

MOFFAT WATER SUPPLY CORPORATION

**AUDITED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2016

MOFFAT WATER SUPPLY CORPORATION

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ALTON D. THIELE, P.C.

Certified Public Accountant

300 East Avenue C P.O. Box 808

Belton, TX 76513-0808

INDEPENDENT AUDITORS' REPORT

To the Board of Directors

Moffat Water Supply Corporation
5456 Lakeaire Boulevard
Temple, Texas

We have audited the accompanying financial statements of Moffat Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of September 30, 2016 and 2015, 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.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

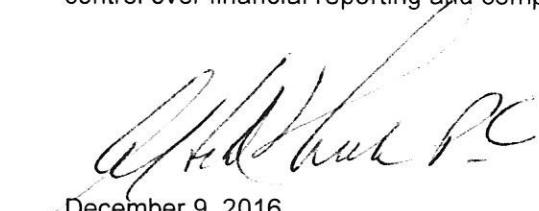
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Moffat Water Supply Corporation as of September 30, 2016 and 2015, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016, on our consideration of Moffat 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 Moffat Water Supply Corporation's internal control over financial reporting and compliance.



December 9, 2016
Belton, Texas

Moffat Water Supply Corporation
STATEMENT OF FINANCIAL POSITION

September 30, 2016 and 2015

ASSETS	2016	2015
CURRENT ASSETS		
Cash in banks and on hand	\$ 521,080	\$ 252,715
Invested funds - NOTE G	141,820	122,860
Trade accounts receivable	84,309	94,761
Inventory	28,797	36,921
Prepaid expenses	<u>12,190</u>	<u>6,590</u>
Total Current Assets	788,195	513,848
PROPERTY AND EQUIPMENT	3,340,756	3,555,994
(net of accumulated depreciation)		
OTHER ASSETS		
Investment-Bluebonnet WSC - NOTE C	500	500
Investment-CoBank, ASB - NOTE C	1,000	-
Invested funds-Construction projects - NOTE G	46,721	46,721
Invested funds-Reserve - NOTE G	<u>159,027</u>	<u>158,868</u>
Total Other Assets	207,248	206,089
TOTAL ASSETS	<u>\$ 4,336,199</u>	<u>\$ 4,275,931</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Trade accounts payable	\$ 7,487	\$ 9,733
Payroll taxes payable	3,916	2,527
Regulatory assessment fee payable	4,596	4,158
Accrued interest payable	1,162	803
Current portion of long-term debt	<u>62,987</u>	<u>59,053</u>
Total Current Liabilities	80,148	76,274
LONG-TERM LIABILITIES		
Long-term debt (net of current portion) - NOTE H	2,851,755	2,915,722
NET ASSETS		
Unrestricted - NOTE A	<u>1,404,296</u>	<u>1,283,935</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,336,199</u>	<u>\$ 4,275,931</u>

The accompanying notes are an integral part of these financial statements.
 See Independent Auditors' Report.

Moffat Water Supply Corporation
STATEMENT OF ACTIVITIES
For the Years Ended September 30, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Metered water sales	\$ 1,202,590	\$ 1,076,625
Penalty and reconnect fees	23,150	23,705
Meter tap and equity fees	29,680	20,240
Other revenues	1,104	1,874
Total Operating Revenues	1,256,524	1,122,444
OPERATING EXPENSES		
Water purchased - NOTE I	429,662	453,880
Water testing	7,487	6,632
Travel, meetings and training	3,228	3,709
Depreciation and amortization	223,278	217,235
Dues and subscriptions	5,313	5,212
Insurance	13,134	26,948
Miscellaneous expense	328	475
Office expenses	26,669	25,950
Professional fees	13,660	10,372
Power purchased for pumping	28,708	33,492
Salaries and benefits	213,968	173,494
Repairs and maintenance	41,570	18,261
Service vehicles fuel and maintenance	10,703	11,149
Telephone	7,329	6,587
Bad debts (recoveries)	3,197	(107)
Total Operating Expenses	1,028,235	993,288
INCREASE (DECREASE) IN OPERATING REVENUES OVER OPERATING EXPENSES	228,290	129,156
OTHER UNRESTRICTED REVENUE (EXPENSE)		
Interest income	419	703
Miscellaneous income	1,659	-
Interest expense	(120,817)	(123,492)
Gain / (loss) on sale of assets	-	5,775
Total Other Unrestricted Revenue (Expense)	(118,738)	(117,014)
CHANGE IN NET ASSETS FROM OPERATIONS	109,551	12,142
OTHER NON-RECURING REVENUE (EXPENSE)		
Membership fees	10,810	8,437
CHANGE IN NET ASSETS	120,361	20,580
BEGINNING NET ASSETS	1,283,935	1,263,355
ENDING NET ASSETS	\$ 1,404,296	\$ 1,283,935

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

See Independent Auditors' Report.

Moffat Water Supply Corporation
STATEMENT OF CASH FLOWS
For the Years Ended September 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets from operations:	\$ 109,551	\$ 12,142
Adjustments to reconcile the change in net assets from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	223,278	217,235
(Gain) loss from sale of assets	-	(5,775)
Changes in operating assets and liabilities -		
(Increase) decrease in:		
Trade receivables	10,452	22,576
Invested funds	(18,960)	8,403
Inventory	8,124	(9,149)
Prepaid expenses	(5,600)	7,080
Increase (decrease) in:		
Trade payables	(418)	577
Accrued expenses	359	(19)
Total Adjustments	217,235	240,928
Net Cash Provided By (Used In) Operating Activities	326,786	253,070
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash payments for purchase of property	(8,040)	(357,208)
Cash payments for the purchase of invested funds	(1,159)	361,026
Net Cash Provided By (Used In) Investing Activities	(9,199)	3,818
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long term debt	(241,795)	(57,647)
Proceeds from the issuance of long term debt	181,762	-
Proceeds from issuance of memberships	10,810	8,437
Net Cash Provided By (Used In) Financing Activities	(49,223)	(49,210)
NET INCREASE (DECREASE) IN CASH	268,365	207,678
CASH BEGINNING OF PERIOD	252,715	45,037
CASH AT END OF PERIOD	\$ 521,080	\$ 252,715
Supplemental disclosures of cash flow information:		
Cash paid during the year for -		
Interest expense	\$ 120,458	\$ 123,505

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

See Independent Auditors' Report

MOFFAT WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Line of business: Moffat Water Supply Corporation (the Corporation) is a member-owned, tax exempt organization incorporated pursuant to the provisions of Chapter 67 of the Texas Water Code and the Texas Business Organizations Code for the purpose of providing a potable water utility service, in Bell County under a valid Certificate of Convenience and Necessity authority (CCN number 11166), to members of the Corporation. Members/consumers are located principally in the rural area of west Bell County, between Lake Belton and the City of Temple, Texas. Operating policies, rates, tariffs and regulations are formulated by a Board of Directors, duly elected by members of Moffat Water Supply Corporation.

Financial statement 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 net assets, and permanently restricted net assets. All of the Corporation's net assets were unrestricted at September 30, 2016 and 2015. The following is a schedule of unrestricted net assets:

	2016	2015
MEMBERSHIPS		
Balance, October 1	\$ 215,931	\$ 207,494
Member investment - Current Year	10,810	8,437
Balance, September 30	<u>226,741</u>	<u>215,931</u>
DONATED CAPITAL - USDA		
Balance, October 1	10,612	10,612
Additions	-	-
Balance, September 30	<u>10,612</u>	<u>10,612</u>
NET ASSETS		
RESERVED – BOARD DESIGNATED		
Balance, October 1	158,868	158,284
Increase (Decrease) in Board Designated	159	584
Balance, September 30	<u>159,027</u>	<u>158,868</u>
UNDESIGNATED		
Balance, October 1	898,524	886,966
Increase (Decrease) in Board Designated	(159)	(584)
Change in unrestricted net assets	109,551	12,142
Balance, September 30	<u>1,007,916</u>	<u>898,524</u>
TOTAL UNRESTRICTED NET ASSETS	<u>\$ 1,404,296</u>	<u>\$ 1,283,935</u>

Basis of accounting: The accrual method of accounting is used to maintain the books and records.

Cash flows: 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.

MOFFAT WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of credit risk: The Corporation invests its excess and Reserve funds in FDIC/FSLIC insured money market, or other time or demand deposit securities. The Board of Directors establishes guidelines, relative to diversification and maturities, which maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and maturities.

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 a member's place of residence or business. Accounts receivable are shown, net of an allowance for doubtful accounts, if applicable.

Invested funds: The Corporation carries certain marketable securities, more fully described in NOTE G, at fair market value (FMV) in accordance with FASB No. 115. Increases or decreases in the FMV of the investments are recognized in the Statement of Activities as unrealized holding gain or loss.

Inventory: Inventory is recorded at the lower of cost or market (first-in-first-out basis) and consists of pipe, meters and other items used in the installation and maintenance of the water distribution system.

Property and equipment: Property and equipment is recorded on the basis of historical cost. Depreciation is being provided using the straight-line method in amounts sufficient to amortize the cost of such assets over their estimated useful lives of 3 - 40 years, as follows:

Description	Life (Years)	Depreciation		
		Cost	Current	Accumulated
Land	N/A	\$ 9,640	N/A	N/A
Distribution system	5 - 40	5,826,183	198,377	2,609,770
Buildings and improvements	39	95,109	2,436	10,560
Service vehicles; Equipment	5 - 10	180,204	20,931	154,228
Office furniture; Equipment	3 - 10	20,002	1,534	15,824
		\$ 6,131,138	\$ 223,278	\$ 2,790,382

Exempt status: Exempt status has been granted by the Internal Revenue Service under Internal Revenue Code Section 501(c)(12). A required annual information return (Form 990) is filed on or before the February 15 due date. The Corporation also qualifies as exempt under state (Texas) franchise tax regulations. The Corporation has not been examined by any major tax jurisdictions for the fiscal years 2012-2015.

Use of estimates in preparation of the financial statements: 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 amounts 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 reporting period. Actual results could differ from those estimates.

NOTE B - MEMBER INVESTMENT

Membership in the Corporation is currently sold for \$480 per member and one membership must be purchased to access the system facilities. The membership cost is not refundable, it is transferable. At September 30, 2016 and 2015, there were 1,434 and 1,417 memberships respectively.

NOTE C - INVESTMENTS IN OTHER ORGANIZATIONS

Bluebonnet Water Supply Corporation (B WSC) is a consortium of area rural water supply corporations and small municipal water systems formed to provide treated surface water to each entity's individual members or customers. B WSC required a \$500 investment to become a member and utilize the distribution system

**MOFFAT WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS**

NOTE C - INVESTMENTS IN OTHER ORGANIZATIONS (continued)

CoBank, ASB is a co-operative member of the Farm Credit System and assesses a \$1,000 membership fee to participate in the credit markets available through the Farm Credit System. The \$1,000 represents an initial investment in A Shares of CoBank, ASB.

NOTE D - RESERVE FOR EMERGENCY REPAIRS AND DEBT RETIREMENT

The Corporation is required, as long as indebted to USDA-Rural Development, or its successors, to maintain a Reserve Fund in an insured Texas bank, or in U.S. Government-backed securities, separate and apart from other fund accounts. USDA-Rural Development requires a separate reserve account for the respective Reserve Fund. The USDA-Rural Development requires 10% of the monthly mortgage payment (including interest) be deposited in a reserve account per year for ten years until one annual mortgage payment is accumulated for each note outstanding. Withdrawals from this reserve fund may be made only for emergency repairs, equipment obsolescence and revenue deficiencies during periods when water is not available.

Texas Water Development Board requires a one-time payment (\$48,266) to establish the required Reserve Fund, utilizing the same restrictions as noted in the above paragraph as to separate fund accounts and the quality of the securities (if any).

CoBank, ASB requires a one-time payment (\$27,500) to establish the required Reserve Fund, utilizing the same restrictions as noted in the first paragraph as to separate funding and the quality of the securities (if any).

At September 30, 2016 and 2015, the Reserve Funds consisted of the following:

	<u>2016</u>	<u>2015</u>
USDA-Rural Development		
Invested funds (Note G)	\$ 159,027	\$ 158,868
Required maintenance level	<u>117,958</u>	<u>114,062</u>
Reserve funds in excess of required maintenance level	<u>\$ 41,069</u>	<u>\$ 44,805</u>

NOTE E – RETIREMENT PLAN

Moffat Water Supply Corporation (Moffat WSC) began offering a "SIMPLE IRA" retirement plan in January, 2009, covering substantially all employees. Moffat WSC elected to contribute an amount equal to 2% of each eligible employee's compensation. As of September 30, 2016 and 2015, a total of \$2,385 and \$2,316, respectively, was paid as retirement benefits.

NOTE F - RELATED PARTY TRANSACTIONS

As mentioned in Note C, Moffat Water Supply Corporation is a member of Bluebonnet Water Supply Corporation (Bluebonnet WSC). As a member of Bluebonnet WSC, Moffat appoints one of its own board members to serve as a representative of Moffat Water Supply Corporation to the board of Bluebonnet WSC. This relationship causes the two entities to be related parties. As related parties Moffat, contracts annually with Bluebonnet WSC for the purchase of water on a monthly basis, as approved by the Bluebonnet WSC Board of Directors

MOFFAT WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE G - INVESTED FUNDS

Moffat Water Supply Corporation has invested funds with various financial institutions as follows:

	2016	Interest Rate	Maturity	Amount
BBVA Compass Bank - Capital Improvement		0.200%	Demand	<u>\$ 141,820</u>
Construction Projects				
ExtraCo Banks		0.000%	Demand	<u>\$ 46,721</u>
Reserve				
BBVA Compass Bank - USDA		0.100%	Demand	<u>\$ 83,026</u>
BBVA Compass Bank - TWDB & CoBank		0.100%	Demand	<u>\$ 76,001</u>
				<u>\$ 159,027</u>
	2015			
BBVA Compass Bank - Capital Development		0.200%	Demand	<u>\$ 122,860</u>
Construction Projects				
ExtraCo Banks - Escrow		0.000%	Demand	<u>\$ 46,721</u>
Reserve				
BBVA Compass Bank - USDA-RD		0.250%	Demand	<u>\$ 82,943</u>
BBVA Compass Bank - TWDB		0.225%	Demand	<u>\$ 75,925</u>
				<u>\$ 158,868</u>

NOTE H - NOTES PAYABLE

The Corporation is indebted to USDA-Rural Development, Texas Water Development Board and CoBank, ASB for improvements completed in earlier years. Deeds of Trust on the entire water system assets and revenues are pledged as collateral.

Detail of the debts outstanding as of September 30, 2016 and 2015 is as follows:

USDA-RD		2015			Note Balance	
Note No.	Interest Rate	Maturity Date	Monthly Payment	Current	Total	
90-01	5.000%	2/27/2036	\$ -	\$ -	\$ -	
90-02	4.375%	5/23/2046	3,180	10,953	626,919	
90-04	4.375%	10/23/2046	1,120	3,977	218,137	
			4,300	14,930	845,056	
T W D B						
L110053	3.890%	5/11/2050	8,399	27,264	1,889,625	
CoBank, ASB						
2993311	2.920%	8/20/2024	2,159	20,793	180,062	
			\$ 12,699	\$ 62,987	\$ 2,914,743	

Principal payments due over the next five years and thereafter are as follows:

2017	2018	2019	2020	2021	& Thereafter
\$ 62,987	\$ 65,330	\$ 67,761	\$ 70,286	\$ 72,906	\$ 2,575,473

USDA-RD		2015			Note Balance	
Note No.	Interest Rate	Maturity Date	Monthly Payment	Current	Total	
90-01	5.000%	2/27/2036	\$ 2,397	\$ 18,802	\$ 199,228	
90-02	4.375%	5/23/2046	3,180	10,276	637,329	
90-04	4.375%	10/23/2046	1,120	3,731	221,917	
			6,697	32,809	1,058,474	
T W D B						
L110053	3.890%	5/11/2050	8,399	26,244	1,916,301	
			\$ 15,096	\$ 59,053	\$ 2,974,775	

Principal payments due over the next five years and thereafter are as follows:

2016	2017	2018	2019	2020	& Thereafter
\$ 59,053	\$ 61,626	\$ 64,313	\$ 67,120	\$ 70,042	\$ 2,652,621

**MOFFAT WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS**

NOTE I - COMMITMENTS AND CONTINGENCIES

Moffat Water Supply Corporation has a long-term contract for treated lake water with Bluebonnet Water Supply Corporation (B WSC) through September, 2025. A minimum "take or pay" agreement stipulates a \$32,181 and \$34,869 monthly payment, based on 10,727,000 and 11,623,000 gallons at \$3.00 per 1,000 gallons, for the years ending September 30, 2016 and 2015, respectively, and an additional \$3.00 per 1,000 gallons for any gallons exceeding the minimum. The "take or pay" is subject to negotiation and the rates per 1,000 gallons charged for actual water drawn and water drawn over the minimum are subject to adjustment annually, as approved by the Bluebonnet WSC Board of Directors. B WSC will rebate certain water billing amounts annually, based on the minimum "take or pay" and the gallons actually used during the year. For the years ended September 30, 2016 and 2015, Bluebonnet WSC has rebated \$40,080 and \$30,357, respectively.

An additional contract, with Brazos River Authority (BRA), was effective beginning March 1, 2009 and provides for 500 acre feet of water annually. This water right obligates Moffat Water Supply Corporation to pay \$6.05065 and \$5.9075 per acre foot of water, whether used or not, for the years ended September 30, 2016 and 2015, respectively. The contract expires August 31, 2039, unless renewed by Moffat Water Supply Corporation. This water contract is held in the Brazos River Authority river basin pool at Lake Belton. The rate is set by the Brazos River Authority and subject to adjustment annually.

Moffat Water Supply Corporation has expended \$35,591 and \$35,452 for the 500 acres feet for the years ended September 30, 2016 and 2015, respectively. Moffat WSC has used 138,442,000 and 126,360,000 gallons of water purchased and delivered to its distribution system during the years ended September 30, 2016 and 2015, respectively.

NOTE J - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 9, 2016; the date the financial statements were available to be issued. No change to the financial statements for the fiscal year ending September 30, 2016 is deemed necessary as a result of this evaluation.

ALTON D. THIELE, P.C.

Certified Public Accountant

300 East Avenue C

P.O. Box 808

Belton, TX 76513-0808

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

Board of Directors

Moffat Water Supply Corporation

We have audited, 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, the financial statements of Moffat Water Supply Corporation, a nonprofit corporation, (the Corporation) which comprise the statement of financial position as of the year ended September 30, 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 December 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Moffat 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation'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.

Belton, Texas
December 9, 2016