



Control Number: 47027



Item Number: 10

Addendum StartPage: 0

Fayette Water Supply Corporation

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June 05, 2017

Mrs. Ashley Nwonuma
Attorney-Legal Division
State Bar No. 24096650
Public Utility Commission
1701 N. Congress Avenue
Austin, TX 7711-3326

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PUBLIC UTILITY COMMISSION
FILING CLERK

Re: Docket No 47027 – Application of AQUA Water Supply Corporation and Fayette Water Supply Corporation for Sale, Transfer, or Merger of Facilities and Certificate Rights in Bastrop County.

Dear Mrs. Nwonuma:

In response to “Docket No 47110 – Commission Staff’s First Request for Information to Fayette Water Supply Corporation (Fayette WSC) Questions No. Staff 1-1 through Staff 1-7” dated May 22, 2017, it was indicated that the application was deemed incomplete due to further questions concerning Fayette WSC. Attached please find the responses to these question that should satisfy the Public Utility Commission (PUC) staffs concerns.

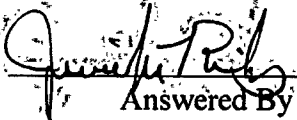
Fayette Water Supply Corporation Response:

A. Financial Information:

Staff 1-1. Refer to page 6 of the application, question 11 (D)(E) and provide the following information:

- a. Clarify how many residents are currently without service and requesting service.

Response: Fayette Water Supply Corporation (FWSC) has accepted applications from 40 residents for a total of 42 meters (2 residents have requested 2 meters each) that are currently without water service.


Answered By

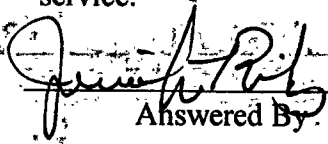

Witnessed By

- b. Provide a projection including the next five years of existing and new taps needed to serve the requested area. Refer to the application’s “Projected Income Statement,” as an example on how to comprehensively format the data.

Response: The construction for this project is being performed at this time. The residents of the service area that requested water service have paid for a line extension to provide

FWSC IS AN EQUAL OPPORTUNITY PROVIDER AND EMPLOYER

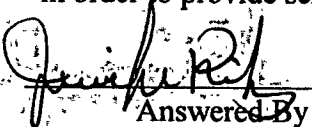
water service to the area from FWSC. The line extension cost \$330,500.00 which included an additional 42 meters and approximately nine miles of water distribution lines to FWSC's system. The area requesting service is not projected to have any additional growth over the next five to ten years. The area is mainly family land that has been passed down for several generations and is mostly farm land that is used for cattle and hay production. If an additional service is requested in the future, the party requesting the service would be subject to FWSC's rates, fees and line extension policy for the new service.


Answered By


Witnessed By

- c. Clarify if construction of new facilities or distribution lines will be necessary to provide service to these future customers noted in question 1.a. or 1.b. above.

Response: Construction to install the approximate nine miles of distribution lines and 42 meters was required and has been paid for by the residents of the service area in advance, in order to provide service to the future members noted in question 1 a. and 1 b.

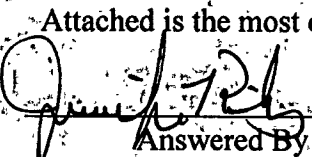

Answered By


Witnessed By

- d. Refer to Note 14 of page 13 of Exhibit 16D of the application refers to the Independent Auditor's Report for the years ending December 31, 2014 and 2015. Are any of the three new contracts for construction related to the facilities that will be serving the requested service area or are they related to the correction of the TCEQ compliance issues?

Response: In reference to Note 14 of the Independent Auditor's Report for the years ending December 31, 2014 and 2015 for FWSC, Exhibit 16D of the application, the three new construction contracts listed were for maintaining the current FWSC system and were completed in the 2016 calendar year. None of these contracts pertain to the facilities that will be providing serve to the requested area and there are no compliance issues to correct with TCEQ regarding this addition to the FWSC system.

Attached is the most current FWSC Audit for your records.

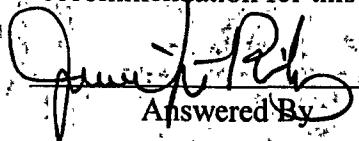

Answered By

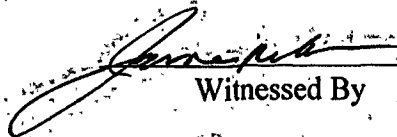

Witnessed By

Staff 1-2 If construction is necessary to provide service to future customers, provide the following information. Proof of submission of plans and specifications to the TCEQ must be provided as required under 16 TAC §24.105 (a) (14):

Response: The construction to install the approximate nine miles of distribution lines and 42 meters is an in-house line extension project that is fully funded by the residents/applicants requesting service. The addition of the line extension will have minimal impact on FWSC's required system capacity requirement set by TCEQ, therefore, no construction plans are required to be pre-approved by TCEQ. The

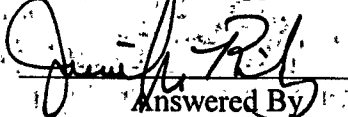
construction to install the approximate nine miles of distribution lines and 42 meters were discussed with FWSC's engineering firm. A hydraulic study was performed with special consideration of the line size(s), capacity, pressure, elevation of pressure planes and maintaining all system compliance requirements by TCEQ. A copy of the engineer's recommendation for this line extension and the requirements needed is attached.

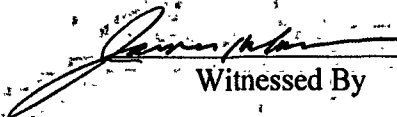

Answered By


Witnessed By

- a. Construction plans and specifications submittal letter to the TCEQ;

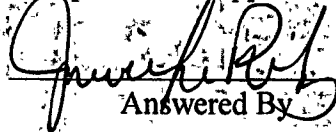
Response: Not applicable


Answered By


Witnessed By

- b. Approval of construction plans and specifications from the TCEQ;

Response: Not applicable


Answered By


Witnessed By

- c. Construction costs in total, per phase, and broken down by line item;

Response: Not applicable

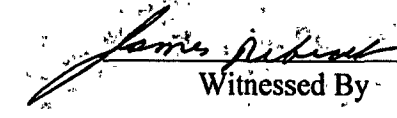

Answered By


Witnessed By

- d. Construction timeline;

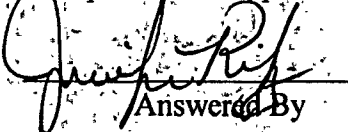
Response: Not applicable



Answered By


Witnessed By

- e. If construction is phased, also provide a construction timeline with respect to each phase;

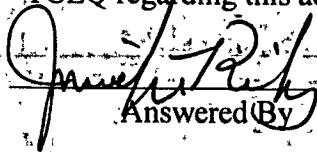
Response: Not applicable

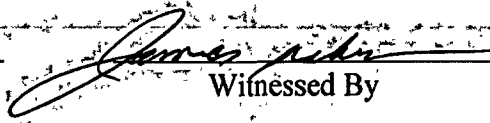

Answered By


Witnessed By

Staff 1-3 Clarify how construction for servicing future customers or construction addressing the TCEQ compliance issues, and if applicable each phase of construction is funded, i.e., debt, cash, loan, grants, or a combination thereof.

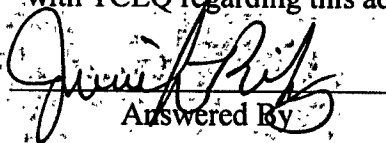
Response: The construction to install the approximate nine miles of distribution lines and 42 meters is an in-house line extension project that is fully funded by the residents/applicants requesting service. There are no compliance issues to address with TCEQ regarding this addition to the FWSC system.

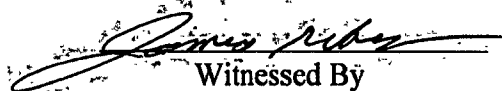

Answered By


Witnessed By

Staff 1-4 If a loan is part of the funding for construction for new customers or construction addressing the TCEQ compliance issues, please submit documentation with loan terms as part of the application as required under 16 TAC §24.11 (e)(5).

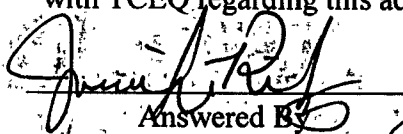
Response: Not applicable, no loan required. There are no compliance issues to address with TCEQ regarding this addition to the FWSC system.

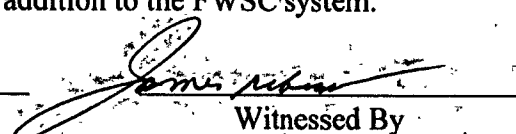

Answered By


Witnessed By

Staff 1-5 If debt is part of the funding for construction for new customers or construction addressing the TCEQ compliance issues, please clarify the following with respect to each type of construction:

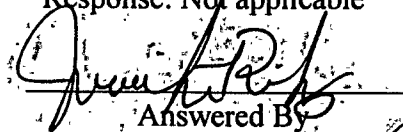
Response: Not applicable. The construction to install the approximate nine miles of distribution lines and 42 meters is an in-house line extension project that is fully funded by the residents/applicants requesting service. There are no compliance issues to address with TCEQ regarding this addition to the FWSC system.


Answered By


Witnessed By

a. When debt will or when debt was issued;

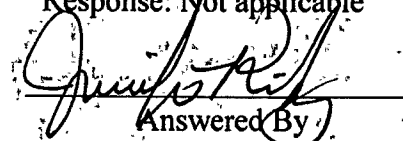
Response: Not applicable


Answered By


Witnessed By

b. How much will be or has been issued; and

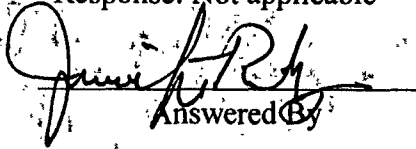
Response: Not applicable

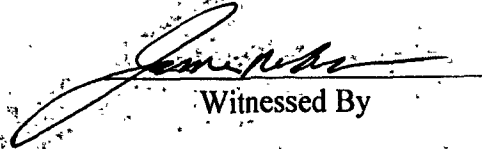

Answered By


Witnessed By

- c. Provide answers to questions 5.a. and 5.b. with respect to total construction and phased construction.

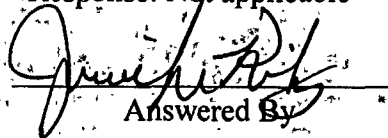
Response: Not applicable


Answered By


Witnessed By

- d. If debt has already been issued, please clarify if the debt is included in the long term debt recognized in the Independent Auditor's Report for the years ending December 31, 2014 and 2015.

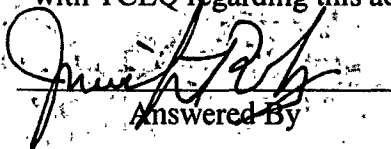
Response: Not applicable


Answered By


Witnessed By

Staff 1-6 If a grant is part of the finding for construction for new customers or construction addressing the TCEQ compliance issues, please submit a copy of the grant with grant terms.

Response: Not applicable. The construction to install the approximate nine miles of distribution lines and 42 meters is an in-house line extension project that is fully funded by the residents/applicants requesting service. There are no compliance issues to address with TCEQ regarding this addition to the FWSC system.


Answered By

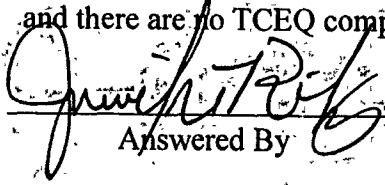

Witnessed By

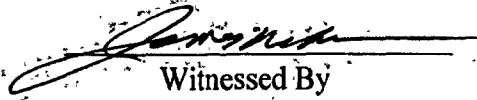
Staff 1-7 Refer to the application's attachment Exhibit 16E. Line 2 (costing \$70,000) and 10 (cost not specifically indicated) under additional projects needed are noted as compliance related projects. Clarify concisely all projects, cost, timelines, etc. within Exhibit 16E are related to correction of the TCEQ compliance issues.

Response: The Exhibit 16E (Budget Funds Available) is a report that is provided along with the budget on a yearly basis that informs the FWSC Board of Directors of projects that are to be considered and/or need to prepare for throughout the year. The project listed on line 2, Walhalla Well upgrade for compliance under the additional projects needed section of the remaining budget funds is a project that is to be reviewed yearly. The Walhalla Well is 40 years old and is on the East system of the FWSC system. This well is not connected to the West system which is where the new construction is being added. The well is not under a compliance issue with TCEQ but is monitored on a yearly basis due to growth. Therefore, it is listed on the budget for projects to be considered when additional monies are available.

Attached is a map of the current FWSC service area (CCN) which is divided into two PWSs separated by the Colorado River. The system west of the Colorado River is then divided by three pressure plans which are then joined by either a booster station, standpipes or elevated storage tower. The lower pressure plan of the West system is

currently under TCEQ violation for TTHM's. This issue is being corrected by the addition of a new well, which will soon be placed into service. The higher-pressure plan of the West system is the part of the system that the new construction will be added to and there are no TCEQ compliance issues.


Answered By


Witnessed By

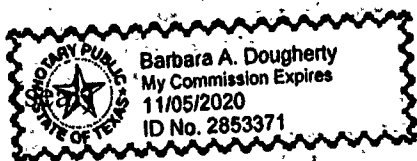
Oath or Affirmation:

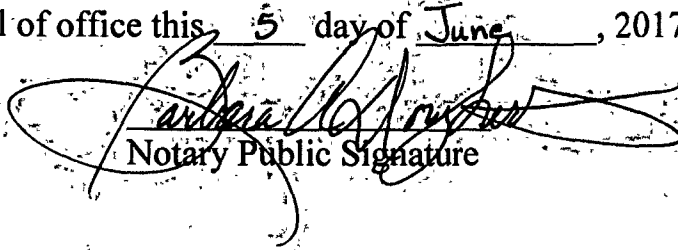
State of Texas

County of Fayette

Before me, a Notary Public, on this day June 5th 2017 personally appeared Jennifer Riley, FULSC Office Manager known to me to be the person whose name is subscribed to the foregoing document and, being by me first duly sworn, declared that the statements therein contained are true and correct.

Given under my hand and seal of office this 5 day of June, 2017.




Notary Public Signature

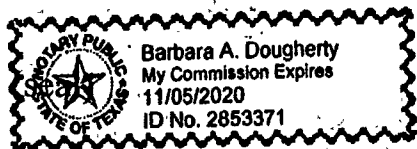
Certificate for Proof by Witness:

State of Texas

County of Fayette

Before me, a Notary Public, on this day June 5, 2017 personally appeared James Robert General Manager, known to me, to be the person whose name is subscribed as a witness to the foregoing instrument of writing, and after being duly sworn by me stated on oath that he saw Jennifer Riley, the grantor or person who executed the foregoing instrument, subscribe the same (or that the grantor or person who executed such instrument of writing acknowledged in his presence that he had executed the same for the purposes and consideration therein expressed), and that he had signed the same as a witness at the request of the grantor (or person who executed the same.)

Given under my hand and seal of office this 5 day of June, 2017.




Notary Public Signature

**Fayette Water Supply Corporation
Audit of Financial Statements
December 31, 2016 and 2015**

Fayette Water Supply Corporation

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ARTNERS

James E. Medack, CPA
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MEMBERS

American Institute of
Certified Public Accountants

Texas Society of
Certified Public Accountants

PROFESSIONAL STAFF

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INDEPENDENT AUDITOR'S REPORT

Fayette Water Supply Corporation
P.O. Box 724
La Grange, Texas 78945

Report on the Financial Statements

We have audited the accompanying financial statements of Fayette Water Supply Corporation (a nonprofit organization), which comprise the balance sheets as of December 31, 2016, and 2015, and the related statements of income and expenses, changes in retained earnings and memberships, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fayette Water Supply Corporation as of December 31, 2016, and 2015, and its net income and cash flows for the year 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 March 13, 2017, on our consideration of Fayette Water Supply Corporation'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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fayette Water Supply Corporation's internal control over financial reporting and compliance.



Medack & Oltmann, LLP
Giddings, Texas
March 13, 2017

BALANCE SHEETS
December 31, 2016, and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
<u>Current Assets</u>		
Cash - Operating Account	\$ 132,793	\$ 149,030
Accounts Receivable	131,378	108,064
Accounts Receivable - Other	9,662	9,423
Inventory	72,987	93,930
Prepaid Expenses	0	18,708
Total Current Assets	<u>\$ 346,820</u>	<u>\$ 379,155</u>
<u>Restricted Assets</u>		
Cash	\$ 319,013	\$ 311,831
<u>Fixed Assets</u>		
Property and Equipment, at cost	\$ 15,419,784	\$ 12,196,356
Less: Accumulated Depreciation	<u>(4,595,026)</u>	<u>(4,141,793)</u>
Total Fixed Assets	<u>10,824,758</u>	<u>8,054,563</u>
Total Assets	<u>\$ 11,490,591</u>	<u>\$ 8,745,549</u>
 <u>Liabilities and Membership Equity</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 489,542	\$ 51,502
Retainage Payable	67,243	70,365
Employee Retirement Payable	6,303	0
Compensated Leave Payable	7,944	7,267
Notes Payable - Current Portion	131,176	230,617
Customer Deposits	14,255	15,305
Accrued Interest Payable	21,212	11,475
Deferred Revenue	50	50
Total Current Liabilities	<u>\$ 737,725</u>	<u>\$ 386,581</u>
Long-Term Debt, net of Current Portion	<u>\$ 9,529,616</u>	<u>\$ 7,018,796</u>
Total Liabilities	<u>\$ 10,267,341</u>	<u>\$ 7,405,377</u>
<u>Membership Equity</u>		
Memberships	233,900	229,000
Retained Earnings	989,350	\$ 1,111,172
Total Membership Equity	<u>\$ 1,223,250</u>	<u>1,340,172</u>
Total Liabilities and Membership Equity	<u>\$ 11,490,591</u>	<u>\$ 8,745,549</u>

The accompanying notes to the financial statements are an integral part of this statement.

STATEMENTS OF INCOME AND EXPENSES
December 31, 2016, and 2015

	<u>2016</u>	<u>2015</u>
<u>Operating Income</u>		
Water Sales	\$ 1,637,956	\$ 1,567,496
Reconnect Fees	800	800
New Installations	69,854	52,200
Contract Services	-	-
Equity Buy In	115,800	86,800
Contract Services	-	-
Miscellaneous	37,369	23,566
Total Operating Income	<u>\$ 1,861,779</u>	<u>\$ 1,730,862</u>
<u>Operating Expenses</u>		
Salaries and Benefits	\$ 515,304	\$ 487,212
Supervision and Mileage	261,725	247,878
Repairs and Maintenance	25,150	33,278
Utilities	113,437	115,028
Materials and Supplies	206,248	186,258
Depreciation	422,425	310,514
Total Operating Expenses	<u>\$ 1,544,289</u>	<u>\$ 1,380,168</u>
Gross Margin	\$ 317,490	\$ 350,694
<u>General and Administrative Expenses</u>		
Postage and Office Supplies	\$ 75,811	\$ 63,688
Insurance	40,947	23,128
Rent	8,911	9,565
Interest	188,445	77,861
Legal and Professional	16,670	16,429
Other General and Administrative Expenses	82,241	94,416
Depreciation	30,808	30,808
Total General and Administrative Expenses	<u>\$ 443,833</u>	<u>\$ 315,895</u>
Net Income From Operations	\$ (126,343)	\$ 34,799
<u>Other Income</u>		
Interest Income	\$ 2,221	\$ 2,284
Loss on Disposal of Assets	-	(14,287)
Assumption of Memberships	2,300	900
Total Other Income	<u>\$ 4,521</u>	<u>\$ (11,103)</u>
Net Income	<u>\$ (121,822)</u>	<u>\$ 23,696</u>

The accompanying notes to the financial statements are an integral part of this statement.

STATEMENTS OF CHANGES IN RETAINED EARNINGS AND MEMBERSHIPS
For the Year Ended December 31, 2016, and 2015

	<u>2016</u>	<u>2015</u>
Retained Earnings - Beginning	\$ 1,111,172	\$ 1,087,476
Net Income	<u>(121,822)</u>	<u>23,696</u>
Retained Earnings - Ending	<u>\$ 989,350</u>	<u>\$ 1,111,172</u>
<u>Membership Fees</u>		
Balance at Beginning of Year	\$ 229,000	\$ 226,500
New Member Fees (2016 - 84, 2015- 53)	8,400	5,300
Memberships Assumed by District (2016 - 35, 2015- 28)	<u>(3,500)</u>	<u>\$ (2,800)</u>
Balance at End of Year	<u>\$ 233,900</u>	<u>\$ 229,000</u>

The accompanying notes to the financial statements are an integral part of this statement.

STATE WATER SUPPLY CORPORATION
STATEMENTS OF CASH FLOWS
Year Ended December 31, 2016, and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Cash received from customers	\$ 1,837,026	\$ 1,715,973
Cash paid to suppliers	(861,773)	(1,328,145)
Interest received	2,221	2,284
Interest paid	(178,708)	(85,929)
Net cash provided by operating activities	<u>\$ 798,766</u>	<u>\$ 304,183</u>
Cash flows from financing activities		
Proceeds from issuance of new debt	\$ 2,657,318	\$ 1,302,067
Principal payments on debt	(245,938)	(195,527)
Issuance of new memberships/additional paid-in-capital	8,400	5,300
Customer Deposits	(1,050)	(400)
Net cash (used) by financing activities	<u>\$ 2,418,730</u>	<u>\$ 1,111,440</u>
Cash flows from investing activities		
Proceeds from sale of assets	\$ 0	\$ 0
Acquisitions of fixed assets	(3,226,551)	(1,721,515)
Net cash provided (used) by investing activities	<u>\$ (3,226,551)</u>	<u>\$ (1,721,515)</u>
Net increase (decrease) in cash	\$ (9,055)	\$ (305,892)
Cash and cash equivalents at beginning of year	<u>\$ 460,861</u>	<u>\$ 766,753</u>
Cash and cash equivalents at end of year	<u><u>\$ 451,806</u></u>	<u><u>\$ 460,861</u></u>
Summary of cash and cash equivalents, end of year		
Cash-unrestricted	\$ 132,793	\$ 149,030
Cash-restricted	319,013	311,831
	<u><u>\$ 451,806</u></u>	<u><u>\$ 460,861</u></u>

The accompanying notes to financial statements are an integral part of these statements.

CHATELAIN WATER SUPPLY CORPORATION
STATEMENTS OF CASH FLOWS
Year Ended December 31, 2016, and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (121,822)	\$ 23,696
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation Expense	\$ 453,233	\$ 341,322
Loss on Disposal of Asset	0	14,287
Assumption of memberships	(3,500)	(2,800)
Bad Debts	0	0
(Increase) Decrease in:		
Accounts Receivable	(23,553)	(12,989)
Inventory	20,943	(593)
Prepaid Expenses	18,708	(18,708)
Increase (Decrease) in:		
Accounts Payable	438,040	(31,433)
Employee Retirement Payable	6,303	0
Compensated Leave Payable	677	(531)
Accrued interest payable	9,737	(8,068)
Total adjustments	<u>\$ 920,588</u>	<u>\$ 280,487</u>
Net cash provided by operating activities	<u>\$ 798,766</u>	<u>\$ 304,183</u>

Noncash investing, capital and financial activities:

When a member terminates the membership either by request or by liquidation due to delinquency, the membership fee is applied to any outstanding debt on the account, then assumed by the Corporation. The membership fee is non-refundable upon termination of services.

The accompanying notes to financial statements are an integral part of these statements.

NOTE 1: BACKGROUND

Fayette Water Supply Corporation was incorporated on November 5, 1973, as a Texas Non-Profit Corporation. The Corporation was formed for the purpose of furnishing a water supply for general farm use and domestic purposes to individuals residing in the rural community of LaGrange, Texas, and the surrounding rural areas in Fayette County. Individuals who desire to have this service must become members of the Corporation. The governing body consists of a Board of Directors totaling seven members. These directors are elected by the Corporation's members at the annual meeting and they service without any type of compensation. The Corporation selects its own management staff, sets its user charges, establishes its own budgets, and controls all aspects of daily operations. It receives no funding from any outside entity.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

Assets, liabilities, income and expense are recognized on the accrual basis of accounting.

Advance Memberships

Cash is received from customers and held in escrow. The monies are released from escrow and paid to the operating account once the water system has been connected to their property.

Property and Depreciation

Property and equipment are recorded at cost. For financial statement reporting, depreciation is provided on the straight line method over the estimated useful lives of the assets. The Corporation capitalizes net interest costs and interest earned as part of the cost of construction of its facilities. The useful lives of property, plant and equipment for the purpose of depreciation are:

Water Systems & Wells	10 - 40 years
Building	31.5 years
Computers & Equipment	5 - 7 years
Vehicles	5 years

Tax Status

The organization is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code. The Corporation is required to file Form 990 - Return of an Organization Exempt from Income Tax.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to financial statements and therefore no adjustments have been included in the financial statements for 2016. With a few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2013.

Inventory

Inventory is valued at cost, using FIFO, (first in, first out).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Corporation considers all highly liquid assets with a maturity of three months or less to be cash equivalents.

Compensated Absences

The Corporation provides its employees with vacation leave. The liability for the unpaid leave at year-end is included in these financial statements.

Method of Determining Uncollectibility and Writing off Receivables

The Corporation sells water to members who generally pay within thirty days. Accounts for which no payment has been received for one month are considered delinquent and customary collection efforts are initiated, and the customer's water service is terminated. Amounts owed are first offset with the \$100 membership fees and any remaining amounts are written off. The membership fee is generally sufficient to cover amounts owed. Collections on accounts previously written off are included in income as received. At December 31, 2016, & 2015, an allowance for doubtful accounts of \$5,250 has been established.

Budget

Prior to the beginning of each fiscal year, the manager of the Corporation submits a budget to the Board of Directors for approval. This budget sets forth the proposed expenditures and the means of financing those expenditures.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: DEPOSITS

As of December 31, 2016, and 2015, the carrying amount of the Corporation's balance of cash, including restricted cash, was \$451,806 and \$460,861; the bank balance was \$453,883 and \$495,781 respectively. These deposits were held in six separate banks. As of December 31, 2016, and 2015, no deposits exceeded FDIC coverage.

FAYETTE WATER SUPPLY CORPORATION
DECEMBER 31, 2016 & 2015
Notes to Financial Statements

NOTE 4: RESTRICTED CASH

	<u>2016</u>	<u>2015</u>
Reserve Fund	<u>\$ 319,013</u>	<u>\$ 311,831</u>

Provisions of the USDA loan agreement require that Fayette Water Supply Corporation maintain a reserve fund for purposes of meeting its debt requirements. For 2016 and 2015, the amount required is \$337,308 and \$337,308 respectively. The Corporation had, as of December 31, 2016, and 2015, a total reserve balance of \$319,013 and \$311,831 respectively. As of December 31, 2016, and 2015, the Corporation was not in compliance with this requirement.

NOTE 5: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2016, and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Billed	10,079	8,624
Unbilled	<u>136,211</u>	<u>114,113</u>
Total	146,290	122,737
Less: Allowance for Doubtful Accounts	<u>(5,250)</u>	<u>(5,250)</u>
Total Accounts Receivable	<u><u>141,040</u></u>	<u><u>117,487</u></u>

NOTE 6: CUSTOMER DEPOSITS

	<u>2016</u>	<u>2015</u>
Rental Properties	1,655	\$ 1,705
Proposed Service Area	<u>12,600</u>	<u>13,600</u>
	<u><u>\$ 14,255</u></u>	<u><u>\$ 15,305</u></u>

FAYETTE WATER SUPPLY CORPORATION
DECEMBER 31, 2016 & 2015
Notes to Financial Statements

NOTE 7: DEBT

USDA

On November 20, 2012, the Corporation received a loan from the United States Department of Agriculture (USDA) of \$4,145,191 to construct new water well. As of December 31, 2016, the Corporation had drawn \$4,145,191. All debt to USDA is secured by land, buildings, equipment, and distribution lines at the date of instrument plus similar after-acquired property and assignment of future income. The annual principal and interest payments aggregate \$ 419,896 and \$214,818 for 2016 & 2015. Interest payments on the USDA loan for 2016 & 2015 are \$213,022 and \$ 85,949 respectively.

<u>Date of Instrument</u>	<u>Face Amount</u>	<u>Interest Rate</u>	<u>Balance 12/31/16</u>	<u>Balance 12/31/15</u>	<u>Maturity</u>
06/27/1986	\$ 498,500	7.125%	\$ -0-	\$ 81,999	06/27/2026
05/09/1979	522,000	5.000%	50,873	78,535	05/09/2019
04/27/1993	242,000	5.250%	153,347	159,730	04/27/2033
02/23/2000	134,000	4.500%	104,523	107,065	02/23/2040
02/23/2000	237,000	4.500%	185,172	189,642	02/23/2040
02/23/2000	150,600	3.250%	110,357	113,554	02/23/2040
08/06/2002	1,126,000	4.500%	931,315	950,298	08/06/2042
08/06/2002	107,000	4.500%	88,472	90,278	08/06/2042
11/20/2012	4,145,191	3.500%	4,011,304	3,799,051	11/20/2052
Total Debt - USDA			\$ 5,635,363	\$ 5,570,152	
Less: Current Portion			(124,919)	(162,460)	
Long-Term portion			<u>\$ 5,510,444</u>	<u>\$ 5,407,692</u>	

Under the USDA loan agreements, loan and grant funds may only be used for specific purposes. As of year end, Fayette Water Corporation appears to be in compliance with these regulations. Upon completion of the Phase VII project, there were unused loan proceeds totaling \$77,961. The USDA is requesting repayment of this amount, which remained unpaid as of December 31, 2016.

DECEMBER 31, 2016 & 2015
Notes to Financial Statements

NOTE 7: DEBT (Continued)

CoBank

The Corporation entered into 3 loan agreements with Co Bank

- Loan T-01: \$2,500,000 at an interest rate of 2.69%, maturing February 20, 2036.
- Loan T-02: \$3,900,000 at an interest rate of 2.44%, maturing June 20, 2042.
- Loan T-03: \$79,442 at an interest rate of 3.42%, maturing February 20, 2027.

Loans T-01 and T-02 were used to fund ongoing construction projects, which includes Phase VIII. Under the terms of the loan agreements, interest only was paid for year 2016.

Loan T-03 funds were used to pay off an existing USDA loan, and requires monthly payments of \$726.

Interest costs on this loan for 2016 & 2015 are \$ 75,792 and \$26,668 respectively.

Date of Instrument	Face Amount	Interest Rate	Balance 12/31/16	Balance 12/31/15	Maturity
7/31/2013	\$ 2,500,000	2.69%	\$ 2,475,795	\$ 1,679,260	2/20/2036
2/4/2016	3,900,000	2.44%	1,475,211	-0-	6/20/2042
2/4/2016	79,442	3.42%	74,424	-0-	2/20/2027
Total Debt - CoBank			4,025,430		
Less:					
Current Portion			(6,257)	(68,157)	
Long-Term portion			\$ 4,019,173	\$ 1,611,103	

Changes in Outstanding Debt

Transactions for the year ended December 31, 2016, are summarized as follows:

	<u>Balance</u> December 31, 2015	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> December 31, 2016
USDA	\$ 5,570,152	\$ 272,084	\$ 206,874	\$ 5,635,362
Co Bank	1,679,260	2,346,170	-0-	4,025,430
Totals	<u>\$ 7,249,412</u>	<u>\$ 2,618,254</u>	<u>\$ 206,874</u>	<u>\$ 9,660,792</u>

The principal due for the years ending December 31, is as follows:

2017	\$ 131,176
2018	253,122
2019	249,026
2020	257,121
2021	265,495
Thereafter	<u>8,504,852</u>
	\$ 9,660,792

DECEMBER 31, 2016 & 2015
Notes to Financial Statements

NOTE 8: FIXED ASSETS

The following is a summary of changes in fixed assets:

	Balance 12/31/15	Additions	Retirements	Balance 12/31/16
Land	\$ 142,411	\$ -	\$ -	\$ 142,411
Wells & Water Facilities	4,644,952	4,622,000	-	9,266,952
Buildings	1,195,636	-	-	1,195,636
Equipment	160,020	-	-	160,020
Software	46,364	-	-	46,364
Construction in Progress	6,006,973	2,819,512	4,218,084	4,608,401
Totals	\$ 12,196,356	\$ 7,441,512	\$ 4,218,084	\$ 15,419,784
Less: Accumulated Depreciation	(4,141,793)	(453,233)	-	(4,595,026)
Totals	\$ 8,054,563	\$ 6,988,279	\$ 4,218,084	\$ 10,824,758

- Interest from the Phase VII project totaling \$110,399 was capitalized as construction interest.
- With the completion of Phase VII, \$4,218,084 was reclassified from Construction in Progress to Wells & Water Facilities.

Depreciation expense charged to operations for 2016 and 2015 was \$453,233 and \$341,322 respectively. All wells and water facilities are pledged as collateral for loans with USDA.

NOTE 9: MEMBERSHIPS

According to the bylaws, one membership fee entitles the member to one connection to the water main. A person may own more than one membership, but a member is entitled only one vote. The membership is nonrefundable; however, it may be used to offset any unpaid water bills.

NOTE 10: LEASES

The Corporation's only lease obligation consists of rental for one water well site. This lease is long term with fixed payments for 100 years beginning August 2011. Future year's payments for this lease will be \$400 per year.

NOTE 11: COMMITMENTS

The Corporation has entered into a mutual aid agreement with another water district to provide water to each other in emergency situations. No monies are exchanged in this agreement - only gallons of water. As of December 31, 2016, the gallons owed between the entities are minimal.

DECEMBER 31, 2016 & 2015
Notes to Financial Statements

NOTE 12: RETIREMENT PLAN

The Company offers its full time employees a retirement plan that permits them to defer a portion of their current salary until future years. Any contributions made to the plan are in compliance with Section 401(k) of the Internal Revenue Code, and are not available to employees until termination of employment, retirement, death or an unforeseen emergency. The plan is administered by J V Associates LTD. The employer will match \$.50 for every dollar contributed up to 5% of employee compensation. For the year ending December 31, 2016; and 2015, two employees participated in the plan each respective year with contributions totaling \$25,078 and \$24,568 for 2015 for both the employer and employees, and there are no unfunded obligations. Employees are 100% vested at the time the contribution is made.

NOTE 13: DATE OF MANAGEMENT'S REVIEW

Management has evaluated subsequent events through the date the financial statements were available to be issued.

Certified Public Accountants

RTNERS

James E. Medack, CPA
Melodi J. Oltmann, CPA

MEMBERS

American Institute of
Certified Public Accountants

Texas Society of
Certified Public Accountants

PROFESSIONAL STAFF

Remington O'Dell, CPA

**INDEPENDENT AUDITOR'S 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**

Fayette Water Supply Corporation
P.O. Box 724
La Grange, Texas 78945

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 Fayette Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, 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 March 13, 2017.

Internal Control over Financial Reporting In planning and performing our audit of the financial statements, we considered Fayette Water Supply Corporation'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 Fayette Water Supply Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fayette Water Supply Corporation'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.

Our consideration of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control that we consider to be a significant deficiency:

Finding 2016-1:

Amounts for accounts payable were not properly accrued at year-end. We recommend that management implement procedures to ensure that the financial statements reflect proper generally accepted accounting principles.

Management's Response:

The Board is aware of this situation and will make the necessary corrections to this problem.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fayette Water Supply Corporation'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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*:

Finding 2016-2:

The Corporation's reserve fund did not meet USDA loan requirements. We recommend that management implement procedures to ensure that the USDA loan requirements are reviewed and followed.

The Corporation's debt service coverage ratio did not comply with CoBank's requirements. We recommend that management review this and take the necessary action.

Management's Response:

The Board is aware of this situation and will make the necessary corrections to this problem.

Fayette Water Supply Corporation's Response to Findings

Fayette Water Supply Corporation's responses to the findings identified in our audit are described above. Fayette Water Supply Corporation response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Medack & Oltmann, LLP
Giddings, Texas
March 13, 2017

RTNERS

James E. Medack, CPA
Melodi J. Oltmann, CPA

MEMBERS

American Institute of
Certified Public Accountants
Texas Society of
Certified Public Accountants

PROFESSIONAL STAFF

Remington O'Dell, CPA

March 13, 2017

To the Board of Directors and Management
Fayette Water Supply Corporation

We have audited the financial statements of Fayette Water Supply Corporation for the year ended December 31, 2016, and have issued our report thereon dated March 13, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated December 30, 2016.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

You are responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Fayette Water Supply Corporation are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements and are based on your knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

Your estimate of the useful lives for depreciation assets is based on industry estimates. We evaluated the key factors and assumptions used to develop the useful lives for depreciating assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Your estimate of the allowance for doubtful accounts is based on historical sales, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing and completing our audit.

Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements (as reflected in Exhibit 1).

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Audit Findings or Issues

Monitoring

In regards to our findings regarding the design of controls and segregation of duties, we recommend the general manager or other members of management perform regular monitoring procedures of the financial transactions. Since there is a limited segregation of duties, it is management's responsibility to properly monitor the financial reporting of the corporation.

Monitoring procedures should include:

- A monthly review of the Inhance-generated reports (particularly billing, collection, and membership reports), as well as other financial information, agreeing those amounts to the general ledger, and noting any unexplained activity or unusual variances. These items should be addressed and corrected as they are discovered.
- A monthly review of the monthly bank account reconciliations by someone other than the individual responsible for the daily bookkeeping procedures.

Non-Compliance with Loan Requirements

We noted that the USDA loan requirement for reserves was not met. Management should review these reserve requirements, especially when a new loan is obtained.

The Corporation was not in compliance with CoBank's Debt Service Coverage Ratio. Management should review this and take the necessary action to become compliant.

Processing of Accounting Data

We noted improvements in certain areas as mentioned in prior years. However, the following item relating to processing accounting data to be addressed by management:

- We noted that with the exception of accounts payable, the Corporation's financials are being reported on the accrual basis. We encourage management to consider recording payables to complete the process.

This information is intended solely for the use of the Board of Directors and management of Fayette Water Supply Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Medack & Oltmann, LLP
Giddings, Texas

Subject: Fayette WSC-Area north/northwest of Cistern-35 meters
From: Bradley Loehr (bradley@befcoengineering.com)
To: fayettewsc@yahoo.com;
Cc: gene@befcoengineering.com;
Date: Monday, October 17, 2016 7:53 AM

Jim and Jennifer: Good Morning. The purpose of this e-mail is to provide FWSC with a hydraulic study of the potential addition of 35 new meters in the area north-northwest of Cistern along Rosanky, Janca-Shade, Cistern, Migl-Psencik, Robbins Cemetery and Patterson Roads in Fayette & Bastrop Counties. A hydraulic model utilizing KY Pipe 2016 was run on these new additions. New 4" lines would be adequate to serve this area, with the highest elevation of 490 feet, at the Sylvester & Darlene Ermis Meter at 497 Cistern Road in Bastrop County having a pressure of 58 psi. The Ermis meter is the farthest meter to the northwest on this dead-end line. However, only installing a 4" main line would be short sighted for several reasons, only 50 GPM of demand could be added to this area and pressure at Ermis would be at 35 psi. 35 psi is the minimum allowable pressure allowed by the TCEQ at a demand of 1.5 GPM/meter. This is also dependent of a pressure setting of 95 psi at FM 1115 and 110 psi at Brewer/Roy Road. Therefore, for future growth a minimum 6" main line along Rosanky Rd (Fayette County) and Cistern Rd (Bastrop Country) is recommended. With a 6" main line, the Ermis' pressure increases up to 64 psi, but would allow an addition of about 100 GPM while keeping Ermis' meter above 35 psi. Please note that as mentioned previously, Ermis is at the highest elevation so more than 100 GPM can be added in other areas in/around Cistern. The highest elevation NW of Ermis' meter is 540 feet and the pressure there would be about 40-45 psi. A second hydraulic analysis was run utilizing BEFCO's old hydraulic files when 175 meters were going to be added around Cistern for the initial Phase 7 design. Utilizing a 6" main line along Rosanky-Cistern, results in a pressure of 60 psi at Ermis. Some of these 175 meters are the part of the 35 meters being proposed with this addition. In conclusion, if this area is developed up to 175 meters north and west of Cistern as proposed by Phase 7, this 6" main line will work. Please keep in mind that this area has potential for high-producing water wells similar to Roy Road. Therefore, be cognizant as to where a good location would be for a future well & plant. The elevations are highest in Bastrop County on Rosanky Road northwest of Cistern; however, there are also some high elevations on Jeddo Road west of Cistern. Additionally, an interconnect with Aqua should also be kept in mind as this in the far reaches of both systems. An interconnect would help in emergency situations for plant shutdown maintenance or loss of a well. In closing, the addition of these 35 meters are recommended to be served by a 6" min. main line along Rosanky & Cistern Roads and 4" lines on all the side roads off this main with all pressures being 60 psi or higher. However, consideration should be given to an 8" line along Rosanky/Cistern Roads and 6" line along Robbins Cemetery/Patterson Roads. The 8" line could be used for a future interconnect with Aqua WSC and 6" line would eventually be ran all the way to SH 95 to the east along Patterson to make a 6" loop north of Cistern.

Thanks and Have a Great Day! Take Care

Bradley C. Loehr, PE

BEFCO Engineering, Inc.

P. O. Box 615

485 N. Jefferson

La Grange, Texas 78945

979-968-6474

979-968-3056 Fax

979-702-1316 Cell

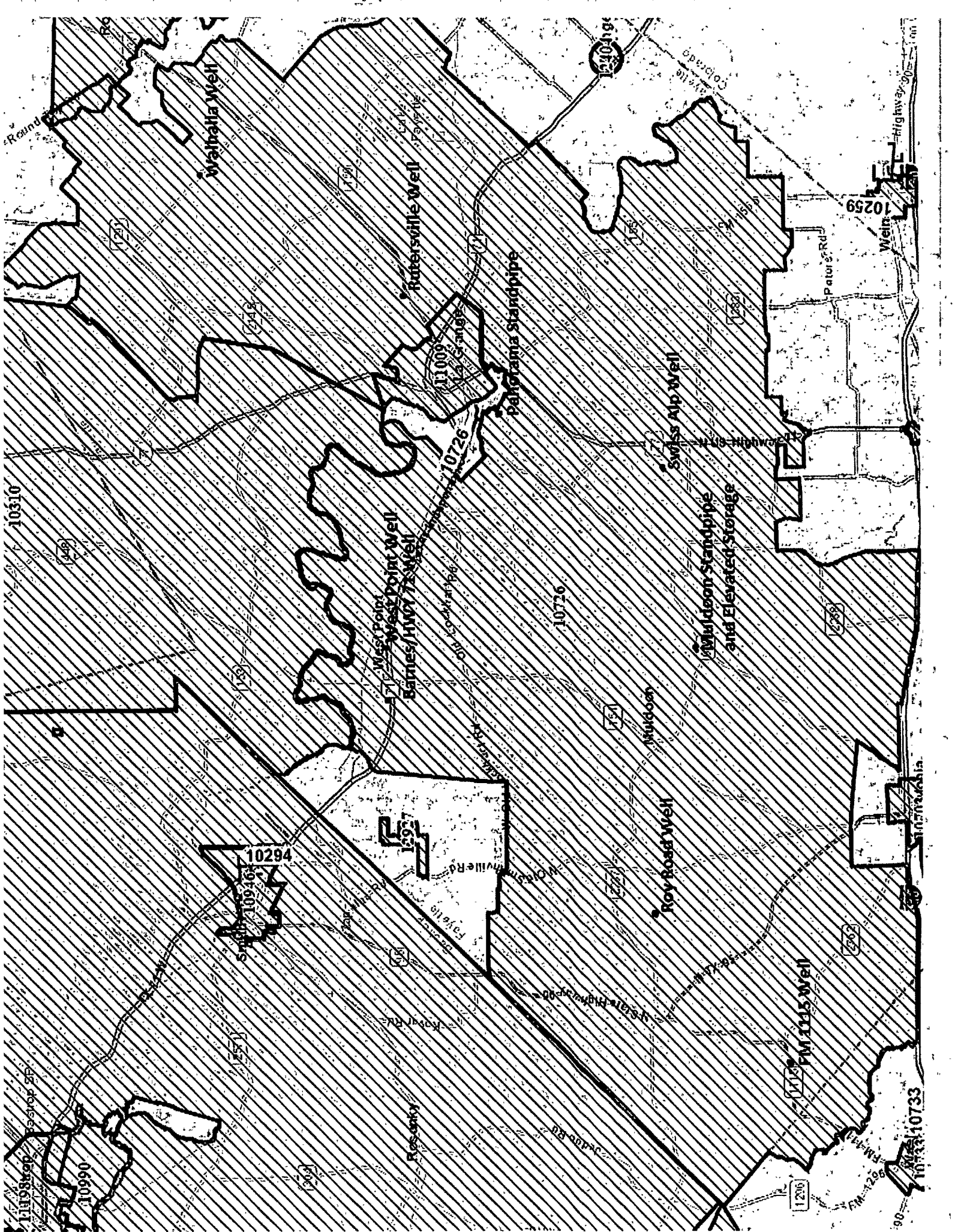
bradley@befcoengineering.com

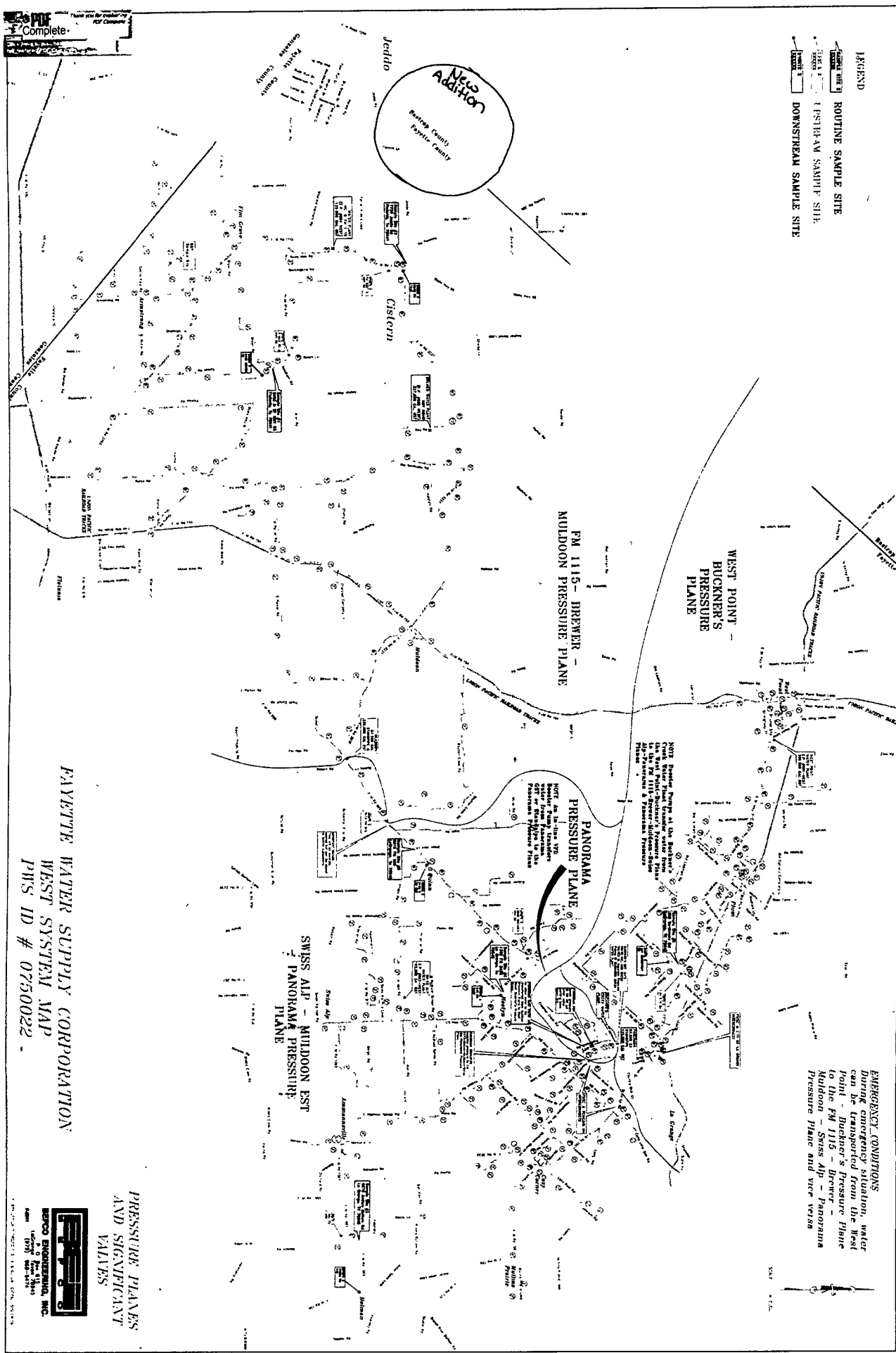
www.befcoengineering.com

"All I have seen teaches me to trust the Creator.

For all I have not seen" from Ralph Waldo Emerson

"Gratitude and Service to Others can change ordinary opportunities into blessings."






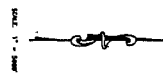


FAYETTE WATER SUPPLY CORPORATION
 WEST SYSTEM MAP
 PHS ID # 0750022

PRESSURE PLANES
 AND SIGNIFICANT
 VALVES

RICO ENGINEERING, INC.
 1000 N. 10th St.
 Suite 100
 Phoenix, AZ 85006
 (602) 944-1111

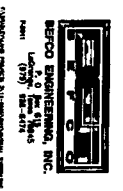
- LEGEND**
-  ROUTINE SAMPLE SITE
 -  UPSTREAM SAMPLE SITE
 -  DOWNSTREAM SAMPLE SITE



ONLY ONE PRESSURE PLANE

FAYETTE WATER SUPPLY CORPORATION
EAST SYSTEM MAP
PWS ID # 0750034

PRESSURE PLANES
AND SIGNIFICANT
VALVES



BECO ENGINEERING, INC.
1000 S. 10th St.
Tulsa, OK 74106
(918) 438-4411