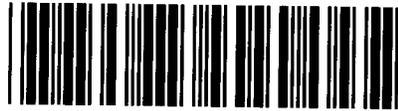




Control Number: 43175



Item Number: 52

Addendum StartPage: 0

**SOAH DOCKET NO. 473-15-2274.WS
PUC DOCKET NO. 43175**

**APPLICATION OF COMMUNITY
WATER SERVICE, INC. AND
WALTER J. CARROLL WATER
COMPANY, INC. FOR SALE,
TRANSFER, OR MERGER OF
FACILITIES AND CERTIFICATE
RIGHTS IN ELLIS COUNTY**

§
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**BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE
HEARINGS**



**DIRECT TESTIMONY OF
FRED BEDNARSKI III
WATER UTILITIES DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS
NOVEMBER 2015**

A handwritten signature or set of initials, possibly "SB", written in black ink.

000001

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ATTACHMENTS

- Attachment FB-1 Resume of Fred Bednarski III
- Attachment FB-2 Carroll Water's 2014 Tax Engagement Trial Balance
- Attachment FB-3 Water and Wastewater Utilities Annual Reports of Carroll Water for FY2014

I. PROFESSIONAL QUALIFICATIONS

Q. Please state your name and business address.

A. Fred Bednarski III, 1701 N. Congress Avenue, P.O. Box 13326, Austin, Texas 78711.

Q. By whom are you currently employed and how long have you been employed there?

A. I have been employed in the Water Utilities Division of the Public Utility Commission (PUC or Commission) since September 2014. Prior to that, I was employed by the Water Supply Division of the Texas Commission on Environmental Quality (TCEQ) from April 2013 to August 2014 as a Financial & Managerial Review Specialist.

Q. Please describe your educational background and past work experience.

A. I graduated from the University of Texas in Austin with a Bachelor of Liberal Arts degree in Economics and Bachelor of Business Administration degree in Accounting from Texas State University. I was previously employed as an Auditor for the Health & Human Services Commission Office of Inspector General in Austin, Texas. My responsibilities included examining, investigating, and reviewing financial documentation and management practices to ensure legal compliance with state and federal laws, rules, and regulations pertaining to the Medicaid and Children's Health Insurance Programs. I was also employed as a Trading Operations Analyst with the Texas Teacher Retirement System and the State Auditor's Office of Texas as an Auditor. I have worked in the accounting field since August of 1993.

Q. Please describe your current work responsibilities.

A. My responsibilities include reviewing water and sewer retail rate/tariff change applications and reviewing and analyzing information supplied by the applicant in order to recommend

1 a revenue requirement. I am also responsible for participating in water and sewer utility
2 case settlement negotiations; preparing and providing testimony for evidentiary hearings;
3 and reviewing the outcome of audits of utilities for contested rate applications, wholesale
4 rate appeals, retail rate appeals and cost of service appeals. In addition, I am also
5 responsible for reviewing and processing certificate of convenience and necessity (CCN)
6 applications including Sale/Transfer/Mergers (STMs). I am currently responsible for
7 reviewing, auditing, analyzing, and preparing comprehensive reports of complex business
8 plans and/or financial, managerial, and technical capacity information for retail public
9 water or sewer utilities submitted for review on behalf of the Commission Staff (Staff).

10 **Q. Do you have a prepared resume discussing your professional experience, education,**
11 **and background?**

12 A. Yes, I do. A copy of my professional resume is attached to my testimony as Attachment
13 FB-1 Resume of Fred Bednarski III.

14 **Q. Did you prepare that document?**

15 A. Yes, I did.

16 **Q. How many STM applications and/or rate appeals or cost of obtaining service petitions**
17 **have been previously assigned to you?**

18 A. I have been assigned approximately 18 STM applications during my employment with the
19 Commission and the TCEQ.

20 **II. PURPOSE & SCOPE OF TESTIMONY**

21 **Q. Are you familiar with the present case?**

1 A. Yes, I am.

2 **Q. Please explain your role in this case.**

3 A. My role is to testify on the financial and managerial aspects of the application. Commission
4 Staff Engineering Specialist Ms. Elisabeth English will testify on the technical aspects of
5 the proceeding.

6 **Q. Have you reviewed the STM application filed by Community Water Service, Inc.**
7 **(“Community Water” or “Seller”) and Walter J. Carroll Water Company, Inc.**
8 **(“Carroll Water” or “Purchaser”) (collectively called “Applicants”), the testimonies**
9 **filed, and other information filed with the Commission in this matter?**

10 A. Yes, I have.

11 **Q. Please explain the scope of your participation in the present proceeding.**

12 A. My participation in the present proceeding can be summarized as follows:

- 13 1. I reviewed the information provided by the Carroll Water in the application and
14 during formal discovery by the parties in this matter.
- 15 2. I reviewed the financial and managerial information provided by Carroll Water in
16 the application filings with respect to the financial and managerial criteria
17 necessary to obtain or amend a CCN as listed in Tex. Water Code §§ 13.246,
18 13.301 (TWC) and 16 Tex. Admin. Code §§ 24.102(d)(6), 24.102(e), 24.109,
19 24.112 (TAC).
- 20 3. I reviewed the information filed by all parties as part of formal discovery and pre-
21 filed testimonies for this proceeding.
- 22 4. I am presenting Commission Staff’s (Staff) position on the financial and

1 managerial capability of Carroll Water to provide the necessary capital investment
2 to ensure continuous and adequate service to the area requested in the purchase
3 and transfer of this transaction and any other area already certificated to Carroll
4 Water. I am also giving Staff's position on Carroll Water's financial stability.

5 **III. TRANSFER OF CCN RIGHTS**

6 **Q. As a result of the proposed transaction, are the Applicants proposing to transfer
7 and/or amend certificate rights?**

8 A. Yes, Carroll Water proposes to amend its CCN by expanding its water CCN to include the
9 additional area requested in this transaction. The additional area is currently in Community
10 Water's CCN. As a result of the proposed transaction, Community Water's CCN will also
11 be amended to remove the proposed area.

12 **IV. FINANCIAL CAPABILITY OF CARROLL WATER**

13 **Q. Please describe the procedures you followed in your review of the financial and
14 managerial capabilities of the Purchaser.**

15 A. For the financial capability review, I reviewed all financial information included in the
16 application, the direct testimonies, all supporting documentation provided by the
17 Applicants and the additional information produced in response to discovery. I looked for
18 evidence of Carroll Water's ability to cover future operating expenses and possible
19 infrastructure investments. I based my analysis on Carroll Water's 2014 Tax Engagement
20 Trial Balance provided in Carroll Water's direct testimony¹, Water and Wastewater

¹Docket 43175, Item 32, Exhibit A-13, pages 42 thru 44, Attachment FB-2.

1 Utilities Annual Reports of Carroll Water for FY2014², and the Projected Income
2 Statement provided in the application³

3 **Q. What does debt-to-equity ratio mean?**

4 A. The term debt-to-equity ratio is a financial leverage ratio that compares a company's total
5 long-term debt to total equity and speaks to the ability of the company to obtain long-term
6 debt in the near future. The debt-to-equity ratio shows the percentage of a company's or
7 entity's financing that comes from creditors and investors. A higher debt-to-equity ratio
8 indicates that more creditor financing (bank loans) is used than investor financing
9 (shareholders), indicating relatively less ability to obtain future long-term debt. The debt-
10 to-equity ratio is calculated by dividing total long-term debt by total equity. The debt-to-
11 equity ratio is considered a balance sheet ratio because all of the elements are reported on
12 the balance sheet. A ratio of 1:1 or lower is preferred when demonstrating financial
13 capability because it demonstrates the entity uses an equal or greater amount of equity than
14 debt to finance growth, operations, or repairs and improvements. Furthermore, a company
15 with a lower ratio has a greater ability to finance capital improvements in the future through
16 debt funding, and a greater ability to pay its current debts than an entity with a higher debt
17 to equity ratio.

18 **Q. Is it your opinion that Carroll Water is financially stable and has a sufficient debt-to-**
19 **equity ratio to proceed with this transaction?**

20 A. Yes.

²Docket 43175, Item 38, Annual Report pages 1 thru 7, Attachment FB-3.

³Docket 43175, Item 1, Application for Sale, Transfer or Merger, p. 12 of 22.

1 **Q. Please explain the basis for your opinion.**

2 A. Based on my analysis of Carroll Water's financial information and review of other
3 documentation filed in this docket, Carroll Water has a low degree of financial risk and is
4 financially capable of paying off its existing debts. I will explain this further in my
5 succeeding discussions.

6 **Q. Is Carroll Water's debt-to-equity ratio adequate to acquire the proposed area if the
7 proposed transaction is approved pursuant to TWC §13.246(c)?**

8 A. Yes, as shown in Table 1⁴, Carroll Water had total assets of \$122,979, total liabilities of
9 \$19,146 and equity of \$103,834, as of December 31, 2014. I obtained this information from
10 their 2014 Tax Engagement Trial Balance. The debt-to-equity ratio for Carroll Water was
11 \$19,146 (total long-term debt) to \$103,834 (total equity), which is 18.4% or .184:1 which
12 is well below the acceptable ratio of less than 1:1.

13 **Table 1 – Carroll Water - Debt-to-Equity Ratio**

<u>Fiscal</u> <u>Year</u>	<u>Total Assets</u>	<u>Total</u> <u>Liabilities</u>	<u>Long-Term</u> <u>Debt</u>	<u>Total Equity</u>	<u>Debt-to-</u> <u>Equity</u> <u>Ratio</u>
2014	\$122,979	\$19,146	\$19,146	\$103,834	.184:1

14
15 **Q. What does debt service coverage ratio (DSCR) mean?**

16 A. The debt service coverage ratio (DSCR), also known as debt coverage ratio, is the ratio of

⁴ Docket 43175, Item 32, Exhibit A-13, page 42, Attachment FB-2.

1 cash available for debt servicing to interest, principal and lease payments. It is a popular
2 benchmark used in the measurement of an entity's (person or corporation) ability to
3 produce enough cash to cover its debt (including lease) payments. The higher this ratio is,
4 the easier it is to obtain a loan. The DSCR measures a firm's ability to maintain its current
5 debt levels. This is why a higher ratio is always more favorable than a lower ratio when
6 considering an entity's ability to pay its debts. A higher ratio indicates that there is more
7 income available to pay for debt servicing.

8 For example, if a company had a ratio of one to one, that would mean that the company's
9 net operating profits equal its debt service obligations. In other words, the company
10 generates just enough revenues to pay for its debt servicing. A ratio of less than one means
11 that the company doesn't generate enough operating profits to pay its debt service and must
12 obtain the cash to pay debts somewhere other than its operations, such as savings.
13 Generally, companies with a higher DSCR tend to have more cash and are better able to
14 pay their debt obligations on time.

15 **Q. Is a DSCR calculation appropriate in this case?**

16 **A.** Yes. The DSCR reflects Carroll Water's ability to make annual payments on its long-term
17 debt. It is an appropriate tool to use to help analyze Carroll Water's financial health, and
18 therefore, its ability to provide appropriate infrastructure and operational capital.

19 **Q. What is Carroll Water's DSCR?**

20 **A.** As shown in Table 2, Carroll Water's FY2014 Tax Engagement Trial Balance⁵ indicates

⁵Docket 43175, Item 32, Exhibit A-13, pages 43 and 44, Attachment FB-2.

1 net operating income prior to depreciation of \$79,076 and, per Carroll Water's 2014 Water
2 and Wastewater Annual Report,⁶ debt service paid for the year of \$6,686, which results in
3 a DSCR of 11.83:1. Typically a DSCR of more than 1.25:1 is preferred when using net
4 operating income before depreciation and other non-cash expenses when Staff analyzes
5 financial capability.

6 **Table 2 – Carroll Water DSCR**

<u>Fiscal Year</u>	<u>Net Operating Income Before Depreciation</u>	<u>Debt Service Paid for the Year</u>	<u>Debt Service Coverage Ratio</u>
2014	\$79,076	\$6,686	11.83:1

7 **Q. Does Carroll Water have the financial ability available to maintain infrastructure and**
8 **to provide continuous and adequate services pursuant to TWC §13.301(e)(4)?**

9 **A.** The Applicants noted in the application that there are no necessary major capital
10 improvements needed to meet the TCEQ standards⁷. However, if any future repairs or
11 improvements need to be made, Carroll Water demonstrates sufficient financial strength
12 since they reported \$0.00 current liabilities and a net income of approximately \$55
13 thousand⁸ on their 2014 Tax Engagement Trial Balance⁹, as well as projected net income
14 in the application¹⁰ over the next five years of: Year 1 = \$56,000, Year 2 = \$54,000, Year
15 3 = \$64,000, Year 4 = \$63,000, Year 5 = \$56,000 for a cumulative total net income amount

⁶Docket 43175, Item 38, page 4 of 7, Attachment FB-3.

⁷Docket 43175, Item 1, Application for Sale, Transfer or Merger, p 15 of 22.

⁸Docket 43175, Item 32, Exhibit A-13, page 44, Attachment FB-2.

⁹Docket 43175, Item 32, Exhibit A-13, page 42, Attachment FB-2.

¹⁰Docket 43175, Item 1, Application for Sale, Transfer or Merger, p 12 of 22.

of \$293 thousand over the next 5 years. Furthermore, as noted earlier, Carroll Water has an equity balance of \$103,834.

Table 3 – Carroll Water – Historical and Projected Net Income in Thousands

<u>FY2014</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Projected</u> <u>5 Yr.</u> <u>Total</u>
\$55	\$56	\$54	\$64	\$63	\$56	\$293

Q. Pursuant to TWC §13.246(d) and 16 TAC §24.102(e), should the Purchaser be required to provide a bond or other financial assurance to ensure that continuous and adequate utility service is provided?

A. No. In my opinion, a bond or other form of financial assurance to ensure continuous and adequate service is not needed for this proposed transaction. My opinion is based on my analysis of Carroll Water’s financial information and my review of other documentation filed in this docket. From my analysis, I determined that the Carroll Water has a low degree of financial risk, is financially capable of paying off existing debts, and has the capability of obtaining debt financing in the future, especially since their debt balance is low. Carroll Water has healthy financial ratios and equity and can fund the utility or obtain funding, if necessary, if an emergency arises.

V. MANAGERIAL CAPABILITY OF CARROLL WATER

Q. Please describe your analysis of Carroll Water’s managerial capabilities.

A. I reviewed Carroll Water’s application, Texas Commission on Environmental Quality’s (TCEQ) Central Registry compliance database, TCEQ’s inspection reports, and the

1 testimonies filed in this case. In my review, I found that Carroll Water has been in
2 operation since 1986 and has a licensed operator working for them. Carroll Water currently
3 operates 4 public water systems (PWSs) with approximately 447 connections. Per TCEQ's
4 Central Registry Database, there are no outstanding violations for any of Carroll Water's
5 PWSs. Ms. Elisabeth English addresses the status of Carroll Water's public water systems
6 in greater detail in her testimony.

7 **Q. Do you believe Carroll Water has the managerial capability to provide continuous**
8 **and adequate service to its existing water service area plus the additional area**
9 **requested in this application?**

10 A. Yes, Carroll Water has a licensed water operator on staff to maintain and operate its PWSs
11 and the management has experience overseeing the water utility rates, service policies,
12 financing, maintenance and operations.

13 **Q. Was Community Water's system partially or wholly constructed with customer**
14 **contributions in aid of construction derived from specific surcharges as provided by**
15 **TWC §13.301(j)?**

16 A. No.¹¹

17 **Q. Does Community Water currently retain any customer deposits? If so, what is the**
18 **total amount of customer deposits retained?**

19 A. Yes, Community Water has customer deposits that have been retained that total \$4,825

20 **Q. Does the seller have proper records to allow deposits and any unpaid interest to be**

¹¹ Docket #43175, Item #1, page 7, question 13.a.

ATTACHMENT FB-1 RESUME OF FRED BEDNARSKI III

FRED BEDNARSKI III

820 San Remo Blvd.
Lakeway, Texas 78734
512-786-3989 (H)
512-239-4758 (W)

Education

The University of Texas

Austin, Texas

Degree: BA/Economics

May 1989

Southwest Texas State University

San Marcos, Texas

Degree: BBA/Accounting

GPA Major 3.2

August 1995

Work Experience

Texas Commission on Environmental Quality

Public Utility Commission of Texas

Austin, Texas

April 13–Present

Financial and Managerial Review Specialist

Reviews water/sewer utility retail rate change applications for utility cost of service, and follows up on applications through the final action date to ensure rates are just and reasonable. Conducts special utility audits as directed. Participates in utility case [certificates of convenience and necessity (CCN) or rate] settlement negotiations, preparing/providing testimony for evidentiary hearings, which includes covering the outcome of audits prepared on the books and records of utilities related to rate case proceedings for contested applications/cost of service appeals, CCNs/sale, transfer, and mergers (STMs); and maintaining effective communication and coordination with legal staff and co-workers. Reviews, audits, analyzes, and prepares comprehensive reports of complex business plans and/or financial, managerial, and technical capacity information for public water systems and retail public water or sewer utilities submitted for review as well as provides assistance for public water systems and retail public water or sewer utilities in developing business plans; financial, managerial, and technical information; and in following the strategies set forth in the plans.

Office of Inspector General Texas HHSC

Austin, Texas

Aug 10–March 13

Auditor

Performs moderately complex (journey-level) auditing work for the Medicaid/CHIP Audit Unit (MCAU). The work involves examining, investigating, and reviewing financial documentation and management practices to ensure legal compliance with state and federal laws, rules, and regulations pertaining to the Medicaid and Children's Health Insurance Programs. Works as part of audit teams within the MCAU in conducting audits for program economy, efficiency, and effectiveness with a goal of identifying and eliminating waste, abuse, and fraud within the programs. Works under

general supervision with limited latitude for the use of initiative and independent judgment.

Texas Teacher Retirement System

Aug 04–July 10

Austin, Texas

Trading Operations Analyst

Performs complex analysis, support and accounting of equity trading operations. Work involves assisting in developing and implementing automated processes: assisting in administering trading systems, monitoring the trading and execution and settlement process; researching, reconciling and resolving problems and discrepancies; performing pre- and post-trade analytics; verifying exchange rates and conversions; and providing back up assistance to the Senior Trading Operations Specialist. Helps prepare Board Commission Report.

Texas State Auditor

April 98–Aug 04

Austin, Texas

Staff Auditor

Work involved the examination, investigation, and review of records, reports, financial statements, and management practices to ensure legal compliance with state statutes and internal regulations; and performance of audits for program economy, efficiency, and effectiveness. Team member on several financial audits as well as compliance and management control audits and Team leader for 2 Performance Measure Audits.

JJ Specialty Services, Inc.

Aug 97–Dec 97

Austin, Texas

Corporate Accountant

Financial statement preparation, consolidation of statements, intercompany transactions, reconciliation's, cash management, and payroll

Hydrolab Corporation

Sept. 95–Aug 97

Austin, Texas

Staff Accountant

Accounts receivable, monthly sales and commission report preparation, reconciliation of various G/L accounts, deposit preparation, monthly and quarterly sales tax returns, and credit analysis

Ricon Products and Fast

Sept. 95–Sept. 96

Stop Stores, Inc.

Austin, Texas

Accountant

Payroll, accounts receivable, accounts payable, reconcile statements, and post entries to the general ledger

William Bonner CPA

Aug 93–Sept. 94

Austin, Texas

Bookkeeper

Reconciled bank statements, coded and posted checks to the general ledger, and general administrative duties

Austin Teachers Federal Credit Union
Austin, Texas
Financial Service Representative
Proof Operator

April 93-Sept 94

Awards Received

- Employee of the month (July 29, 1994 Austin Teachers Federal Credit Union)
- The University of Texas Football Letterman 1986 and 1988
- Passed the Audit and Business Law sections of the CPA exam
- Bushel of Fun Award from TRS for demonstrating outstanding dedication by working flexible and long hours to accommodate both International and Domestic Trade Operations
- CGAP exam passed 12/4/2010

Special Skills

- Software Experience: Bloomberg Trading System, Gateway (data management software) PAM (equity security accounting system), Windows, Microsoft Office, Microsoft Excel, Teammate (auditing software), and other accounting software (Peachtree, Mapics, & Quickbooks)
- Attended the National Association of Regulatory Utility Commissioners Utility Rate School from May 12-16, 2014

**ATTACHMENT FB-2 CARROLL WATER'S 2014 TAX ENGAGEMENT
TRIAL BALANCE**

SOAH Docket No. 473-15-2274
PUC Docket No. 43175

APPLICATION OF COMMUNITY § BEFORE THE STATE OFFICE
WATER SERVICE, INC. and §
WALTER J. CARROLL CO., INC. § OF
INVESTORS, LP, FOR SALE, TRANSFER, §
OR MERGER OF FACILITIES AND § ADMINISTRATIVE HEARINGS
CERTIFICATE RIGHTS IN ELLIS COUNTY §
Application No. 37981-s

BUSINESS RECORDS AFFIDAVIT

STATE OF TEXAS §
COUNTY OF Ellis §

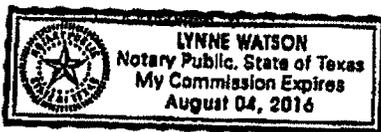
BEFORE ME, the undersigned authority, on this day personally appeared Patty Hilton, who, after being by me duly sworn, upon her oath did state the following:

"My name is Patty Hilton. I am over the age of 18 years and fully competent to testify to the matter stated in this affidavit. I have personal knowledge of the facts and statements contained in this affidavit and each of them is true and correct. I am the Business Administrator and a custodian of the records for Walter J. Carroll Water Co., Inc. and am authorized to make this affidavit on behalf of the Walter J. Carroll Water Co., Inc. Attached to this affidavit are 7 pages of records from the Walter J. Carroll Water Co., Inc. These records are kept by the Walter J. Carroll Water Co., Inc. in the regular course of business, and it was the regular course of business of the Walter J. Carroll Water Co., Inc. for an employee or representative, with knowledge of the acts, events, conditions, opinions, or diagnoses that were recorded, to make these records or to transmit the information to be included in these records. The records were made at or near the time or reasonably soon after the acts, events, conditions, opinions, or diagnoses that were recorded. The records attached to this affidavit are the originals or the exact duplicates of the originals. Further affiant sayeth not."

Patty Hilton
Patty Hilton

SUBSCRIBED and SWORN TO BEFORE ME by Patty Hilton
on the 5 day of May, 2015.

Lynne Watson
NOTARY PUBLIC, STATE OF TEXAS



Business Records Affidavit - Patty Hilton

Client: 12888 - Walter J. Carroll Water Co., Inc.
 Engagement: 2014 Tax - Walter J. Carroll Water Co., Inc.
 Period Ending: 12/31/2014
 Trial Balance: 0400, I - S Corporation TB
 Worksheet: S Corporation TB Combined Detail Classified LS

Account	Description	1st PP-FYAK 12/31/2013	UNADJ 12/31/2014	JE Ref #	FTJE	FTAX 12/31/2014
Group : [L0]	Cash					
Subgroup : None						
1000	Cash	23,084.77	23,084.77		(7,878.02)	17,114.75
Subtotal : None				FTJE - 1	(7,878.02)	
Total [L0] Cash		23,084.77	23,084.77		(7,878.02)	17,114.75
	Current Assets	23,084.77	23,084.77		(7,878.02)	17,114.75
Group : [L10A]	Buildings and other depreciable assets					
Subgroup : None						
2001	Equipment	83,338.57	83,338.57		0.00	83,338.57
2002	Tractor, Backhoe, Loader	13,454.40	13,454.40		0.00	13,454.40
2003	Water Well	70,388.76	70,388.76		34,855.83	105,254.59
2004	Back Hoe	8,000.00	8,000.00	FTJE - 8	34,855.83	
2025	Leasehold Improvements	2,827.53	2,827.53		0.00	2,827.53
2008	2003 Truck	28,723.84	28,723.84		0.00	28,723.84
2007	2006 Truck	33,487.58	33,487.58		0.00	33,487.58
2007.1	2006 Truck	8,875.52	8,875.52		0.00	8,875.52
2004	2012 Honda Civic	21,084.81	21,084.81		0.00	21,084.81
2008	2012 Chevy Silverado	36,378.33	36,378.33		0.00	36,378.33
Subtotal : None		314,418.25	314,418.25		34,855.83	348,374.08
Total [L10A] Buildings and other depreciable assets		314,418.25	314,418.25		34,855.83	348,374.08
Group : [L10B]	Less accumulated depreciation					
Subgroup : None						
2500	Accum Depreciation	(284,377.00)	(284,377.00)		(23,823.00)	(287,700.00)
Subtotal : None		(284,377.00)	(284,377.00)	FTJE - 10	(23,823.00)	
Total [L10B] Less accumulated depreciation		(284,377.00)	(284,377.00)		(23,823.00)	(287,700.00)
Group : [L12]	Land					
Subgroup : None						
2000	Land	44,180.38	44,180.38		0.00	44,180.38
Subtotal : None		44,180.38	44,180.38		0.00	44,180.38
Total [L12] Land		44,180.38	44,180.38		0.00	44,180.38
	Non-Current Assets	84,231.64	84,231.64		11,832.83	105,964.47
	TOTAL ASSET	118,318.41	118,318.41		3,882.81	122,201.22
	Current Liabilities	0.00	0.00		0.00	0.00
Group : [L20]	Mortgages, notes, bonds payable in 1 year or more					
Subgroup : None						
2802	Notes Payable - 2012 Chevy Truck	(24,868.81)	(24,868.81)		5,843.08	(19,145.53)
2803	Notes Payable - 2012 Honda Civic	(12,538.15)	(12,538.15)		12,538.15	0.00
Subtotal : None		(37,347.78)	(37,347.78)	FTJE - 3	5,843.08	
Total [L20] Mortgages, notes, bonds payable in 1 year or more		(37,347.78)	(37,347.78)	FTJE - 3	5,843.08	
	Non-Current Liabilities	(37,347.78)	(37,347.78)	FTJE - 5	11,841.16	
	TOTAL LIABILITY	(37,347.78)	(37,347.78)		18,282.23	(19,145.53)
Group : [L22]	Capital stock - Common Stock					
Subgroup : None						
3000	Capital Stock	(1,000.00)	(1,000.00)		0.00	(1,000.00)
Subtotal : None		(1,000.00)	(1,000.00)		0.00	(1,000.00)
Total [L22] Capital stock - Common Stock		(1,000.00)	(1,000.00)		0.00	(1,000.00)
Group : [L23]	Additional paid-in capital					
Subgroup : None						
3001	Additional Paid in Capital	(635.82)	(635.82)		0.00	(635.82)
Subtotal : None		(635.82)	(635.82)		0.00	(635.82)
Total [L23] Additional paid-in capital		(635.82)	(635.82)		0.00	(635.82)
Group : [L24]	Retained earnings - Unappropriated - end of year entry is an override					
Subgroup : None						
3500	Distributions	39,282.50	0.00		33,887.59	33,887.59
3900	Retained Earnings	(89,231.18)	(80,733.03)	FTJE - 1	7,588.00	
Subtotal : None		(29,948.68)	(80,733.03)	FTJE - 2	21,890.91	
Total [L24] Retained earnings - Unappropriated - end of year entry is an override		(29,948.68)	(80,733.03)	FTJE - 4	1,283.08	
	Equity	(31,884.30)	(81,988.85)	FTJE - 7	3,694.00	
	NET (INCOME) LOSS	(80,384.35)	0.00		0.00	(80,384.35)
	TOTAL EQUITY	(31,884.35)	(81,988.85)		(21,865.04)	(103,853.89)
	TOTAL LIABILITY AND EQUITY	(118,318.41)	(118,318.41)		(3,982.23)	(122,300.64)
Group : [01A]	Gross receipts or gross sales					

Client: 13638 - Walter J. Carroll Water Co., Inc.
 Engagement: 2014 Tax - Walter J. Carroll Water Co., Inc.
 Period Ending: 12/31/2014
 Trial Balance: 0408.1 - S Corporation TB
 Worksheet: S Corporation TB Combined Detail Classified LS

Account	Description	141 PP-FTAX 12/31/2013	UNADJ 12/31/2014	JE Ref #	FTJE	FTAX 12/31/2014
Subgroup : None						
4000	Water Sales	(284,753.56)	0.00		(272,051.17)	(272,051.13)
				FTJE - 1	(268,312.18)	
				FTJE - 2	(8,038.85)	
4001	Customer Refund	0.00	0.00		259.11	259.11
				FTJE - 1	259.11	
Subtotal : None						
Total [01A] Gross receipts or gross sales		(284,753.56)	0.00		(271,782.02)	(271,782.02)
		(284,753.56)	0.00		(271,782.02)	(271,782.02)
Revenues						
		(284,753.56)	0.00		(271,782.02)	(271,782.02)
Group : [08] Other income						
Subgroup : None						
4500	Late Fees	0.00	0.00		(7,815.00)	(7,815.00)
				FTJE - 2	(7,815.00)	
4501	Reconnect Fees	0.00	0.00		(4,138.12)	(4,138.12)
				FTJE - 2	(4,138.12)	
4502	Tap Fees	0.00	0.00		(3,000.00)	(3,000.00)
				FTJE - 2	(3,000.00)	
4503	Adjustments	0.00	0.00		(567.84)	(567.84)
				FTJE - 2	(567.84)	
Subtotal : None						
Total [05] Other income		0.00	0.00		(15,621.96)	(15,621.96)
		0.00	0.00		(15,621.96)	(15,621.96)
Other income						
		0.00	0.00		(15,621.96)	(15,621.96)
TOTAL REVENUE						
		(284,753.56)	0.00		(287,403.98)	(287,403.98)
Group : [A05] CGS-Other costs (Sch A)						
Subgroup : None						
5000	Chlorine	9,807.86	0.00		9,818.88	9,818.88
				FTJE - 1	9,818.88	
5001	Repairs and Maintenance	30,484.62	0.00		39,700.10	39,700.10
				FTJE - 1	74,888.93	
				FTJE - 8	(34,958.83)	
5002	Auto Expense	12,631.73	0.00		9,948.78	9,948.78
				FTJE - 1	9,948.78	
5003	Utilities	28,885.25	0.00		33,090.81	33,090.81
				FTJE - 1	33,090.81	
5004	Water Samples	3,800.22	0.00		3,211.93	3,211.93
				FTJE - 1	3,211.93	
Subtotal : None						
Total [A05] CGS-Other costs (Sch A)		119,819.78	0.00		85,772.38	85,772.31
		119,819.78	0.00		85,772.38	85,772.31
Cost of Sales						
		119,819.78	0.00		85,772.38	85,772.31
Group : [08] Salaries and wages						
Subgroup : None						
6018	Wages	73,600.00	0.00		74,875.00	74,875.00
				FTJE - 1	81,261.25	
				FTJE - 8	(13,613.75)	
Subtotal : None						
Total [08] Salaries and wages		73,600.00	0.00		74,875.00	74,875.00
		73,600.00	0.00		74,875.00	74,875.00
Group : [12] Taxes and Licenses						
Subgroup : None						
6011	Taxes - Payroll Tax Expenses	5,882.50	0.00		5,904.20	5,904.20
				FTJE - 1	22,185.38	
				FTJE - 7	(3,594.00)	
				FTJE - 8	(12,866.18)	
6012	Taxes - Property	1,954.68	0.00		1,798.05	1,798.05
				FTJE - 8	1,798.05	
Subtotal : None						
Total [12] Taxes and Licenses		7,837.18	0.00		7,702.25	7,702.25
		7,837.18	0.00		7,702.25	7,702.25
Group : [13] Interest						
Subgroup : None						
6004	Interest Expense	1,612.08	0.00		1,073.73	1,073.73
				FTJE - 1	7,584.58	
				FTJE - 3	(6,622.11)	
				FTJE - 5	11.25	
Subtotal : None						
Total [13] Interest		1,612.08	0.00		1,073.73	1,073.73
		1,612.08	0.00		1,073.73	1,073.73
Group : [14] Depreciation expense						
Subgroup : None						
6000	Depreciation	7,058.00	0.00		23,323.00	23,323.00
				FTJE - 10	23,323.00	
Subtotal : None						
Total [14] Depreciation expense		7,058.00	0.00		23,323.00	23,323.00
		7,058.00	0.00		23,323.00	23,323.00
Group : [18] Other deductions						
Subgroup : None						
6000	Professional Fees	6,251.60	0.00		0.00	0.00
					812.54	812.54
6001	Bank Fees	1,022.14	0.00		812.54	812.54
				FTJE - 1	2,820.57	2,820.57
6003	Insurance	3,632.00	0.00		4,173.65	4,173.65
				FTJE - 1	(1,252.08)	
6005	Legal and Professional	0.00	0.00		3,455.00	3,455.00
				FTJE - 4		

Client: 12892 - Walter J. Carroll Water Co., Inc.
 Engagement: 2014 Tax - Walter J Carroll Water Co, Inc
 Period Ending: 12/31/2014
 Trial Balance: 0400.1 - S Corporation TB
 Worksheet: S Corporation TB Combined Detail Classified LS

Account	Description	101 PF-FTAX 12/31/2013	UNADJ 12/31/2014	JE Ref #	FTJE	FTAX 12/31/2014
0008	Office Expense	7,025.81	0.00	FTJE - 1	3,458.00	
					3,433.29	5,433.29
				FTJE - 1	5,238.90	
				FTJE - 1	194.30	
0008	Regulatory Expense	3,307.46	0.00		3,326.28	3,326.28
				FTJE - 1	3,326.28	
0013	Telephone	4,575.71	0.00		6,092.28	6,592.28
				FTJE - 1	6,591.22	
				FTJE - 3	161.04	
0016	Fines	283.90	0.00		600.77	600.77
				FTJE - 1	600.77	
0020	Miscellaneous	73.63	0.00		5,982.88	6,562.88
				FTJE - 1	610.75	
				FTJE - 1	19,350.16	
				FTJE - 6	(11,652.42)	
				FTJE - 8	(1,798.05)	
				FTJE - 8	(947.58)	
Subtotal : None		29,442.15	0.00		38,993.99	28,993.99
Total [19] Other deductions		29,442.15	0.00		38,993.99	28,993.99
Operating Expenses		118,648.43	0.00		136,878.57	136,878.57
Other Expenses		0.00	0.00		0.00	0.00
TOTAL EXPENSE		224,369.21	0.00		221,649.95	221,650.16
NET (INCOME) LOSS		(59,284.38)	0.00		(55,703.03)	(55,703.03)
Sum of Account Groups		0.00	0.00		0.00	0.00

5/1/2015
4:28 PM

Client: 13698 - Walter J. Carroll Water Co., Inc.
 Engagement: 2014 Tax - Walter J Carroll Water Co, Inc
 Period Ending: 12/31/2014
 Trial Balance: 0400.1 - S Corporation TB
 Workpaper: Federal Tax Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
Federal Tax Journal Entries JE # 1				
To record current year activity				
		0900.07		
3500	Distributions		7,380.00	
4001	Customer Refund		269.11	
5000	Chlorine		9,819.98	
5001	Repairs and Maintenance		74,655.93	
5002	Auto Expense		9,949.76	
5003	Utilities		33,090.61	
5004	Water Samples		3,211.93	
6001	Bank Fees		812.54	
6003	Insurance		4,173.65	
6004	Interest Expense		7,584.58	
6005	Legal and Professional		3,455.00	
6006	Office Expense		194.30	
6006	Office Expense		5,238.99	
6008	Regulatory Expense		3,326.28	
6011	Taxes - Payroll Tax Expenses		22,165.39	
6013	Telephone		6,531.22	
6016	Wages		61,361.25	
6018	Fines		600.77	
6020	Miscellaneous		810.75	
6020	Miscellaneous		19,350.16	
1000	Cash			7,970.02
4000	Water Sales			266,012.18
Total			273,982.20	273,982.20
Federal Tax Journal Entries JE # 2				
Adjust other income				
3500	Distributions		21,660.91	
4000	Water Sales			6,038.95
4500	Late Fees			7,915.00
4501	Reconnect Fees			4,139.12
4502	Tap Fees			3,000.00
4503	Adjustments			567.84
Total			21,660.91	21,660.91
Federal Tax Journal Entries JE # 3				
To adjust interest and loans				
2802	Notes Payable - 2012 Chevy Truck		5,863.08	
2803	Notes Payable - 2012 Honda Civic		697.99	
6013	Telephone		151.04	
6004	Interest Expense			6,522.11
Total			6,522.11	6,522.11
Federal Tax Journal Entries JE # 4				
To adjust Ted Insurance				
3500	Distributions		1,253.08	

5/1/2015
4:28 PM

Client: 13698 - Walter J. Carroll Water Co., Inc.
 Engagement: 2014 Tax - Walter J Carroll Water Co, Inc
 Period Ending: 12/31/2014
 Trial Balance: 0400.1 - S Corporation TB
 Workpaper: Federal Tax Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
6003	Insurance			1,253.08
Total			1,253.08	1,253.08
Federal Tax Journal Entries JE # 5				
To adjust the Honda Civic pay off				
2803	Notes Payable - 2012 Honda Civic		11,841.16	
6004	Interest Expense		11.26	
6020	Miscellaneous			11,852.42
Total			11,852.42	11,852.42
Federal Tax Journal Entries JE # 6				
To adjust Misc				
6012	Taxes - Property		1,798.05	
6020	Miscellaneous			1,798.05
Total			1,798.05	1,798.05
Federal Tax Journal Entries JE # 7				
To adjust Ted Est Tax Payments				
3500	Distributions		3,594.00	
6011	Taxes - Payroll Tax Expenses			3,594.00
Total			3,594.00	3,594.00
Federal Tax Journal Entries JE # 8				
To adjust wages				
6016	Wages		13,613.75	
6011	Taxes - Payroll Tax Expenses			12,666.19
6020	Miscellaneous			947.56
Total			13,613.75	13,613.75
Federal Tax Journal Entries JE # 9				
To adjust repairs				
2003	Water Well		34,955.83	
5001	Repairs and Maintenance			34,955.83
Total			34,955.83	34,955.83
Federal Tax Journal Entries JE # 10				
To adjust depreciation				
9000	Depreciation		23,323.00	
2500	Accum Depreciation			23,323.00
Total			23,323.00	23,323.00

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04/10/16
Accrual Basis

Carroll Water Company, Inc.
Balance Sheet
As of December 31, 2014

	<u>Dec 31, 14</u>
ASSETS	
Current Assets	
Checking/Savings	
Carroll Water Company, Inc.	36,252.70
Total Checking/Savings	<u>36,252.70</u>
Total Current Assets	<u>36,252.70</u>
TOTAL ASSETS	<u><u>36,252.70</u></u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Credit Cards	
Chase CC	-1,917.37
Total Credit Cards	<u>-1,917.37</u>
Total Current Liabilities	<u>-1,917.37</u>
Total Liabilities	-1,917.37
Equity	
Opening Balance Equity	33,549.98
Retained Earnings	12,590.13
Net Income	-7,970.02
Total Equity	<u>38,170.07</u>
TOTAL LIABILITIES & EQUITY	<u><u>36,252.70</u></u>

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04/10/16
Accrual Basis

Carroll Water Company, Inc.
Profit & Loss
January through December 2014

	<u>Jan - Dec 14</u>
Ordinary Income/Expense	
Income	
Bank Deposits	266,012.18
Total Income	<u>266,012.18</u>
Gross Profit	266,012.18
Expense	
Accounting & Legal Fees	3,455.00
Bank Account Analysis	812.64
Deposit Corrections	810.75
Gas	9,949.78
Installment Loans	7,584.58
Insurance	4,173.85
Miscellaneous	19,350.16
Office Supplies	5,238.99
Payroll Expenses	81,361.25
Phones	6,531.22
Quickbooks Support	194.30
Return Checks	800.77
Supplies, Parts, Repairs	74,655.93
TCEQ Fees	3,326.28
water deposit refunds	269.11
Water Samples	3,211.93
Well Electric Bills	33,090.61
Total Expense	<u>234,616.83</u>
Net Ordinary Income	31,395.35
Other Income/Expense	
Other Expense	
Payroll Taxes	22,165.39
Water Carroll	7,380.00
Water Use Fees	9,819.98
Total Other Expense	<u>39,365.37</u>
Net Other Income	<u>-39,365.37</u>
Net Income	<u><u>-7,970.02</u></u>

**ATTACHMENT FB-3 WATER AND WASTEWATER UTILITIES
ANNUAL REPORTS OF CARROLL WATER FOR FY 2014**

**WATER AND WASTEWATER UTILITIES
ANNUAL REPORT**

Docket No. _____

(this number will be assigned by the Public Utility Commission after your document is filed)

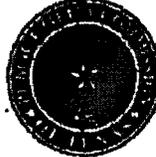
of

Carroll Water Co., Inc.
Exact Legal Name of Utility/Respondent

11543

Certificate of Convenience and Necessity (CCN) No.

Submitted to the



for the

Calendar Year Ended

12-31-2014

Page 1 of 7

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Section 1: Utility Information

Utility Name Carroll Water Co. Inc.
Address 513 Winding Creek Trail
Red Oak, Tx 75154

Please check this box if your Official Address, which is noted on the enclosed letter, has changed.

Telephone Number 972-617-0817 Fax Number 972-617-0817
E-mail Address carrollwater@att.net
Contact Person Patty Hilton Title Secretary

Check the business ownership entity of the utility as filed with the Internal Revenue Service

Individual Partnership Corporation Nonprofit Association

Section 2: Utility Background

Water CCN No. _____
Number of PWSs _____
TCEQ PWS ID No. 11543
TCEQ PWS ID No. 4
(If the utility has more PWS ID Nos., please indicate in Section 10) 0700063, 0700068
0700067, 0700064
Number of Wastewater Systems _____
Sewer CCN No. _____
TCEQ Sewer Discharge Permit No. _____
TCEQ Sewer Discharge Permit No. _____
(If the utility has more Discharge Permit Nos., please indicate in Section 10)

Section 3: Revenues

	Water	Wastewater	Total Water + Wastewater
OPERATING REVENUES:			
Utility Service/Sales	256,160	—	\$ 0.00
Fees (Tap, Reconnection, etc.)	15,622	—	\$ 0.00
OTHER REVENUES:			
Please Identify:	—	—	\$ 0.00
TOTAL REVENUES	271,782	\$ 0.00	\$ 0.00

Section 4: Expenses

	Water	Wastewater	Total Water + Wastewater
Salaries & Wages	73,800	/	\$ 0.00
Contract Labor	1,190	/	\$ 0.00
Purchased Water	—	/	\$ 0.00
Chemicals for Treatment	—	/	\$ 0.00
Utilities (electricity)	9,820	/	\$ 0.00
Repairs/Maintenance/Supplies	33,091	/	\$ 0.00
Office Expenses (3)	39,706	/	\$ 0.00
Professional Fees (Accounting, Legal)	13,559	/	\$ 0.00
Insurance	3,455	/	\$ 0.00
Depreciation & Amortization	2,921	/	\$ 0.00
Miscellaneous (describe in remarks below) (1)	23,323	/	\$ 0.00
Subtotal	213,419	\$ 0.00	\$ 0.00
Taxes:			
Federal Income Taxes	5,901	/	\$ 0.00
Property and Other Taxes (Payroll, etc.)	1,798	/	\$ 0.00
Regulatory Expenses (Rate Case, Permits)	3,332	/	\$ 0.00
Other (describe in remarks below) (2)	9,985	/	\$ 0.00
TOTAL EXPENSES	234,394	\$ 0.00	\$ 0.00

Remarks: (1) Includes samples, training, & other fees
 (2) Includes vehicle loans & other misc.
 (3) Includes bank fees & telephones

Section 5: Operating Items

Debt Information:

Annual interest expense on long and/or short term debt? \$ 5,824.68
 Annual principal payment on debt? \$ 816.72
 Annual interest rate on debt? 4.49 %
 Annual debt principal and interest? \$ 6,641.40
 Principal balance on outstanding debt at end of this reporting period? \$ 19,645.77

Regulatory Assessment Fee:
 What was the Regulatory Assessment fee amount submitted to TCEQ for the applicable Calendar Year
 \$ 2,599.99

Rate Changes: 0700063
 0700064
 0700057
 0700058

What was the effective date of the last Rate Change? July 2010

Section 6: Customer Information

Connection Type	Number of Connections at	
	Beginning of the Calendar Year	End of the Calendar Year
Water		
Total	454	456

Connection Type	Number of Connections at	
	Beginning of the Calendar Year	End of the Calendar Year
Wastewater		
Total	—	—

Section 7: Water Production & Consumption

A What is the total amount of water produced/pumped? 514,273 gallons
 B What is the total amount of water sold/billed? 316,373 gallons
 C How much water was lost? 197,900 gallons
 What is the total percent of water loss? 39 %

To calculate the above, please reference the attached document Water and Wastewater Utilities Annual Report Instructions. Comments?

Section 8: Wastewater Treated

What is the total amount of wastewater treated? NA gallons
 Comments?

Section 9: Utility Management & Operations Assessment

Utility Policy and Procedures

Do you have an Application Form or Formal Process for New Customers? Yes No

Do you have a copy of your approved tariff and drought contingency plan for customers to review? Yes No

Do you have Written Operating Procedures for Routine Operations? Yes No

Do you have Written Emergency Action Plan(s)? Yes No

Do you have Written Personnel Procedures? Yes No

Do you have Risk Management & Safety Policies? Yes No

Do you have Customer Service Policies (including billing & collection)? Yes No

Do you have a Written Budget (normally updated annually)? Yes No

Did you or any utility staff attend any other utility/business related conferences?
this year? If no, please list them in Section 10.

Do you record complaints or keep a complaint log?

Yes No

Is a customer service representative, water system employee, or
answering service accessible by phone at all times to all customers?

Yes No

Rules and Regulations

If you own/operate a public water system, do you have a copy of
or have access to 30 Texas Administrative Code (TAC) Chapter 290?

Yes No

If you own/operate a sewer system, do you have a copy of or have access
to 30 TAC 30 Subchapter J, 30 TAC 217, 30 TAC 308, and 30 TAC 309?

Yes No

Do you have a copy of or have access to the TAC 16?

Yes No

Do you have a copy of or have access to Texas Water Code Chapter 157?

Yes No

Administrative Information

Do you notify customers prior to shutting down the system for repairs?

Yes No Sometimes Only if greater than 2 hours

How do you keep your customers informed?

Billing Statements Newsletter Meetings

Other _____

Are water records kept separate from other business and personal records?

Yes No

Are records kept for additions to fixed assets?

Yes No

Is the financial position of the system reviewed at least quarterly?

Yes No

Are accounting records for water and wastewater kept separately?

Yes No

Section 10: Remarks (please feel free to attach additional pages if necessary)

PW ID# 0700064
0700058
0700057
0700063

Section 11: Sworn Statement

I HEREBY CERTIFY THAT THE INFORMATION PROVIDED IN THIS REPORT IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF. (This document MUST be signed by the President or Owner of the Utility)

This 29 day of May, 2015.

President or Owner:

Walter J. Carroll

(Signature)

Walter J. Carroll

(Printed name)