,040	11,567
Total expenses	661,043	619,441
Change in net assets	56,862	(32,624)
Net assets - beginning of year	897,509	930,133
Net assets - end of year	\$ 954,371	\$ 897,509

See accompanying notes to the financial statements.

CENTRAL WASHINGTON COUNTY WATER SUPPLY CORPORATION

Statements of Cash Flows

For the Years Ended March 31, 2018 and 2017

	2018	2017
Cash flow from operating activities		
Change in net assets	\$ 56,862	\$ (32,624)
Adjustments to reconcile change in net assets to net cash:		
Depreciation and amortization	165,355	156,388
Loss on disposal of fixed assets	-	760
Increase (decrease) in cash resulting from changes in assets and liabilities:		
Accounts receivable	(12,488)	3,082
Insurance proceeds receivable	(22,250)	-
Accounts payable	8,589	4,319
Customer deposits	552	3,136
Accrued expenses	41,976	-
Total adjustments	181,734	167,685
Net cash flow provided by operating activities	238,596	135,061
Cash flow from investing activities		
Purchase of certificates of deposit	-	(100,000)
Reinvestment of interest earned on certificates of deposit	(3,304)	(2,014)
Acquisition of fixed assets	(91,001)	(218,746)
Net cash flow used by investing activities	(94,305)	(320,760)
Cash flow from financing activities		
Payment of long-term debt	(171,880)	(62,976)
Payment of loan issuance and origination cost	-	-
Proceeds from borrowings	2,815,000	100,000
Net cash flow (used in) provided by financing activities	2,643,120	37,024
Net increase (decrease) in cash	2,787,411	(148,675)
Cash and cash equivalents, beginning of year	278,628	427,303
Cash and cash equivalents, end of year	\$ 3,066,039	\$ 278,628
Reconciliation of cash and cash equivalents:		
Unrestricted cash	\$ 415,982	\$ 278,628
Restricted cash - construction	2,634,627	-
Restricted cash - debt service	15,430	-
See accompanying notes to the financial statements.	\$ 3,066,039	\$ 278,628

CENTRAL WASHINGTON COUNTY WATER SUPPLY CORPORATION

Notes to Financial Statements

March 31, 2018 and 2017

1. Summary of significant accounting policies

Organization

The Central Washington County Water Supply Corporation (the Corporation) is a non-profit corporation organized under Article 1434A of the Revised Civil Statutes of Texas of 1925, as amended by the Texas Non-Profit Corporation Act, Article 1.01 et seq., as amended. The Corporation was incorporated in the State of Texas on March 14, 1988.

The Corporation was established to furnish a water supply for general farm use and domestic purposes to individuals residing in certain rural communities of Central Washington County, Texas.

The accounting policies of the Central Washington County Water Supply Corporation conform to generally accepted accounting principles. The following is a summary of the more significant policies:

Financial statement presentation

The Corporation is required to report information regarding its financial position and activities according to three classes of net assets based upon the existence or absence of donor-imposed restrictions. These classes are as follows:

Unrestricted Net Assets – Net assets are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net Assets subject to donor-imposed stipulations that may or will be met, either by actions of the Corporation and/or the passage of time. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Corporation. Generally, the donors of these assets permit the Corporation to use all or part of the income earned on any related investments for general or specific purposes.

Cash and equivalents

For purposes of the statement of cash flows, the Corporation considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Certificates of deposit with original maturities of more than 90 days are classified as short-term investments.

Contributed services

Many individuals volunteer their time and perform a variety of tasks that assist the Corporation, but these services do not meet the criteria for recognition as contributed services.

CENTRAL WASHINGTON COUNTY WATER SUPPLY CORPORATION
Notes to Financial Statements
March 31, 2018 and 2017

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Expenditures for additions, major renewals, and betterments are capitalized, while maintenance and repairs are charged to expense as incurred. The capitalization threshold for property, plant and equipment expenditures is \$1,000. Depreciation is computed on the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land and Easements	N/A
Water Lines and Storage	10-40 years
Wells and Pumps	30 years
Furniture and Fixtures	5-10 years

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

Income taxes

The Corporation is exempt from federal income taxes under Section 501 (c)(12) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the financial statements. In addition, the Corporation has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509 (a) of the Internal Revenue Code. The tax years ending March 31, 2015, and later remain subject to examination.

Revenue recognition

Substantially all revenues are charges for water services. These revenues are recorded and billed on a monthly basis. Accounts receivable include estimated amounts for unbilled receivables as of the end of the fiscal year.

2. Cash

Unrestricted cash as of March 31, 2018, includes deposits with financial institutions totaling \$178,683 and deposits in TexSTAR, a public funds investment pool, totaling \$237,299. Restricted cash as of

CENTRAL WASHINGTON COUNTY WATER SUPPLY CORPORATION

Notes to Financial Statements

March 31, 2018 and 2017

March 31, 2018 included deposits with financial institutions totaling \$2,650,057. As of March 31, 2017, unrestricted cash included deposits with financial institutions totaled \$75,372 and deposits in TexSTAR totaled \$203,256.

“TexSTAR” is a local government investment pool created and jointly managed by First Southwest Asset Management, Inc. and JP Morgan Chase Bank to invest funds on behalf of Texas political subdivisions. Its fair value approximates carrying value. The stated objective of TexSTAR is to maintain a stable \$1.00 net asset value per unit, and immediate action must be taken if the net asset value of the units of any fund falls below \$0.995 or rises above \$1.005. Authorized investments for TexSTAR funds include government securities, repurchase and reverse repurchase agreements, and money market mutual funds regulated by the Securities and Exchange Commission.

3. Accounts receivable

Accounts receivable consist of charges to members for monthly water service. The Corporation has pledged these receivable to the USDA – Rural Development as collateral on all outstanding notes. Accounts receivable are recorded in the accompanying statement of financial position net of an allowance for uncollectible accounts of \$1,000 as of March 31, 2018 and 2017.

4. Deposits and Investments

The Corporation’s investment policy authorizes investments in certificates of deposit with financial institutions insured by the Federal Deposit Insurance Corporation, fully collateralized repurchase agreements, investment pools that have a rating no lower than AAA or an equivalent rating by at least one nationally recognized rating agency, obligations of the United States or its agencies and instrumentalities, and direct obligations of the State of Texas or its agencies and instrumentalities.

As of March 31, 2018 and 2017, the Corporation’s investments consisted of certificates of deposit with an original maturity greater than 90 days and a fair value totaling of \$237,324 and \$234,021, respectively.

5. Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Corporation’s deposits may not be returned to it. It’s the policy of the Corporation to require full collateralization of all Corporation funds on deposit with a depository bank. At March 31, 2018 and 2017, the Corporation’s cash and cash equivalents, and certificates of deposit held at financial institutions did not exceed Federal Deposit Insurance Corporation coverage limits.

However, the Corporation maintains a money market fund at a financial institution with deposits of approximately \$2,616,000 at March 31, 2018, that is not insured by Federal Deposit Insurance Corporation (FDIC). The fund is backed by a high-quality money market portfolio that comprises U. S. Treasury securities only and seeks maximum current income consistent with preserving capital and maintaining daily liquidity.

CENTRAL WASHINGTON COUNTY WATER SUPPLY CORPORATION
Notes to Financial Statements
March 31, 2018 and 2017

6. Restricted assets

Restricted assets consist of cash and investment reserve funds required by loan and construction agreements. These funds cannot be expended without the written permission of the government.

7. Property, plant and equipment

Property, plant and equipment activity for the year ended March 31, 2018, was as follows:

	3/31/2017			3/31/2018
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Construction in progress	\$ 19,071	\$ 170,473	\$ -	\$ 189,544
Land and easements	40,843	-	-	40,843
Lines and storage	3,477,246	-	-	3,477,246
Wells and pumps	422,343	-	-	422,343
Iron filter system	350,831	-	-	350,831
Recycling System	155,200	-	-	155,200
Furniture and fixtures	11,339	-	-	11,339
Total at historical cost	<u>4,476,873</u>	<u>170,473</u>	<u>-</u>	<u>4,647,346</u>
Less: Accumulated depreciation	<u>(2,073,821)</u>	<u>(165,355)</u>	<u>-</u>	<u>(2,239,176)</u>
	<u>\$ 2,403,052</u>	<u>\$ 5,118</u>	<u>\$ -</u>	<u>\$ 2,408,170</u>

Property, plant and equipment activity for the year ended March 31, 2017, was as follows:

	3/31/2016			3/31/2017
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Construction in progress	\$ -	\$ 19,071	\$ -	\$ 19,071
Land and easements	40,843	-	-	40,843
Lines and storage	3,300,516	201,275	(24,545)	3,477,246
Wells and pumps	422,343	-	-	422,343
Iron filter system	350,831	-	-	350,831
Recycling System	155,200	-	-	155,200
Furniture and fixtures	11,339	-	-	11,339
Total at historical cost	<u>4,281,072</u>	<u>220,346</u>	<u>(24,545)</u>	<u>4,476,873</u>
Less: Accumulated depreciation	<u>(1,939,619)</u>	<u>(156,388)</u>	<u>22,186</u>	<u>(2,073,821)</u>
	<u>\$ 2,341,453</u>	<u>\$ 63,958</u>	<u>\$ (2,359)</u>	<u>\$ 2,403,052</u>

CENTRAL WASHINGTON COUNTY WATER SUPPLY CORPORATION
Notes to Financial Statements
March 31, 2018 and 2017

8. Water service rates and fees

The Corporation has established the following water rates and fees which were effective April 1, 2017:

	Base Allowance (Gal.)	Monthly Base Rates***
Standard Meters:		
1/2" Meter or Farm Single User	0-2,000	\$40.50
Non-Standard Meters:		
3/4" Meter	0-3,000	\$60.00
1" Meter	0-5,000	\$100.00
1 1/2" Meter	0-10,000	\$200.00
2" Meter	0-16,000	\$320.00

*** Usage greater than base allowance are subject to pricing differences per 1,000 gallons and determined by meter size and usage bracket.

Other Fees:	
Capital Improvement Fee	\$500.00
Membership (non-refundable)	\$200.00
Service and Meter Installation (Tap Fee)	\$850.00
Re-Service Fee	\$75 minimum
Meter Reconnect (Un-lock)	\$65.00
Membership Transfer Fee	\$25.00
Renter's Deposit for Water Service Billing	\$50.00
Returned Check Service Charge	\$35.00
Regulatory Assessments	0.05% of charge
Meter inspection or electronic meter data log:	
First request -	No Charge
Subsequent requests if meter is accurate	\$50
Subsequent requests if meter is inaccurate	No Charge

CENTRAL WASHINGTON COUNTY WATER SUPPLY CORPORATION
Notes to Financial Statements
March 31, 2018 and 2017

9. Long-term debt

The Corporation's long-term debt consists of the following as of March 31:

	2018	2017
Note originated September 28, 2017, issued by Texas Water Development Board and collateralized by assets and income of the corporation and for the purpose of water supply system improvements. The note amount was \$2,815,000 with coupon interest rates ranging from 1.1% to 3.32%, terms include semi-annual interest payments beginning April, 2018, and annual principal payments beginning October, 2019.	\$ 2,815,000	\$ -
Note originated July 19, 1994 for the purpose of Phase II of the water supply system issued by USDA - Rural Development and collateralized by assets and income of the corporation. The note amount was \$350,000 with a fixed interest rate of 5.25% and interest only payments until July 1996. The monthly payment for the 40 year term ending July 2034 is \$1,775.	230,709	239,647
Note originated May 27, 2008 for the purpose of paying off a prior note and construction of capital improvement projects issued by USDA - Rural Development and collateralized by assets and income of the corporation. The note amount was \$1,920,000 with a fixed interest rate of 4.125% for a term of 40 years that required interest only payment until May 2009. Beginning June 2009 and continuing through May 2048, monthly principal and interest payments are \$8,276.	1,702,881	1,731,299
Note originated May 9, 2016 for the purpose of replacing the existing water meters with the electric meters issued by a bank and collateralized by a certificate of deposit by the lender. The note amount was \$100,000 with a fixed interest rate of 3.25% for a term of 3 years. The monthly payment for the 3 year term ending May 9, 2019 is \$2,921.	40,062	73,169
	4,788,652	2,044,114
Less unamortized debt issuance costs	101,417	-
Less current portion	73,288	70,510
	\$ 4,613,947	\$ 1,973,604

CENTRAL WASHINGTON COUNTY WATER SUPPLY CORPORATION
Notes to Financial Statements
March 31, 2018 and 2017

Debt service requirements to maturity are as follows:

For the Fiscal Year ending March 31	Notes Payable	
	Principal	Interest
2019	\$ 73,288	\$ 166,169
2020	56,388	163,142
2021	117,598	160,999
2022	119,512	158,111
2023	121,512	154,955
2024 - 2046	4,300,354	2,140,958
	\$ 4,788,652	\$ 2,944,334

Loan issuance costs are deferred and amortized over the term of the loan using the straight-line method. Loan issuance costs and related amortization as of and for the year ended March 31, 2018, totaled \$103,179 and \$1,762, respectively.

10. Members equity

In accordance with the bylaws of the Corporation, no dividends are to be paid based on membership in the Corporation. The Corporation shall conduct business on a non-profit basis. 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 Corporation insofar as practicable.

11. Supplemental cash flows information

Interest paid during the years ended March 31, 2018 and 2017, totaled \$83,728 and \$86,850, respectively.

12. Commitments and contingencies

The Corporation entered into an administrative services contract with Professional General Management Services, Inc. ("PGMS"). Under the agreement, PGMS will provide meter reading, billings, collections, compliance, installations, inspections, reports, and emergency services. PGMS also agrees to maintain insurance coverage for workers compensation, comprehensive general liability, automobile liability and employer's liability. During the years ending March 31, 2018 and 2017, the Corporation paid PGMS approximately \$245,641 and \$259,809, respectively. Additionally, accounts payable included \$22,136 and \$20,393 in amounts due to PGMS at March 31, 2018 and 2017, respectively.

The Corporation must comply with covenants contained in the original closing instructions with the respective related instruments, Loan Resolution Security Agreements, Utilities Securities Instruments, promissory notes, grant agreements, all documents executed with the USDA, Texas Water Development Board, applicable regulations of the Texas Commission on Environmental Quality, applicable regulations of the Texas Department of Health, and applicable regulations of other state, local, and federal agencies with the authority to regulate water supply and water districts. The Corporation feels it is in substantial compliance with all the applicable laws and regulations.

CENTRAL WASHINGTON COUNTY WATER SUPPLY CORPORATION
Notes to Financial Statements
March 31, 2018 and 2017

13. Subsequent Events

The Corporation has entered into an agreement to purchase real properties for approximately \$60,000 to be used as locations for plant improvements.

Subsequent events were evaluated through August 8, 2018, which is the date the financial statements were available to be issued.