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G-M WATER SUPPLY  
CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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# TILLER AND COMPANY

A PROFESSIONAL CORPORATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

## G-M WATER SUPPLY CORPORATION NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Board of Directors  
G-M Water Supply Corporation  
Hemphill, Texas

We have audited the accompanying financial statements of G-M Water Supply Corporation (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets – modified cash basis as of December 31, 2018 and 2017, and the related statements of support, revenue and expenses – modified cash basis 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

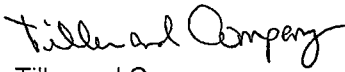
**G-M WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of G-M Water Supply Corporation as of December 31, 2018 and 2017, and its support, revenue and expenses for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

***Basis of Accounting***

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

  
Tiller and Company  
A Professional Corporation of  
Certified Public Accountants

Baytown, Texas  
March 29, 2019

**G-M WATER SUPPLY CORPORATION**  
**Statements of Assets, Liabilities and Net Assets - Modified Cash Basis**  
**December 31, 2018 and 2017**

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Current Assets		
Cash	\$ 1,018,047	\$ 734,840
Certificates of Deposit	413,792	410,967
Accounts Receivable - Returned Checks	907	564
Total Current Assets	<u>1,432,746</u>	<u>1,146,371</u>
Capital Assets		
Land and Building Site	82,366	80,866
Office Building	127,190	127,190
Distribution System	5,701,643	5,701,643
New Water Plant	5,005,672	5,005,672
Equipment and Vehicles	690,883	684,055
	<u>11,607,754</u>	<u>11,599,426</u>
Accumulated depreciation	<u>(4,438,729)</u>	<u>(4,075,553)</u>
	7,169,025	7,523,873
Construction in progress	255,309	-
Total Capital Assets, net	<u>7,424,334</u>	<u>7,523,873</u>
Other Assets		
Permanent Easement	40,252	40,252
Restricted Cash - Construction Escrow	5,107,320	-
Restricted Cash - Debt Reserve Fund	129,889	126,567
Total Other Assets	<u>5,277,461</u>	<u>166,819</u>
 TOTAL ASSETS	 <u>\$ 14,134,541</u>	 <u>\$ 8,837,063</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Current Payables	\$ 523	\$ 501
Deferred Grant Revenues - TWDB	2,660,364	-
Note Payable - Current Portion	169,170	114,414
Total Current Liabilities	<u>2,830,057</u>	<u>114,915</u>
Long-Term Debt		
Notes Payable Less Current Portion	6,722,729	4,141,230
Total Liabilities	<u>9,552,786</u>	<u>4,256,145</u>
Net Assets		
Without Donor Restrictions	4,581,755	4,580,918
Total Net Assets	<u>4,581,755</u>	<u>4,580,918</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 14,134,541</u>	 <u>\$ 8,837,063</u>

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

**G-M WATER SUPPLY CORPORATION**  
**Statements of Support, Revenue and Expenses - Modified Cash Basis**  
**For the Years Ended December 31, 2018 and 2017**

	Without Donor Restrictions	
	2018	2017
<b>UNRESTRICTED NET ASSETS</b>		
Support		
Water Sales and Related Fees	\$ 2,068,683	\$ 1,912,142
Total Unrestricted Support	<u>2,068,683</u>	<u>1,912,142</u>
General and Administrative Expenses		
Salaries and Contract Labor	577,343	516,006
Water Purchases	370,388	364,128
General System Maintenance	337,254	264,248
Depreciation	151,062	150,082
Depreciation - New Water Plant	212,114	212,114
Insurance	127,130	115,658
Utilities	145,166	142,351
Administrative and Other Costs	143,390	110,933
Payroll Taxes	42,390	38,926
Professional Fees	13,897	31,704
Total Operating Expenses	<u>2,120,134</u>	<u>1,946,150</u>
Decrease in Unrestricted Net Assets from Operations	<u>(51,451)</u>	<u>(34,008)</u>
Non-Operating Income / Expenses		
Interest Income	6,754	3,143
Other Income	1,997	393
TWDB Loan Forgiveness grant revenues	55,536	-
TWDB Escrow Earnings	20,696	-
Interest Expense	(75,427)	(78,358)
Insurance Refunds	38,607	10,481
Total Non-Operating Income, Net	<u>48,163</u>	<u>(64,341)</u>
Change in Net Assets from Operations	<u>(3,288)</u>	<u>(98,349)</u>
Other Changes in Unrestricted Net Assets		
Member fees, net	4,125	4,247
Total Other Changes in Unrestricted Net Assets	<u>4,125</u>	<u>4,247</u>
Change in Net Assets	837	(94,102)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>4,580,918</u>	<u>4,675,020</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u>\$ 4,581,755</u></u>	<u><u>\$ 4,580,918</u></u>

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

**G-M WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

G-M Water Supply Corporation is a consumer cooperative providing water services to members living near Hemphill, Bronson and Pineland, Texas.

Basis of Accounting

The Organization maintains its accounting records on the modified cash basis of accounting. This basis differs from generally accepted accounting principles primarily because G-M Water Supply Corporation has not recognized accounts receivable from its members, accounts payable to vendors, nor their related effects on earnings.

Accounts Receivable

Accounts receivable shown are amounts owed by members for returned checks.

Restricted Cash

The restricted cash represents a separate bank account established to hold the debt service reserve funds that is required by the loans from USDA and Texas Water Development Board. (TWDB) (See Note 4) Restricted cash also includes escrowed funds for the TWDB construction project. (See Note 3)

Subsequent Events

Subsequent events have been evaluated through March 29, 2019, which is the date the financial statements were available to be issued.

Cash Equivalents

The Organization considers all highly liquid investments, except those held for long-term investment, with maturities of three months or less when purchased to be cash equivalents.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to correspond to the current year classifications.



**G-M WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

Income Taxes

The Organization is exempt from federal income taxes under provisions of Internal Revenue Code, Section 501(C)(12), therefore, no provision for federal income taxes has been made in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Support and Revenue

The Organization maintains its records on a modified cash basis. Revenues are recognized when received from members, either in the form of tap or water usage fees. The membership fees received after May, 2003 are refundable to the members and are not recorded as revenues when received. Certain grant funds from the TWDB are deferred until outlays have been approved by the TWDB.

Capital Assets

Capital assets includes amounts expended which have an estimated useful life of at least two years and are recorded at historical cost. Maintenance and repairs are charged to expense as incurred, and renewals and betterments are capitalized. The Organization does not have an official capitalization policy. Due to inadequate accounting records for the years prior to 1990, actual costs were unable to be determined. Values of fixed assets acquired prior to 1990 were determined by management's estimates which were based on historical costs. The cost of property and equipment sold or otherwise retired and the accumulation of depreciation applicable thereto are eliminated from the accounts, and the resulting profit or loss is reflected in operations. All fixed assets are depreciated on a straight-line basis over their estimated useful lives. The office building is depreciated over forty years. The water distribution system components are depreciated over fifty years. Equipment is depreciated over periods from 3 to 10 years. The new water plant is being depreciated over periods ranging from 10 to 50 years.

2. CASH AND INVESTMENTS

The Organization maintains its cash accounts at its depository bank. Investments were in certificates of deposits with maturity dates less than a year at several banks during 2018 and 2017. All construction cash is restricted and escrowed by the Texas Water Development Board and is released as Outlay Reports are approved by them.

**G-M WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

3. CHANGES IN CAPITAL ASSETS

Changes in capital assets for the year ending December 31, 2018 were:

	Balance 12-31-17	Additions	Deletions	Balance 12-31-18
Land	\$ 80,866	\$ 1,500	\$ -	\$ 82,366
Buildings	127,190	-	-	127,190
Distribution System	5,701,643	-	-	5,701,643
New Water Plant	5,005,672	-	-	5,005,672
Vehicles and Equipment	<u>684,055</u>	<u>6,828</u>	-	<u>690,883</u>
	11,599,426	8,328	-	11,607,754
Less: Accumulated				
Depreciation	(4,075,553)	(363,176)		(4,438,729)
Construction in Progress	<u>-</u>	<u>255,309</u>	-	<u>255,309</u>
	<u>\$ 7,523,873</u>	<u>\$(99,539)</u>	<u>\$ -</u>	<u>\$ 7,424,334</u>

Changes in capital assets for the year ending December 31, 2017 were:

	Balance 12-31-16	Additions	Deletions	Balance 12-31-17
Land	\$ 65,476	\$ 15,390	\$ -	\$ 80,866
Buildings	127,190	-	-	127,190
Distribution System	5,613,778	87,865	-	5,701,643
New Water Plant	5,005,672	-	-	5,005,672
Vehicles and Equipment	<u>730,342</u>	<u>21,140</u>	<u>67,427</u>	<u>684,055</u>
	11,542,458	124,395	67,427	11,599,426
Less: Accumulated				
Depreciation	(3,780,784)	(362,196)	67,427	(4,075,553)
	<u>\$ 7,761,674</u>	<u>\$(237,801)</u>	<u>\$ -</u>	<u>\$ 7,523,873</u>

Construction Project – The Organization began a construction project in 2018 to rehabilitate a groundwater treatment plant, construct storage tanks, install new distribution lines and certain other system upgrades. This project is being financed primarily through the Texas Water Development Board's Drinking Water State Revolving Fund. They have deposited into an escrow account for the Organization a loan of \$2,775,000 and principal forgiveness of \$2,715,900, for a total commitment on the project of \$5,490,000.

4. LONG-TERM DEBT

In April, 2012, the Organization borrowed \$40,903 from Kubota Credit Corporation to purchase an excavator. The terms of the note call for monthly payments of \$682 for 60 months at 0% interest. Security for the note is the excavator.

**G-M WATER SUPPLY CORPORATION**  
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In November, 2007, the Organization signed a USDA loan agreement for the completion of a water system improvement project in the amount of \$1,312,000. The note calls for monthly payments of \$5,957 beginning in December 2008 with maturity in forty years. The interest rate is fixed at 4.5%. The note calls for a reserve cash account to be accumulated at \$520 per month until a total of \$62,400 is reached. The reserve account was adequately funded at December 31, 2017.

On February 24, 2010, the Organization signed a Texas Water Development Board (TWDB) loan to construct a new water plant. The note is to be repaid in principal installments of \$4,980 per month at zero percent interest. The loan matures on February 15, 2040. The note calls for a reserve cash account to be accumulated at \$996 per month until a total of \$59,760 is reached. The reserve account was adequately funded at December 31, 2017.

In April, 2013, the Organization borrowed \$28,966 from First Bank and Trust to purchase two Ford Trucks. The terms of the note call for monthly payments of \$540 for 60 months at 4.5% interest.

A supplementary loan for completion of the new water plant was obtained from First Bank and Trust totaling \$765,000. The loan term is 20 years and carries an interest rate of 4.15%. Monthly payments are \$4,696 and the Board of Directors has instructed that the monthly payments include an additional principal payment of \$2,000.

The Organization received a TWDB loan for \$2,775,000 in 2018 as one of the vehicles used to fund the construction project described in Note 3. The loan is payable in 30 annual principal payments ranging from \$55,000 to \$140,000 plus interest paid semi-annually at 3.22%. The Organization is required to maintain their rates, charges and fees sufficient to provide for their expenses and the payments of all outstanding obligations. Net system revenues are to be at least 1.25 times the average annual debt service requirements. Certain of the Organization's assets are pledged as security interest in the debt.

	Payable at <u>12-31-17</u>	<u>Additions</u>	<u>Retirements</u>	Payable at <u>12-31-18</u>
2010 TWDB	\$2,501,880	\$ -	\$ 59,760	\$ 2,442,120
2018 TWDB	-	2,775,000	-	2,775,000
USDA	1,162,686	-	19,563	1,143,123
Supplemental Loan	588,557	-	56,901	531,656
Two Ford Trucks	<u>2,521</u>	<u>-</u>	<u>2,521</u>	<u>-</u>
	<u>\$4,255,644</u>	<u>\$ 2,775,000</u>	<u>\$ 138,745</u>	<u>\$6,891,899</u>

**G-M WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

The annual requirements to amortize the notes payable at December 31, 2018, are as follows:

<u>Year Ending Dec. 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2019	\$ 169,170	\$ 164,687	\$ 333,857
2020	181,546	159,339	340,885
2021	184,026	155,361	339,387
2022	186,614	151,154	337,768
2023	185,913	150,135	336,048
2024-2028	1,235,745	637,780	1,873,525
2029-2033	1,351,833	516,871	1,868,704
2034-2038	1,347,984	389,510	1,737,494
2039-2043	1,195,975	245,192	1,441,167
2044-2048	<u>853,093</u>	<u>75,363</u>	<u>928,456</u>
	<u>\$6,891,899</u>	<u>\$2,645,392</u>	<u>\$9,537,291</u>

For purposes of the above note payment projections, interest rates effective at December 31, 2018 were used for the entire term of the notes payable. The Organization has certain reserve requirements related to the outstanding obligations and those reserve requirements have been met.

5. RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Organization continues to carry commercial insurance for all of these types of risks of loss, including commercial building and property, vehicle collision, liability and comprehensive, directors and officers' liability, employee dishonesty, general liability and workmen's compensation. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

6. COMMITMENTS

The Organization is committed to purchasing water from the City of Hemphill, with a minimum of 5 million gallons of water per month, at designated rates per 1,000 gallons purchased through June 30, 2021.

The Organization also has certain commitments on a construction contract to rehabilitate a groundwater treatment plant, construct storage tanks, install new distribution lines and certain other system upgrades. (See Note 3)