



Control Number: 45180



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DOCKET NO. 45180

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PUBLIC UTILITY COMMISSION
OF TEXAS
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APPLICATION OF THE CITY OF §
AUSTIN TO AMEND ITS SEWER §
CERTIFICATE OF CONVENIENCE §
AND NECESSITY AND ADD AREA §
TO AQUA WATER SUPPLY §
CORPORATION D/B/A AQUA WSC'S §
SEWER CERTIFICATE OF §
CONVENIENCE AND NECESSITY §
IN TRAVIS COUNTY §

PUBLIC UTILITY COMMISSION

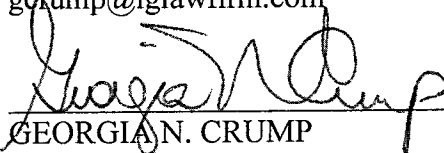
**AQUA WATER SUPPLY CORPORATION'S
RESPONSE TO COMMISSION STAFF'S FIRST
REQUEST FOR INFORMATION**

Aqua Water Supply Corporation ("Aqua WSC") files this Response to Public Utility Commission ("Commission") Staff's First Request for Information ("RFI") to Aqua WSC received on June 30, 2016. Pursuant to Order No. 1, these responses are timely filed. The responses to these RFIs may be treated by all parties as if they were filed under oath.

Respectfully submitted,

**LLOYD GOSSELINK ROCHELLE
& TOWNSEND, P.C.**

816 Congress Avenue, Suite 1900
Austin, Texas 78701
(512) 322-5800
(512) 472-0532 (Fax)
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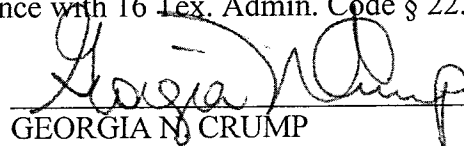


GEORGIA N. CRUMP
State Bar No. 05185500

ATTORNEYS FOR AQUA WATER SUPPLY
CORPORATION

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was served on all parties of record on July 6, 2016, in accordance with 16 Tex. Admin. Code § 22.74.


GEORGIA N. CRUMP

DOCKET NO. 45180

**AQUA WSC'S RESPONSE TO
COMMISSION STAFF'S FIRST RFI**

Staff 1-1 Please refer to pages 19 through 25 of the Application to Obtain or Amend a Water or Sewer Certificate of Convenience and Necessity (CCN). The Applicant did not provide a copy of the Basic or Projected Financial Statements for Aqua Water Supply Corporation. Please complete and submit the following:

- a. Historical and Projected Balance Sheet Statements
- b. Historical and Projected Income Statements
- c. Historical and Projected Expenses Statements
- d. Projected Sources and Uses of Cash Statements

Response:

Aqua WSC does not regularly prepare or maintain the information in the requested format. Please see Attachment 1-1, consisting of the approved budget for FYE December 31, 2016, and the most recent audited financial statement for FYE December 31, 2013, and December 31, 2014.

Prepared by: Georgia N. Crump

DOCKET NO. 45180

**AQUA WSC'S RESPONSE TO
COMMISSION STAFF'S FIRST RFI**

Staff 1-2 Please provide a copy of the latest Independent Auditor's Report for Aqua Water Supply Corporation.

Response:

Please see Attachment 1-1.

Prepared by: Georgia N. Crump

DOCKET NO. 45180

**AQUA WSC'S RESPONSE TO
COMMISSION STAFF'S FIRST RFI**

- Staff 1-3 Please provide a copy of Aqua Water Supply Corporation's latest Credit Rating from any of the following:
- a. Standard and Poor's Financial Services LLC
 - b. Moody's Investors Service
 - c. Fitch Ratings, Inc.

Response:

Aqua WSC is a non-profit corporation, and does not sell bonds or other securities on the public market. Therefore, it has not obtained ratings as requested in this RFI.

Prepared by: Georgia N. Crump

Aqua Water Supply Corporation

Aqua Response to Staff First RFI
Attachment 1-1

Proposed Budget Fiscal Year 2016

	Budget 2015	Estimated Actual 2015	Difference	Proposed Budget 2016	Compared to 2015 Budget		Compared to 2015 Actuals	
					Dollar Difference	Percent Difference	Dollar Difference	Percent Difference
Income								
Water								
Water Sales	15,082,345	14,042,889	(1,039,456)	15,582,000	479,655		1,519,111	
Reconnect Fees	85,000	77,352	(7,648)	80,000	(5,000)		2,648	
Transfer Fees	6,500	12,550	6,050	7,500	1,000		(5,050)	
Meter Reading Fees	0	0	0	0	0		0	
Back Flow Permit Fees	500	250	(250)	500	0		250	
Other Fees	0	2,626	2,626	0	0		(2,626)	
Lab Services	17,500	21,525	4,025	18,500	1,000		(3,025)	
Customer Service Inspection Fees	20,000	26,369	6,369	20,000	0		(6,369)	
Other Water Income	0	55,402	55,402	0	0		(55,402)	
Total Water Income	15,211,845	14,238,963	(972,882)	15,688,500	476,655	3%	1,449,537	9%
Wastewater								
Wastewater Service	201,961	215,739	13,778	232,691	30,730		16,952	
Reconnect Fees	0	0	0	0	0		0	
Transfer Fees	0	0	0	0	0		0	
Meter Reading Fees	0	0	0	0	0		0	
Other Fees	0	0	0	0	0		0	
Customer Service Inspection Fees	0	0	0	0	0		0	
Other Wastewater Income	0	0	0	0	0		0	
Total Wastewater Income	201,961	215,739	13,778	232,691	30,730	15%	16,952	7%
Other Income								
Interest Income	2,600	3,577	977	2,750	150		(827)	
Misc Income	150,000	193,244	43,244	150,000	0		(43,244)	
Salvage Sales	0	2,262	2,262	0	0		(2,262)	
Grant Revenue	0	0	0	0	0		0	
Total Other Income	152,600	199,083	46,483	152,750	150	0%	(46,333)	-30%
Contract Service Revenue								
Contract Revenue - LCRA	12,000	(50,470)	(62,470)	12,000	0		62,470	
Contract Revenue - WCID#3	0	0	0	0	0		0	
Contract Revenue - City of Elgin	600	53	(547)	600	0		547	
Contract Revenue - Vista Ridge	0	0	0	0	0		0	
Contract Revenue - Miscellaneous	0	0	0	0	0		0	
Total Contract Service Revenue	12,600	(50,417)	(63,017)	12,600	0	0%	63,017	500%
Total Income	15,579,006	14,603,368	(975,638)	16,986,541	507,535	3%	1,483,173	9%

Aqua Water Supply Corporation

Aqua Response to Staff First RFJ
Attachment 1-1

Proposed Budget Fiscal Year 2016

	Budget 2015	Estimated Actual 2015	Difference	Proposed Budget 2016	Compared to 2015 Budget		Compared to 2015 Actuals	
					Dollar Difference	Percent Difference	Dollar Difference	Percent Difference
Operations and Maintenance Expense								
Water								
Purchased Water	0	0	0	0	0	#DIV/0!	0	#DIV/0!
Ground Water Lease Expense	0	0	0	0	0	#DIV/0!	0	#DIV/0!
Salaries and Wages	2,080,563	2,000,682	79,881	2,199,090	118,527	6%	198,408	9%
Overtime	151,085	220,142	(69,057)	220,143	69,058	46%	1	0%
Outside Services	136,265	164,713	(28,448)	141,911	5,646	4%	(22,802)	-16%
Operating Lease	75,200	75,199	1	65,800	(9,400)	-13%	(9,399)	-14%
Groundwater Reservation Fees	0	0	0	0	0	#DIV/0!	0	#DIV/0!
Regulatory Pumping Fee	87,000	86,997	3	87,000	0	0%	3	0%
Electric Power	946,841	946,841	0	1,069,931	123,090	13%	123,090	12%
Materials and Supplies	605,811	609,465	(3,654)	620,351	14,540	2%	10,886	2%
Regulatory Compliance	52,100	52,414	(314)	64,550	12,450	24%	12,136	19%
Repair & Maintenance	628,633	513,229	115,404	619,012	(9,621)	-2%	105,783	17%
Miscellaneous	28,500	22,362	6,138	28,325	(175)	-1%	5,963	21%
Total Water	4,791,998	4,692,044	99,954	5,116,114	324,116	7%	424,070	8%
Wastewater								
Salaries and Wages	54,763	54,244	519	56,176	1,413	3%	1,932	3%
Overtime	0	4,000	(4,000)	0	0		(4,000)	
Outside Services	72,050	74,846	(2,796)	82,900	10,850	15%	8,054	10%
Wastewater Training	4,808	2,506	2,302	5,522	3,973	12%	3,973	11%
Electric Power	33,107	33,107	0	37,080	2,552	7%	1,334	3%
Materials and Supplies	35,774	36,992	(1,218)	38,326	0	0%	0	0%
Regulatory Compliance	2,050	2,050	0	2,050	48,750	66%	11,675	9%
Repair & Maintenance	74,250	111,325	(37,075)	123,000	0	#DIV/0!	0	
Miscellaneous	0	0	0	0	0		0	
Total Wastewater	276,802	319,070	(42,268)	345,054	67,538	24%	22,968	7%
Customer Service								
Salaries and Wages	525,687	526,859	(1,172)	505,234	(20,453)	-4%	(21,625)	-4%
Materials and Supplies	7,545	5,544	2,001	9,265	1,720	23%	3,721	40%
Uncollectibles	35,000	25,204	9,796	27,508	(7,500)	-21%	2,296	8%
Outside Services	185,420	187,799	(2,379)	194,020	8,600	5%	6,221	3%
Advertising	0	0	0	0	0		0	
Miscellaneous	0	0	0	0	0		0	
Total Customer Service	753,652	745,406	8,246	736,019	(17,633)	-2%	(9,387)	-1%

Budget 2016

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Aqua Water Supply Corporation

Aqua Response to Staff First RFJ
Attachment 1-1

Proposed

Budget Fiscal Year 2016

	Budget 2015	Estimated Actual 2015	Difference	Proposed Budget 2016	Compared to 2015 Budget		Compared to 2015 Actuals	
					Dollar Difference	Percent Difference	Dollar Difference	Percent Difference
General and Administrative								
Salaries and Wages	858,326	816,434	41,892	917,858	59,532	7%	101,424	11%
Office Supplies and Expense	95,768	82,215	13,553	97,118	1,350	1%	14,903	15%
Payment Processing Fees	192,840	226,167	(33,327)	251,940	59,100	31%	25,773	10%
Outside Services	127,144	93,147	33,997	151,865	24,721	19%	58,718	39%
General Legal	240,000	168,043	71,957	220,000	(20,000)	-8%	51,957	24%
Special Legal	0	0	0	0	0	#DIV/0!	0	#DIV/0!
Accounting/Auditing	22,550	21,700	850	23,300	750	3%	1,600	7%
Financial Consulting	20,372	7,457	12,915	21,526	1,154	6%	14,069	65%
Government Relations	60,103	60,600	(497)	62,103	2,000	3%	1,503	2%
Groundwater Consulting	50,000	50,000	0	28,000	(22,000)	-44%	(22,000)	-79%
Conservation Program	5,000	4,432	568	8,700	3,700	74%	4,268	49%
Emergency Response	2,333	0	2,333	500	(1,833)	-79%	500	100%
Outside Services - Personnel	1,202,045	1,126,302	75,743	1,266,721	64,676	5%	140,419	11%
Property & Casualty Insurance	172,321	152,744	19,577	170,000	(2,321)	-1%	17,256	10%
Employee Pension and Benefits	431,324	410,561	20,763	435,616	4,292	1%	25,055	6%
Employee Training & Development	124,868	85,809	39,059	134,144	9,276	7%	48,335	36%
Regulatory Expense	0	12,301	(12,301)	5,000	5,000		(7,301)	-146%
General Advertising	21,550	23,082	(1,532)	22,300	750	3%	(782)	-4%
Contributions	24,000	23,694	306	29,000	5,000	21%	5,306	18%
Communications & Technology Exp	355,155	343,613	11,542	401,400	46,245	13%	57,787	14%
Transportation Expense	180,573	160,200	20,373	182,547	1,974	1%	22,347	12%
Fuel	350,000	261,884	88,116	268,200	(81,800)	-23%	6,316	2%
Lab Expense	33,100	32,503	597	35,050	1,950	6%	2,547	7%
Memberships	24,346	9,688	14,658	26,098	1,752	7%	16,410	63%
Utilities Expense	43,452	39,067	4,385	49,386	5,934	14%	10,319	21%
2011 Bastrop Wildfires	0	0	0	0	0	#DIV/0!	0	#DIV/0!
Maintenance of General Plant	188,325	205,772	(17,447)	227,631	39,306	21%	21,859	10%
Community Scholarship Program	24,000	34,000	(10,000)	21,000	(3,000)	-13%	(13,000)	-62%
Miscellaneous	5,100	4,116	984	7,400	2,300	45%	3,284	44%
Annual Meeting	26,400	21,285	5,115	27,900	1,500	6%	6,615	24%
Total General and Admin	4,880,995	4,476,816	404,179	5,082,303	211,308	4%	615,487	12%
Total Operation & Maint Exp	10,703,447	10,233,336	470,111	11,289,490	586,329	5%	1,053,138	9%
Loan Expense								
Interest Expense	1,944,510	1,408,948	535,562	1,818,382	(126,128)		409,434	
Amortization of Loan Costs	6,780	6,888	(108)	6,888	108		0	
Total Loan Expense	1,951,290	1,415,836	535,454	1,825,270	(126,020)	-6%	409,434	22%
Total Expense	12,654,737	11,649,172	1,005,565	13,114,760	459,309	4%	1,462,572	11%

Budget 2016

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Aqua Water Supply Corporation
Proposed
Budget Fiscal Year 2016

Aqua Response to Staff First RFI
 Attachment 1-1

	Budget 2015	Estimated Actual 2015	Difference	Proposed Budget 2016	Compared to 2015 Budget		Compared to 2015 Actuals	
					Dollar Difference	Percent Difference	Dollar Difference	Percent Difference
Calculation of Net Revenue								
Total Revenue	15,579,006	14,603,368	(975,638)	16,086,541	507,535	3%	1,483,173	9%
Total Expense	12,654,737	11,649,172	1,005,565	13,114,760	459,309	4%	1,462,572	11%
Revenue Net of Expenses	2,924,269	2,954,196	29,927	2,971,780	48,225	2%	20,600	1%
Principal Payment	1,924,693	1,587,652	337,041	1,995,884	71,111	4%	408,152	20%
Net Revenue	999,576	1,366,544	366,968	975,976	(22,886)	-2%	(387,552)	-40%
Times Debt Service Coverage								
	1.26	1.46		1.26				
Capital Expenditure Activity and Funding								
Capital Expenditure								
General Capital	1,811,011	2,017,613		1,941,806	130,795		(75,807)	
Project Capital	8,309,251	4,481,367		6,004,000	(2,305,251)		1,522,633	
Total CIP	10,120,262	6,498,980		7,945,806	(2,174,456)	-21%	1,446,826	18%
Funding Sources								
Tap Member Meter Fees	877,500			1,072,500				
Contributions in aid - Water	0			0				
Contributions in aid - Wastewater	0			0				
Unused loan funds	2,000,000			1,000,000				
Net Revenue Carryforward	1,400,000			1,400,000				
TWDB				0				
Debt								
TWDB	705,790			0				
CoBank	4,714,272			4,473,306				
Total Funding Sources	9,697,562	6,498,980		7,945,806				

Aqua Water Supply Corporation

Proposed

Budget Fiscal Year 2016

Aqua Response to Staff First RFJ
Attachment 1-1

	<u>Budget</u> <u>2015</u>	<u>Estimated</u> <u>Actual</u> <u>2015</u>	<u>Difference</u>	<u>Proposed</u> <u>Budget</u> <u>2016</u>	<u>Compared to 2015 Budget</u>		<u>Compared to 2015 Actuals</u>	
					<u>Dollar</u> <u>Difference</u>	<u>Percent</u> <u>Difference</u>	<u>Dollar</u> <u>Difference</u>	<u>Percent</u> <u>Difference</u>
<u>Subtotal of Certain Expenses by Type of Expense</u>								
Total Outside Services	2,115,949	1,954,607	161,342	2,192,346	76,397	4%	237,739	11%
Total Electric Power	979,948	979,948	0	1,107,011	127,063	13%	127,063	11%
Salaries and Wages	3,519,339	3,398,219	121,120	3,678,359	159,020	5%	280,140	8%
Regular	151,085	224,142	(73,057)	220,143	69,058		(2,999)	-2%
Overtime								
Total Salaries and Wages	3,670,424	3,622,361	48,063	3,898,502	228,078	6%	276,141	7%
Total M&S and Miscellaneous	778,498	760,694	17,804	800,785	22,287	3%	40,091	5%
Repair and Maintenance	702,883	624,554	78,329	742,012	39,129	6%	117,458	16%
P&I	3,875,983	3,003,488	872,495	3,821,074	(54,909)	-1%	817,586	21%

**AQUA WATER SUPPLY
CORPORATION**

**Financial Statements
as of and for the Years Ended
December 31, 2014 and 2013 and
Independent Auditors' Report**





MAXWELL LOCKE & RITTER LLP

Austin

Round Rock

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Aqua Water Supply Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Aqua Water Supply Corporation ("Aqua") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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.

ML&R WEALTH MANAGEMENT LLC

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 Aqua as of December 31, 2014 and 2013, 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 January 28, 2015, on our consideration of Aqua's internal control over financial reporting and on 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 on 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 Aqua's internal control over financial reporting and compliance.

Maxwell Locke & Ritter LLP

Austin, Texas
January 28, 2015

AQUA WATER SUPPLY CORPORATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,678,524	\$ 4,124,020
Marketable investments	884,831	882,558
Trade accounts receivable, net of allowance for doubtful accounts of \$40,000	1,163,445	1,233,992
Maintenance parts inventory	220,452	194,687
Land held for sale	-	116,894
Total current assets	6,947,252	6,552,151
RESTRICTED MARKETABLE INVESTMENTS	266,088	266,088
PROPERTY AND EQUIPMENT, net	90,587,559	87,299,899
DEBT ISSUANCE COSTS, net	81,783	75,213
TOTAL	<u>\$ 97,882,682</u>	<u>\$ 94,193,351</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 264,463	\$ 332,397
Accrued expenses	286,739	246,491
Member deposits and other	124,203	126,810
Current maturities of long-term debt	1,846,356	1,580,139
Total current liabilities	2,521,761	2,285,837
LONG-TERM DEBT	23,701,390	23,798,405
Total liabilities	26,223,151	26,084,242
NET ASSETS:		
Unrestricted net assets from operations	12,234,957	11,489,813
Unrestricted net assets designated by board	1,000,000	1,000,000
Unrestricted net assets from non-operating revenues and expenses	57,286,884	54,422,887
Temporarily restricted net assets from contributed wastewater facilities	1,137,690	1,196,409
Total net assets	71,659,531	68,109,109
TOTAL	<u>\$ 97,882,682</u>	<u>\$ 94,193,351</u>

See notes to financial statements.

AQUA WATER SUPPLY CORPORATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CHANGES IN UNRESTRICTED NET ASSETS:		
OPERATING REVENUES:		
Water revenues	\$ 15,018,790	\$ 14,157,107
Grant revenue	127,238	-
Other income	252,241	222,873
Total operating revenues	15,398,269	14,379,980
OPERATING EXPENSES:		
General and administrative	4,542,493	5,254,938
Depreciation and amortization	3,578,885	3,248,562
Salaries and wages	3,665,795	3,007,924
Interest expense	1,427,299	1,406,419
Materials, supplies, and maintenance	1,438,653	1,464,610
Total operating expenses	14,653,125	14,382,453
CHANGE IN NET ASSETS FROM OPERATIONS	745,144	(2,473)
Membership fees and contributions-in-aid-of-construction	2,805,278	1,973,648
Net assets released from restrictions	58,719	58,719
CHANGE IN UNRESTRICTED NET ASSETS	3,609,141	2,029,894
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS-		
Net assets released from restrictions	(58,719)	(58,719)
CHANGE IN NET ASSETS	3,550,422	1,971,175
NET ASSETS, beginning of year	68,109,109	66,137,934
NET ASSETS, end of year	\$ 71,659,531	\$ 68,109,109

See notes to financial statements.

AQUA WATER SUPPLY CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 15,086,730	\$ 14,392,534
Cash paid to suppliers and employees	(9,730,121)	(9,563,490)
Other cash receipts	341,873	219,373
Interest paid	(1,397,992)	(1,448,905)
Net cash provided by operating activities	4,300,490	3,599,512
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (purchases) sales of marketable investments	(2,273)	271,495
Proceeds from sales of property and equipment	113,500	3,500
Purchases of property and equipment	(6,818,343)	(7,398,170)
Net cash used in investing activities	(6,707,116)	(7,123,175)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(1,831,895)	(1,447,363)
Borrowings on long-term debt	2,001,097	2,000,000
Costs to issue debt	(13,350)	(6,604)
Membership fees and contributions-in-aid-of-construction	2,805,278	1,973,648
Net cash provided by financing activities	2,961,130	2,519,681
NET CHANGE IN CASH AND CASH EQUIVALENTS	554,504	(1,003,982)
CASH AND CASH EQUIVALENTS, beginning of year	4,124,020	5,128,002
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,678,524</u>	<u>\$ 4,124,020</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets from operations	\$ 745,144	\$ (2,473)
Adjustments to reconcile change in net assets from operations to net cash provided by operating activities:		
Depreciation and amortization	3,578,885	3,248,562
Gain on disposal of property and equipment	(37,606)	(3,500)
Changes in assets and liabilities that provided (used) cash:		
Trade accounts receivable	70,547	233,767
Maintenance parts inventory	(25,765)	87,055
Accounts payable and accrued expenses	(28,108)	34,441
Member deposits and other	(2,607)	1,660
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,300,490</u>	<u>\$ 3,599,512</u>
SUPPLEMENTAL NONCASH DISCLOSURE-		
Additions to property and equipment funded through accounts payable	<u>\$ 76,743</u>	<u>\$ 76,321</u>

See notes to financial statements.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

1 ORGANIZATION

Aqua Water Supply Corporation ("Aqua") is a non-profit cooperative headquartered in Bastrop County, Texas, owned by its customers who are its members, with each member holding one share in the corporation. More than 50,000 people rely on Aqua to provide water for their daily lives. Most are homeowners, farmers, and ranchers who count on Aqua for safe and reliable drinking water.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis Presentation - The accompanying financial statements are presented in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") as defined by the Financial Accounting Standards Board Accounting Standards Codification.

Classification of Net Assets - The financial statements report information regarding Aqua's financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, Aqua's net assets and changes therein are classified as follows:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - net assets that are subject to donor-imposed stipulations that require passage of time or the occurrence of a specific event. Additionally, unconditional promises to give without explicit donor-imposed stipulations but due in future periods require the passage of time to release the donor's implicit time restriction. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. At December 31, 2014 and 2013, temporarily restricted net assets consisted of donated wastewater facilities containing stipulations related to use.

Permanently restricted net assets - net assets that are subject to donor-imposed stipulations that require resources be maintained in perpetuity to the exclusive benefit of Aqua. There were no such amounts as of December 31, 2014 or 2013.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements - Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 - Inputs based on quoted prices in active markets for identical assets or liabilities.
An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.
- Level 3 - Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value: 1) market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities, 2) cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost), and 3) income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Cash and Cash Equivalents - Aqua considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Marketable Investments - Investments in equity securities and certificates of deposit with readily determinable fair values and all debt securities are stated at fair value. Realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Trade Accounts Receivable - Trade accounts receivable are recorded at the value of the revenue earned and require payment within thirty days. Account balances with charges over thirty days old are considered delinquent and management begins collection efforts at this time. Delinquent invoices do not accrue interest. Aqua continually monitors each customer's credit worthiness individually and recognizes allowances for estimated bad debts for incorrect meter readings and uncollectible accounts. Aqua regularly adjusts any allowance for subsequent collections and final determination that a trade account receivable is no longer collectible.

Maintenance Parts Inventory - Finished goods inventory is valued at the lower of cost (first-in, first-out) or market.

Property and Equipment - Property and equipment with a minimum cost of \$5,000 are capitalized at cost if purchased or fair value if contributed; costs that are specifically attributable to a project included in construction in progress are capitalized regardless of their cost. It is Aqua's policy to imply a time restriction on all gifts of long-lived assets equal to the useful life of the assets. All property and equipment are depreciated using the straight-line method over the following useful lives:

Water lines and extensions	25 years
Pump station, well sites and easements	7-25 years
Furniture and equipment	5 years
Wastewater facilities	10-25 years
Buildings and improvements	25 years
Transportation equipment	5 years

Aqua reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

Debt Issuance Costs - Debt issuance costs are capitalized in the period incurred and amortized over the life of the related debt instrument.

Board Designated Net Assets - In December 2009 the Board designated \$1,000,000 for future operating needs.

Water Revenue - Aqua recognizes water revenues based on monthly usage at standard rates.

Membership Fees and Contributions - Aqua assesses its customers one-time, non-refundable fees consisting of a membership fee of \$100 and a fee for contributions-in-aid-of-construction, which is based upon the meter size and number of dwelling units connected to the meter.

Income and Property Taxes - Aqua is a nonprofit organization and is exempt from Federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Aqua is also exempt from State of Texas franchise taxes and Bastrop County and Bastrop Independent School District property taxes. Therefore, no provision has been made for income taxes in the accompanying financial statements. Aqua is subject to routine examinations of its returns; however, there are no examinations currently in progress. The 2011 and subsequent tax years remain subject to examination by the Internal Revenue Service.

Recently Issued Accounting Pronouncements - In April 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-08, *Presentation of Financial Statements and Property, Plant, and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which amended the reporting requirements for discontinued operations in ASC 205-20, *Presentation of Financial Statements - Discontinued Operations*, and limits discontinued operations reporting to a disposal of a component or a group of components of an entity in which the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when certain events occur. The standard is effective for disposals that occur within fiscal years beginning after December 15, 2014 and is to be applied prospectively. Due to the change in requirements for reporting discontinued operations, presentation and disclosure of future disposal transactions may be different than under current standards.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements in ASC 605 *Revenue Recognition* and most industry-specific guidance included in the ASC. The standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard is effective for fiscal years beginning after December 15, 2017, and is to be applied retrospectively, with early application permitted for fiscal years beginning after December 15, 2016. Aqua is in the process of evaluating the impact the new standard will have on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern*, which provides guidance about management's responsibility to evaluate on an annual basis whether there is substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are available to be issued and to provide certain related footnote disclosures. The standard is effective for fiscal years ending after December 15, 2016, and due to the change in requirements for reporting, presentation and disclosure of future evaluations of the entity's ability to continue as a going concern may be different than under current standards.

3. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject Aqua to credit risk consist of cash and cash equivalents, marketable investments and accounts receivable. Aqua places its cash and cash equivalents with a limited number of high quality financial institutions and may exceed the amount of insurance provided on such deposits. Management believes no significant risk exists with respect to cash and cash equivalents. Marketable investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statements of financial position. Aqua does not maintain collateral for its receivables and does not believe significant risk exists at December 31, 2014 and 2013.

4. MARKETABLE INVESTMENTS

Marketable investments, including restricted marketable investments, were comprised of the following as of December 31:

	2014	2013
CoBank stock	\$ 1,000	\$ 1,000
Certificates of deposit	1,149,919	1,147,646
	<u>\$ 1,150,919</u>	<u>\$ 1,148,646</u>

Marketable investments were measured at fair value using the market approach and are considered level 1 in the fair value hierarchy.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

	2014	2013
Water lines and extensions	\$ 66,916,293	\$ 63,482,300
Pump station	19,592,302	19,548,366
Well sites and easements	14,849,879	13,659,358
Furniture and equipment	6,278,517	6,028,327
Wastewater facilities	5,822,125	5,604,350
Buildings and improvements	3,272,015	2,838,687
Transportation equipment	2,391,507	2,221,890
Construction-in-progress	9,205,699	8,599,201
Land	3,394,841	3,394,841
	<u>131,723,178</u>	<u>125,377,320</u>
Less accumulated depreciation	<u>(41,135,619)</u>	<u>(38,077,421)</u>
Property and equipment, net	<u>\$ 90,587,559</u>	<u>\$ 87,299,899</u>

Depreciation expense was \$3,572,105 and \$ 3,241,782 for the years ended December 31, 2014 and 2013, respectively.

6. DEBT ISSUANCE COSTS

Debt issuance costs consisted of the following as of December 31:

	2014	2013
Debt issuance costs	\$ 155,503	\$ 142,153
Less accumulated amortization	<u>(73,720)</u>	<u>(66,940)</u>
Debt issuance costs, net	<u>\$ 81,783</u>	<u>\$ 75,213</u>

Amortization expense was \$6,780 in each of the years ended December 31, 2014 and 2013, respectively.

7. LONG-TERM DEBT

Long-term debt consisted of the following as of December 31:

	2014	2013
\$7 million CoBank Revolving Term Loan with interest due monthly at a weekly quoted CoBank variable rate (2.43% at December 31, 2014), until June 20, 2015 when monthly payments of principal and interest are due, matures May 20, 2035	\$ 3,750,000	\$ 2,000,000
\$2 million CoBank Revolving Term Loan with interest and principal due monthly at a CoBank fixed rate (4.5% and 2.31% at December 31, 2013 and 2012, respectively), matures May 20, 2031	1,694,187	1,847,225
\$9.2 million CoBank Revolving Term Loan with principal and interest due monthly at 6.87%, matures November 18, 2022	4,588,852	5,066,397
\$4 million CoBank Revolving Term Loan with principal and interest due monthly at 6.45%, matures December 20, 2023	2,219,688	2,417,990
\$9 million CoBank Revolving Term Loan with principal and interest due monthly at 6.98% for \$5,597,005 and 6.82% for \$1,117,022, matures September 20, 2024	5,799,229	6,266,953
\$5.5 million CoBank Revolving Term Loan with principal and interest due monthly at 4.72%, matures January 20, 2028	4,659,834	4,773,049
\$1,877,805 Note Payable to FHA, principal and interest paid in monthly installments totaling \$11,218 at 6.25%, matures November 3, 2023, secured by all real property, personal property and assignment of income and contracts	856,411	987,639
\$2,293,000 Note Payable to USDA, principal and interest paid in monthly installments of \$10,778 at 4.75%, matures September 26, 2042, secured by all real property, personal property and assignment of income and contracts	1,928,615	2,019,291
\$54,530 loan payable to Texas Water Development Board, principal and interest paid in monthly installments of ranging from \$695 to \$580 at a variable interest rate (1.57% at December 31, 2014), matures March 15, 2024, secured by Aqua's gross revenues (exclusive of restricted gifts, grants, donations and contributions)	50,930	-
Total	25,547,746	23,378,544
Less: current maturities of long-term debt	(1,846,356)	(1,580,139)
Total long-term debt	<u>\$ 23,701,390</u>	<u>\$ 23,798,405</u>

Future long-term debt payments as of December 31, 2014 are as follows:

2015	\$ 1,846,356
2016	1,999,105
2017	2,117,629
2018	2,238,754
2019	2,379,967
Thereafter	<u>14,965,935</u>
Total	<u>\$ 25,547,746</u>

At December 31, 2014 and 2013, Aqua had a \$2,000,000 CoBank line of credit, with interest due monthly at the weekly quoted CoBank variable rate, maturing on June 30, 2015. At December 31, 2014 and 2013, Aqua had no draws on the line of credit during the years ended December 31, 2014 and 2013.

The CoBank Revolving Term Loans (the "Loans") are under a Master Loan Agreement with CoBank dated November 25, 2002, which was amended and restated on May 5, 2010, May 14, 2013, and November 6, 2013. The Loans are secured by all real and personal property of Aqua. The Master Loan Agreement has cross default provisions, which would cause a default on the Loans if there were a default on any other obligations. It also contains a material adverse change provision, which would allow the bank to subjectively deem adverse changes in Aqua to be a default on the Loans. It requires compliance with financial covenants, including a debt service coverage ratio greater than 1.25, a debt to EBITDA ratio between 1 and 8, and a debt to capitalization ratio less than 0.65.

8. RESTRICTED MARKETABLE INVESTMENTS

The notes payable to the Farmers' Home Administration ("FHA") and the United States Department of Agriculture ("USDA") require that Aqua reserve cash in designated accounts totaling \$266,088 that cannot be withdrawn unless prior written approval is obtained from the lenders for such things as loan installments, emergency maintenance, extensions to facilities and replacement of short-lived assets. The reserve amounts are reported on the statement of financial position as restricted marketable investments. The notes payable have cross default provisions, which would cause a default on the notes if there were a default on any other obligations.

9. DEFINED CONTRIBUTION PLAN

Aqua sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code ("IRC") for all eligible employees who are age 21 or older and have completed one year of continuous service. Participating employees may contribute up to the maximum allowed by the IRC. Aqua may make matching contributions, qualified matching contributions and non-elective contributions at the sole discretion of Aqua's management. Total employer contributions to the plan during the years ended December 31, 2014 and 2013 were \$378,690 and \$372,802, respectively. Employer contributions are included general and administrative expenses in the statements of activities.

10. FUNCTIONAL ALLOCATION OF EXPENSES

Expenses are categorized into functional classifications dependent upon the nature and ultimate purpose of the expenses. Accordingly, certain expenses are allocated between functional categories. The functional allocation of expenses for the years ended December 31, 2014 and 2013, were as follows:

	2014	2013
Program services	\$ 11,460,651	\$ 11,263,340
Management and general	3,192,474	3,119,113
Total expenses	<u>\$ 14,653,125</u>	<u>\$ 14,382,453</u>

11. SUBSEQUENT EVENTS

Aqua has evaluated subsequent events through January 28, 2015, the date the financial statements were available to be issued, and no events have occurred from the statement of financial position date through that date that would impact the financial statements.



MAXWELL LOCKE & RITTER LLP

Austin

Round Rock

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Aqua Water Supply Corporation:

We have audited, in accordance with the 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, the financial statements of Aqua Water Supply Corporation ("Aqua"), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Aqua's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Aqua's internal control. Accordingly, we do not express an opinion on the effectiveness of Aqua's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

ML&R WEALTH MANAGEMENT LLC

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Aqua's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Aqua's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Aqua's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maxwell Locke + Ritter LLP

Austin, Texas
January 28, 2015