



Control Number: 45180



Item Number: 24

Addendum StartPage: 0

DOCKET NO. 45180

RECEIVED

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

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PUBLIC UTILITY COMMISSION

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PUBLIC UTILITY COMMISSION  
FILING CLERK

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

Aqua Water Supply Corporation ("Aqua WSC") files this Supplemental Response to Public Utility Commission ("Commission") Staff's First Request for Information ("RFI") to Aqua WSC.

Respectfully submitted,

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

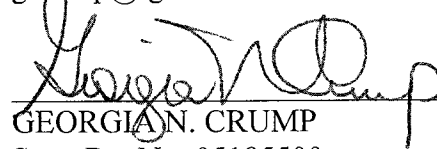
816 Congress Avenue, Suite 1900

Austin, Texas 78701

(512) 322-5800

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gcump@lglawfirm.com



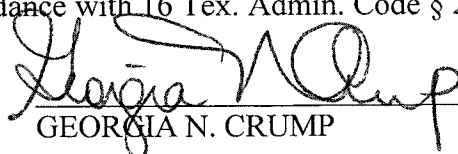
GEORGIA N. CRUMP

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 7, 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.

**Supplemental Response:**

Please see attached Supplemental Attachment 1-1: Aqua Water Supply Corporation Financial Statements as of and for the Years Ended December 31, 2015 and 2014 and Independent Auditors' Report.

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.

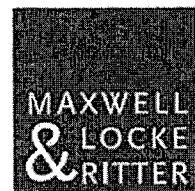
**Supplemental Response:**

Please see Supplemental Attachment 1-1.

Prepared by: Georgia N. Crump

**AQUA WATER SUPPLY  
CORPORATION**

**Financial Statements  
as of and for the Years Ended  
December 31, 2015 and 2014 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, 2015 and 2014, 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, 2015 and 2014, 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 29, 2016, 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 29, 2016

# AQUA WATER SUPPLY CORPORATION

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2015 AND 2014

	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 5,169,938	\$ 4,678,524
Marketable investments	888,076	884,831
Trade accounts receivable, net of allowance for doubtful accounts of \$40,000	1,104,544	1,163,445
Maintenance parts inventory	194,643	220,452
Total current assets	7,357,201	6,947,252
RESTRICTED MARKETABLE INVESTMENTS	266,088	266,088
PROPERTY AND EQUIPMENT, net	92,738,525	90,587,559
DEBT ISSUANCE COSTS, net	81,105	81,783
<b>TOTAL</b>	<b>\$ 100,442,919</b>	<b>\$ 97,882,682</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 320,828	\$ 264,463
Accrued expenses	293,327	286,739
Member deposits and other	124,244	124,203
Current maturities of long-term debt	1,817,604	1,846,356
Total current liabilities	2,556,003	2,521,761
LONG-TERM DEBT	23,132,472	23,701,390
Total liabilities	25,688,475	26,223,151
<b>NET ASSETS:</b>		
Unrestricted net assets from operations	12,610,920	12,234,957
Unrestricted net assets designated by board	1,000,000	1,000,000
Unrestricted net assets from non-operating revenues and expenses	60,064,553	57,286,884
Temporarily restricted net assets from contributed wastewater facilities	1,078,971	1,137,690
Total net assets	74,754,444	71,659,531
<b>TOTAL</b>	<b>\$ 100,442,919</b>	<b>\$ 97,882,682</b>

See notes to financial statements.



# AQUA WATER SUPPLY CORPORATION

## STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>		
OPERATING REVENUES:		
Water revenues	\$ 15,183,672	\$ 15,018,790
Grant revenue	-	127,238
Other income	260,695	252,241
Total operating revenues	15,444,367	15,398,269
OPERATING EXPENSES:		
General and administrative	4,495,064	4,542,493
Salaries and wages	4,057,991	3,665,795
Depreciation and amortization	3,822,796	3,578,885
Interest expense	1,377,357	1,427,299
Materials, supplies, and maintenance	1,315,196	1,438,653
Total operating expenses	15,068,404	14,653,125
CHANGE IN NET ASSETS FROM OPERATIONS	375,963	745,144
Membership fees and contributions-in-aid-of-construction	2,718,950	2,805,278
Net assets released from restrictions	58,719	58,719
CHANGE IN UNRESTRICTED NET ASSETS	3,153,632	3,609,141
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS-</b>		
Net assets released from restrictions	(58,719)	(58,719)
CHANGE IN NET ASSETS	3,094,913	3,550,422
NET ASSETS, beginning of year	71,659,531	68,109,109
NET ASSETS, end of year	\$ 74,754,444	\$ 71,659,531

See notes to financial statements.

# AQUA WATER SUPPLY CORPORATION

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 15,242,614	\$ 15,086,730
Cash paid to suppliers and employees	(9,810,743)	(9,730,121)
Other cash receipts	258,433	341,873
Interest paid	(1,377,357)	(1,397,992)
Net cash provided by operating activities	4,312,947	4,300,490
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net purchases of marketable investments	(3,245)	(2,273)
Proceeds from sales of property and equipment	2,262	113,500
Purchases of property and equipment	(5,935,620)	(6,818,343)
Net cash used in investing activities	(5,936,603)	(6,707,116)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt	(1,597,670)	(1,831,895)
Borrowings on long-term debt	1,000,000	2,001,097
Costs to issue debt	(6,210)	(13,350)
Membership fees and contributions-in-aid-of-construction	2,718,950	2,805,278
Net cash provided by financing activities	2,115,070	2,961,130
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	491,414	554,504
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	4,678,524	4,124,020
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 5,169,938</u>	<u>\$ 4,678,524</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Change in net assets from operations	\$ 375,963	\$ 745,144
Adjustments to reconcile change in net assets from operations to net cash provided by operating activities:		
Depreciation and amortization	3,822,796	3,578,885
Gain on disposal of property and equipment	(2,262)	(37,606)
Changes in assets and liabilities that provided (used) cash:		
Trade accounts receivable	58,901	70,547
Maintenance parts inventory	25,809	(25,765)
Accounts payable and accrued expenses	31,699	(28,108)
Member deposits and other	41	(2,607)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 4,312,947</u>	<u>\$ 4,300,490</u>
<b>SUPPLEMENTAL NONCASH DISCLOSURE-</b>		
Additions to property and equipment funded through accounts payable	<u>\$ 107,997</u>	<u>\$ 76,743</u>

See notes to financial statements.

# AQUA WATER SUPPLY CORPORATION

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2015 AND 2014

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### 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 of 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 ("FASB") Accounting Standards Codification ("ASC").

**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, 2015 and 2014, 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, 2015 or 2014.

**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

**Impairment of Long-Lived Assets** - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the amount recorded may not be recoverable. If the estimated fair value of the assets is less than the carrying amount, an impairment loss is recognized based on the fair value of the asset. Management believes there had been no impairment as of December 31, 2015 or 2014.

**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-In-Aid-of-Construction** - 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 that is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code, except for income tax related to unrelated business income. 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 2012 and subsequent tax years remain subject to examination by the Internal Revenue Service.

**Recently Issued Accounting Pronouncements** - In May 2014 and August 2015, the FASB issued Accounting Standards Update ("ASU") No. 2014-09 and No. 2015-14, *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, 2018, and is to be applied retrospectively and early application permitted. Aqua is currently 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.

In April 2015 and August 2015, the FASB issued ASU No. 2015-03, *Interest-Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs*, and No. 2015-15, *Interest-Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting*, which amends the presentation of debt issuance costs and requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, rather than as a deferred charge presented as an asset. The presentation of debt issuance costs associated with line of credit arrangements is unchanged, regardless of whether there are outstanding borrowings on the line of credit arrangement. The recognition and measurement guidance for debt issuance costs was not affected by this amendment and the guidance will be applied retrospectively to each balance sheet presented with applicable disclosures for a change in accounting principle upon adoption. The standard is effective for fiscal years beginning after December 15, 2015 and early adoption is permitted. Due to the change in requirements for reporting debt issuance costs, presentation and disclosure of debt issuance costs will 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, 2015 and 2014.

#### 4. MARKETABLE INVESTMENTS

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

	2015	2014
CoBank stock	\$ 1,000	\$ 1,000
Certificates of deposit	1,153,164	1,149,919
	<u>\$ 1,154,164</u>	<u>\$ 1,150,919</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:

	2015	2014
Water lines and extensions	\$ 68,186,196	\$ 66,916,293
Pump station	19,607,901	19,592,302
Well sites and easements	19,817,904	14,849,879
Furniture and equipment	6,557,010	6,278,517
Wastewater facilities	6,837,496	5,822,125
Buildings and improvements	3,283,050	3,272,015
Transportation equipment	2,431,480	2,391,507
Construction-in-progress	7,205,373	9,205,699
Land	3,394,841	3,394,841
	<u>137,321,251</u>	<u>131,723,178</u>
Less accumulated depreciation	<u>(44,582,726)</u>	<u>(41,135,619)</u>
Property and equipment, net	<u>\$ 92,738,525</u>	<u>\$ 90,587,559</u>

Depreciation expense was \$3,815,908 and \$3,572,105 for the years ended December 31, 2015 and 2014, respectively.

#### 6. DEBT ISSUANCE COSTS

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

	2015	2014
Debt issuance costs	\$ 161,713	\$ 155,503
Less accumulated amortization	<u>(80,608)</u>	<u>(73,720)</u>
Debt issuance costs, net	<u>\$ 81,105</u>	<u>\$ 81,783</u>

Amortization expense was \$6,888 and \$6,780 for the years ended December 31, 2015 and 2014, respectively.

## 7. LONG-TERM DEBT

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

	2015	2014
\$7 million CoBank Revolving Term Loan with interest due monthly at a weekly quoted CoBank variable rate (2.52% and 2.43% at December 31, 2015 and December 31, 2014, respectively), matures May 20, 2035	\$ 4,750,000	\$ 3,750,000
\$2 million CoBank Revolving Term Loan with interest and principal due monthly at a CoBank fixed rate (4.5% at December 31, 2015 and December 31, 2014, matures May 20, 2031	1,684,205	1,694,187
\$9.2 million CoBank Revolving Term Loan with principal and interest due monthly at 6.87%, matures November 18, 2022	4,090,612	4,588,852
\$4 million CoBank Revolving Term Loan with principal and interest due monthly at 6.45%, matures December 20, 2023	2,012,793	2,219,688
\$9 million CoBank Revolving Term Loan with principal and interest due monthly at 6.98% for \$5,932,842 and 6.82% for \$1,171,782, matures September 20, 2024	5,313,841	5,799,229
\$5.5 million CoBank Revolving Term Loan with principal and interest due monthly at 4.72%, matures January 20, 2028	4,382,310	4,659,834
\$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	777,143	856,411
\$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	1,893,042	1,928,615
\$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 (2.20% and 1.57% at December 31, 2015 and December 31, 2014, respectively), matures March 15, 2024, secured by Aqua's gross revenues (exclusive of restricted gifts, grants, donations and contributions)	46,130	50,930
Total	24,950,076	25,547,746
Less: current maturities of long-term debt	(1,817,604)	(1,846,356)
Total long-term debt	<u>\$ 23,132,472</u>	<u>\$ 23,701,390</u>



Future long-term debt payments as of December 31, 2015 are as follows:

2016	\$ 1,817,604
2017	1,936,687
2018	2,064,982
2019	2,202,799
2020	2,351,492
Thereafter	<u>14,576,512</u>
Total	<u>\$ 24,950,076</u>

At December 31, 2015 and 2014, 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, 2016. Aqua had no draws on the line of credit during the years ended December 31, 2015 and 2014.

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, 2015 and 2014 were \$340,088 and \$378,690, respectively. Employer contributions are included general and administrative expenses in the statements of activities.

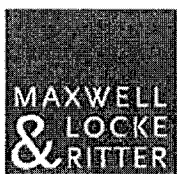
## 10. FUNCTIONAL ALLOCATION OF EXPENSES

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, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Program services	\$ 11,934,937	\$ 11,460,651
Management and general	<u>3,133,467</u>	<u>3,192,474</u>
Total expenses	<u>\$ 15,068,404</u>	<u>\$ 14,653,125</u>

## 11. SUBSEQUENT EVENTS

Aqua has evaluated subsequent events through January 29, 2016, 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, 2015, 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 29, 2016.

**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 29, 2016