

**Armstrong Water Supply  
Corporation**

**September 30, 2018 and 2017**

***Financial Statements***



**CERTIFIED PUBLIC ACCOUNTANTS**

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**ARMSTRONG WATER SUPPLY CORPORATION**

**FINANCIAL STATEMENTS AS OF**

**September 30, 2018 and 2017**

**TOGETHER WITH INDEPENDENT AUDITORS' REPORT THEREON**



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## **C O N T E N T S**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Armstrong Supply Corporation  
Holland, Texas

We have audited the accompanying financial statements of Armstrong Water Supply Corporation, which comprise the statements of financial position as of September 30, 2018 and 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

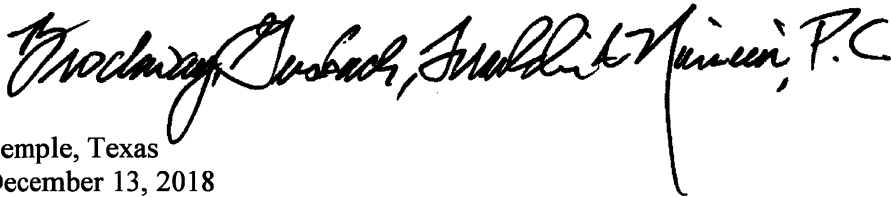
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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.

**INDEPENDENT AUDITORS' REPORT  
(CONTINUED)**

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Armstrong Water Supply Corporation as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Temple, Texas  
December 13, 2018

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## **FINANCIAL STATEMENTS**



**ARMSTRONG WATER SUPPLY CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**September 30, 2018 and 2017**

| <b>ASSETS</b>                        |    |                                |                                |
|--------------------------------------|----|--------------------------------|--------------------------------|
|                                      |    | <u>2018</u>                    | <u>2017</u>                    |
| <b>Current Assets</b>                |    |                                |                                |
| Cash and cash equivalents            | \$ | 307,247                        | \$ 233,489                     |
| Invested funds                       |    | 51,487                         | 25,333                         |
| Trade accounts receivable            |    | 89,608                         | 82,286                         |
| Due from TxDOT                       |    | -                              | 105,871                        |
| Prepaid expenses                     |    | <u>5,774</u>                   | <u>4,406</u>                   |
| Total Current Assets                 |    | 454,116                        | 451,385                        |
| <b>Property, Plant and Equipment</b> |    |                                |                                |
| Property, plant and equipment        |    | 5,058,434                      | 4,949,296                      |
| Less: accumulated depreciation       |    | <u>(1,933,862)</u>             | <u>(1,771,849)</u>             |
| Property, Plant and Equipment, net   |    | 3,124,572                      | 3,177,447                      |
| <b>Other Assets</b>                  |    |                                |                                |
| Invested funds - reserve             |    | 126,940                        | 129,663                        |
| Member investment                    |    | 500                            | 500                            |
| Investment in CoBank                 |    | <u>21,725</u>                  | <u>16,886</u>                  |
| Total Other Assets                   |    | <u>149,165</u>                 | <u>147,049</u>                 |
| <br>Total Assets                     |    | <br><u><u>\$ 3,727,853</u></u> | <br><u><u>\$ 3,775,881</u></u> |

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

**LIABILITIES**

|  | <u>2018</u>      | <u>2017</u>      |
|--|------------------|------------------|
| <b>Current Liabilities</b>             |                  |                  |
| Current portion of long term debt      | \$ 66,339        | \$ 70,292        |
| Trade accounts payable                 | 32,288           | 47,710           |
| Regulatory assessment fee payable      | 3,711            | 3,162            |
| Payroll taxes payable                  | -                | 7,309            |
| Accrued interest                       | 7,505            | 9,520            |
| Member deposits                        | <u>20,000</u>    | <u>20,000</u>    |
| Total Current Liabilities              | 129,843          | 157,993          |
| <br><b>Long-Term Debt</b>              |                  |                  |
| Long-term debt, net of current portion | <u>1,790,218</u> | <u>1,878,085</u> |
| Total Liabilities                      | 1,920,061        | 2,036,078        |

**NET ASSETS**

|                                   |                            |                            |
|-----------------------------------|----------------------------|----------------------------|
| <b>Net Assets</b>                 |                            |                            |
| Unrestricted net assets           | 1,651,233                  | 1,606,597                  |
| Temporarily restricted net assets | <u>156,559</u>             | <u>133,206</u>             |
| Total Net Assets                  | <u>1,807,792</u>           | <u>1,739,803</u>           |
| Total Liabilities and Net Assets  | <u><u>\$ 3,727,853</u></u> | <u><u>\$ 3,775,881</u></u> |

**ARMSTRONG SUPPLY CORPORATION**  
**STATEMENTS OF ACTIVITIES**  
**For the Years Ended September 30, 2018 and 2017**

|  | 2018         | 2017         |
|--|--------------|--------------|
| <b>Operating Revenues</b>                                      |              |              |
| Metered water sales  | \$ 1,023,941 | \$ 824,350   |
| Tap and equity fees  | 64,900       | 66,100       |
| Penalty and reconnect fees                                     | 15,845       | 15,275       |
| Service charges  | 2,285        | 1,570        |
| Miscellaneous income   | -            | 4,793        |
| Total Operating Revenues                                       | 1,106,971    | 912,088      |
| <b>Operating Expenses</b>                                      |              |              |
| Water purchased  | 442,470      | 361,363      |
| Salaries, wages and benefits                                   | 232,309      | 215,458      |
| Depreciation and amortization                                  | 162,013      | 147,698      |
| Interest expense   | 91,574       | 97,267       |
| System repair and maintenance                                  | 54,050       | 56,143       |
| Power for pumping and offices                                  | 34,631       | 29,919       |
| Professional fees  | 28,229       | 56,275       |
| Auto expense   | 17,911       | 24,057       |
| Insurance expense  | 13,957       | 10,891       |
| Office expense   | 10,278       | 10,472       |
| Telephone  | 4,596        | 4,567        |
| Miscellaneous expense  | 4,499        | 4,829        |
| Dues and subscriptions   | 4,173        | 4,094        |
| Other utilities  | 1,732        | 1,109        |
| Bad debt   | 282          | 483          |
| Total Operating Expenses                                       | 1,102,704    | 1,024,625    |
| Excess (deficit) of operating revenues over operating expenses | 4,267        | (112,537)    |
| <b>Other Income (Expense)</b>                                  |              |              |
| Investment and dividend income                                 | 28,812       | 24,476       |
| Gain on disposition of assets                                  | -            | 500          |
| Unrealized loss on investments                                 | (5,347)      | (2,346)      |
| Contributions in aid of construction                           | 30,400       | 110,270      |
| Total Other Income (Expense)                                   | 53,865       | 132,900      |
| Changes in net assets from operations                          | 58,132       | 20,363       |
| <b>Changes in Unrestricted Net Assets</b>                      |              |              |
| Member fees, net   | 9,857        | 11,333       |
| Change in net assets   | 67,989       | 31,696       |
| Net assets - beginning of year                                 | 1,739,803    | 1,708,107    |
| Net assets - end of year                                       | \$ 1,807,792 | \$ 1,739,803 |

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

**ARMSTRONG SUPPLY CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended September 30, 2018 and 2017**

|  | 2018       | 2017       |
|--|------------|------------|
| <b>Cash Flows from Operating Activities</b>  |            |            |
| Changes in net assets from operations  | \$ 58,132  | \$ 20,363  |
| Adjustments to reconcile nets assets to net cash flows provided by operating activities: |            |            |
| Depreciation and amortization  | 162,013    | 147,698    |
| (Increase) decrease in:  |            |            |
| Accounts receivable  | 98,549     | (117,525)  |
| Prepays  | (1,368)    | (975)      |
| Other assets   | (2,116)    | (5,360)    |
| Increase (decrease) in:  |            |            |
| Accounts payable   | (15,422)   | (71,072)   |
| Accrued liabilities  | (8,775)    | 5,189      |
| Member deposits  | -          | 20,000     |
| Total Adjustments  | 232,881    | (22,045)   |
| Net cash provided (used) by operating activities   | 291,013    | (1,682)    |
| <b>Cash Flows from Investing Activities</b>  |            |            |
| Cash payments for the purchase capital assets  | (109,138)  | (146,473)  |
| Proceeds from the sale of investments  | -          | 159,128    |
| Purchase of investments  | (26,154)   | -          |
| Net cash provided (used) by investing activities   | (135,292)  | 12,655     |
| <b>Cash Flows from Financing Activities</b>  |            |            |
| Proceeds from the issue of memberships, net  | 9,857      | 11,333     |
| Proceeds from the issuance of long term debt   | -          | 28,100     |
| Principal payments on long term debt   | (91,820)   | (62,027)   |
| Net cash used by financing activities  | (81,963)   | (22,594)   |
| Net increase (decrease) in cash  | 73,758     | (11,621)   |
| <b>Cash and cash equivalents - beginning of year</b>                                     | 233,489    | 245,110    |
| <b>Cash and cash equivalents - end of year</b>   | \$ 307,247 | \$ 233,489 |

**Supplemental Cash Flow Information**

Interest paid in the years ended September 30, 2018 and 2017, was \$ 91,574 and \$ 97,267, respectively.

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

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**ARMSTRONG WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Activities**

Armstrong Water Supply Corporation (the Corporation) is a member-owned, non-profit organization incorporated pursuant to provisions of the Texas Revised Civil Statutes for the purpose of providing a potable water utility service, under the valid Certificate of Convenience and Necessity (CNN) number 10049, to members of the water utility. Member-consumers are located principally in rural areas between the towns of Belton, Holland and Little River – Academy. There are no large commercial consumers, although some farm operations use large amounts of water (in excess of 40,000 gallons) at various times during the year. Operating policies rates, tariffs and regulations are formulated by a Board of Directors, duly elected by the members of the organization.

**2. Summary of Significant Accounting Policies**

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements of the Corporation.

***Financial Statements Presentation***

The Corporation is required to present its financial statements in accordance with ASC 958-205 Financial Statement Presentation for Not-for-Profit Entities. Under ASC 958-205 the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted nets assets, and permanently restricted net assets. All of the Corporation's net assets were unrestricted as of September 30, 2018 and 2017.

The schedule of unrestricted net assets is as follows:

|   | 2018                | 2017                |
|---|---------------------|---------------------|
| <b>MEMBERSHIPS</b>                        |                     |                     |
| Balance, October 1,                       | \$ 167,133          | \$ 155,800          |
| Member investment - current year          | 9,857               | 11,333              |
| Balance, September 30,                    | 176,990             | 167,133             |
| <b>DESIGNATED AS RESERVE</b>              |                     |                     |
| Balance, October 1,                       | 133,206             | 132,840             |
| Allocation from unappropriated net assets | 23,353              | 366                 |
| Balance, September 30,                    | 156,559             | 133,206             |
| <b>UNDESIGNATED</b>                       |                     |                     |
| Balance, October 1,                       | 1,439,464           | 1,419,467           |
| Allocations to Reserve                    | (23,353)            | (366)               |
| Change in net assets from operations      | 58,132              | 20,363              |
| Balance, September 30                     | 1,474,243           | 1,439,464           |
| <b>Total Unrestricted Net Assets</b>      | <b>\$ 1,807,792</b> | <b>\$ 1,739,803</b> |

**ARMSTRONG WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

***Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenue is recognized when earned regardless of when collected and expenses are recognized when the obligation is incurred regardless of when paid.

***Cash and Cash Equivalents***

The Corporation considers all liquid investments purchased with an initial maturity of three months or less and not designated as a component of the Reserve Fund, to be cash equivalents.

***Trade Accounts Receivable***

Accounts receivable are recorded at the value of the revenue earned and requires payment within thirty days. Account balances with charges over thirty days old are considered delinquent and collection efforts begin at this time. Accounts receivable are shown net of an allowance for uncollectible amounts if applicable.

***Property and Equipment***

Property and equipment is carried on the basis of cost. Depreciation has been provided using the straight-line method in amounts sufficient to amortize the cost of depreciable assets over their estimated useful lives.

The following table summarizes the estimated lives in depreciating the fixed assets:

| <u>Property</u>           | <u>Life</u>   |
|---------------------------|---------------|
| Distribution system       | 5 - 40 years  |
| Equipment                 | 5 - 12 years  |
| Office equipment          | 3 - 10 years  |
| Building and improvements | 15 - 40 years |

***Invested Funds***

Invested funds consist of reserve funds set aside as stipulated by the Corporation's debt agreements

***Capitalized Interest***

The Corporation capitalizes interest costs associated with the system improvement's debt during the active development and construction phases of the projects. Once the projects are substantially complete, the capitalized interest is considered part of the historical costs of the related assets and will be amortized over the assets' useful life.

**ARMSTRONG WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

***Revenue Recognition***

The Corporation generally sells water utility services under short-term, monthly billing cycles, using a tariff schedule approved by the Board of Directors. Revenues are recognized monthly, based on metered readings located at each member's place of residence or business.

***Tax Exempt Status***

The Corporation qualifies under state franchise tax regulations as an exempt organization. The Internal Revenue Service, under IRC Section 501(c)(12) has granted exempt status. A required information return (Form 990) is filed annually on or before the February 15 due date. The Corporation has not been examined by any major taxing jurisdictions for the fiscal years 2014-2016.

***Use of Estimates***

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

**3. Cash and Cash Equivalents**

The Corporation maintains cash balances at several financial institutions located in Central Texas. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$ 250,000. As of September 30, 2018 and 2017, the Corporation maintained cash balances of \$ 56,302 and \$ -0-, respectively, in excess of FDIC insured limits.

**4. Invested Funds**

As of September 30, 2018 and 2017, the Company has invested funds, stated at market value, as follows:

| 2018          | Interest | Maturity | Amount           |
|---------------|----------|----------|------------------|
| Raymond James |          |          |                  |
| Mutual Fund   | 0.00%    | Demand   | \$ 51,487        |
|               |          |          | <u>\$ 51,487</u> |
| 2017          | Interest | Maturity | Amount           |
| Raymond James |          |          |                  |
| Mutual Fund   | 0.00%    | Demand   | \$ 25,333        |
|               |          |          | <u>\$ 25,333</u> |



**ARMSTRONG WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

**5. Property, Plant and Equipment**

Property, plant and equipment consisted of the following at September 30:

|                            | 2018                | 2017                |
|----------------------------|---------------------|---------------------|
| Land                       | \$ 147,913          | \$ 147,913          |
| Distribution system        | 4,665,496           | 4,556,358           |
| Equipment                  | 167,018             | 167,018             |
| Office equipment           | 18,402              | 18,402              |
| Buildings and improvements | 59,605              | 59,605              |
| Total                      | <u>\$ 5,058,434</u> | <u>\$ 4,949,296</u> |

Depreciation expense was \$ 162,013 and \$ 147,698 for the years ended September 30, 2018 and 2017, respectively.

**6. Invested Funds – Reserve**

The Corporation is required, as long as indebted to CoBank, to maintain a reserve account at CoBank or any other financial institution acceptable to CoBank. At September 30, 2018 and 2017, the reserve account consisted of the following:

|  | 2018            | 2017               |
|--|-----------------|--------------------|
| Invested funds - Reserve                         | \$ 156,559      | \$ 133,206         |
| Required fund balance                            | <u>157,500</u>  | <u>157,500</u>     |
| Funds in excess (insufficient) of loan agreement | <u>\$ (941)</u> | <u>\$ (24,294)</u> |

**7. Investment in Other Organizations**

Central Texas Water Supply Corporation is a consortium of area rural water supply corporations formed to provide treated surface water to each individual entity's members. Membership requires a \$ 500 investment in order to use the system.

CoBank, a banking co-operative for rural infrastructure projects, requires as part lending policies, membership in the co-operative at an initial cost of \$ 1,000. Membership entitles members to participate in patronage dividends as declared by the CoBank board of directors. As of September 30, 2018 and 2017, the Corporation's investment in CoBank, including patronage dividends, was \$ 21,725 and \$ 16,886, respectively.

**ARMSTRONG WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

**8. Changes in Long-Term Debt**

Long-term debt activity for the year ended September 30, 2018 was as follows:

|                      | Beginning<br>Balance | Additions   | Reductions       | Ending<br>Balance   |
|----------------------|----------------------|-------------|------------------|---------------------|
| Notes Payable:       |                      |             |                  |                     |
| CoBank - 2871674     | \$ 1,252,421         | \$ -        | \$ 32,125        | \$ 1,220,296        |
| CoBank - 2871656     | 667,856              | -           | 31,595           | 636,261             |
| Ally Financial       | 28,100               | -           | 28,100           | -                   |
| Total Notes Payable: | <u>\$ 1,948,377</u>  | <u>\$ -</u> | <u>\$ 91,820</u> | <u>\$ 1,856,557</u> |

**9. Long-Term Debt**

Long-term debt activity for the year ended September 30, 2018 was as follows:

|   | 2018                | 2017                |
|---|---------------------|---------------------|
| CoBank - 5.10% construction note, payable in monthly installments, including interest, with a maturity date of August 20, 2044        | \$ 1,220,296        | \$ 1,252,421        |
| CoBank - 4.35% construction note, payable in monthly installments, including interest, with a maturity date of August 20, 2034        | 636,261             | 667,856             |
| Ally - 3.54% vehicle note, payable in monthly installments of \$ 512.44, including interest, with a maturity date of October 22, 2022 | -                   | 28,100              |
|   | <u>1,856,557</u>    | <u>1,948,377</u>    |
| Less Current Portion  | <u>(66,339)</u>     | <u>(70,292)</u>     |
| Long-Term Debt, net of current portion  | <u>\$ 1,790,218</u> | <u>\$ 1,878,085</u> |

All Assets of the Corporation are pledged as security for the above notes.

**ARMSTRONG WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

Repayment of the long-term debt, at September 30, 2018 is scheduled as follows:

| Years Ending<br>September 30, |                     |
|-------------------------------|---------------------|
| 2019                          | \$ 66,339           |
| 2020                          | 67,707              |
| 2021                          | 69,162              |
| 2022                          | 70,708              |
| 2023                          | 72,349              |
| 2024 and after                | 1,510,292           |
|                               | <u>\$ 1,856,557</u> |

**10. Membership Investment**

Membership in the Corporation is sold for \$ 400 per member and must be purchased to use the system. The membership cost is not refundable, however it is transferable. At September 30, 2018 and 2017, there were 959 and 932 memberships, respectively.

**11. Commitments and Contingencies**

The Corporation has entered into separate contracts to supply water currently and in future years. A minimum “take or pay” agreement stipulates a basic monthly payment of \$ 22,359 for 6,796,000 gallons, plus \$ 0.1009 per thousand gallons for actual usage. For usage in excess of the 6.796 million gallons, the monthly payment is \$ 22,359 plus \$ 3.29 per thousand gallons for the excess usage. The basic rate for the fiscal year ended September 30, 2018 was \$ 3.39. The charge for capital investment is \$ .1009 per thousand gallons based on actual usage. A futures contract, paid annually, obligated the Corporation to \$ 4,363 and \$ 4,431 in 2018 and 2017 to reserve approximately 280 acre – feet of water, at \$ 15.60 per acre – foot, in Stillhouse Hollow Reservoir. The rate on this futures contract may fluctuate each year. The Corporation also pays \$ 74.00 per acre – foot for an additional 175 acre – feet in reserve in Stillhouse Hollow Reservoir. The cost for this water reserve was \$ 13,388 and \$ 12,950 for 2018 and 2017, respectively.

**12. Reclassifications**

Certain items from the September 30, 2017 financial statements have been reclassified for presentation at September 30, 2018. Net assets are unchanged due to these reclassifications.

**13. Subsequent Events**

Management has evaluated subsequent events through December 13, 2018, which is the date of the independent auditors’ report. No change to the financial statements for the fiscal year ending September 30, 2018 is deemed necessary as a result of this evaluation.