

**MOFFAT WATER SUPPLY CORPORATION**

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

**SEPTEMBER 30, 2017 and 2016**

# MOFFAT WATER SUPPLY CORPORATION

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September 30, 2017

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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 entity), which comprise the statement of financial position as of September 30, 2017 and 2016, 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, 2017 and 2016, 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 29, 2017, 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.

A handwritten signature in black ink, appearing to read "Phillip D. Hahn, PC".

December 29, 2017  
Belton, Texas

**Moffat Water Supply Corporation**  
**STATEMENTS OF FINANCIAL POSITION**  
September 30, 2017 and 2016

ASSETS	2017	2016
<b>CURRENT ASSETS</b>		
Cash in banks and on hand	\$ 747,838	\$ 521,080
Invested funds - NOTE G	180,809	141,820
Trade accounts receivable	101,900	84,309
Inventory	34,461	28,797
Prepaid expenses	<u>12,295</u>	<u>12,190</u>
<b>Total Current Assets</b>	<b>1,077,304</b>	<b>788,195</b>
<b>PROPERTY AND EQUIPMENT</b> (net of accumulated depreciation)	3,182,244	3,340,756
<b>OTHER ASSETS</b>		
Investment-Bluebonnet WSC - NOTE C	500	500
Investment-CoBank, ASB - NOTE C	1,151	1,000
Invested funds-Construction projects - NOTE G	-	46,721
Invested funds-Reserve - NOTE G	<u>180,093</u>	<u>159,027</u>
<b>Total Other Assets</b>	<b>181,744</b>	<b>207,248</b>
<b>TOTAL ASSETS</b>	<b><u>\$ 4,441,291</u></b>	<b><u>\$ 4,336,199</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Trade accounts payable	\$ 25,163	\$ 7,487
Payroll taxes payable	6,621	3,916
Regulatory assessment fee payable	5,088	4,596
Accrued interest payable	1,087	1,162
Current portion of long-term debt	<u>65,781</u>	<u>62,987</u>
<b>Total Current Liabilities</b>	<b>103,740</b>	<b>80,148</b>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt (net of current portion) - NOTE I	2,785,410	2,851,755
<b>NET ASSETS</b>		
Unrestricted - NOTE A	<u>1,552,141</u>	<u>1,404,296</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 4,441,291</u></b>	<b><u>\$ 4,336,199</u></b>

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, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b>OPERATING REVENUES</b>		
Metered water sales	\$ 1,229,502	\$ 1,202,590
Penalty and reconnect fees	26,845	23,150
Meter tap and equity fees	38,000	29,680
Other revenues	2,262	1,104
<b>Total Operating Revenues</b>	<b>1,296,609</b>	<b>1,256,524</b>
<b>OPERATING EXPENSES</b>		
Water purchased - NOTE H	462,514	429,662
Water testing	6,052	7,487
Travel, meetings and training	625	3,228
Depreciation and amortization	214,912	223,278
Dues and subscriptions	6,119	5,313
Insurance	19,803	13,134
Miscellaneous expense	429	328
Office expenses	30,216	26,669
Professional fees	9,809	13,660
Power purchased for pumping	27,320	28,708
Salaries and benefits	212,508	213,968
Repairs and maintenance	43,322	41,570
Service vehicles fuel and maintenance	9,454	10,703
Telephone	6,885	7,329
Bad debts (recoveries)	434	3,197
<b>Total Operating Expenses</b>	<b>1,050,403</b>	<b>1,028,235</b>
<b>INCREASE (DECREASE) IN OPERATING REVENUES OVER OPERATING EXPENSES</b>	<b>246,206</b>	<b>228,290</b>
<b>OTHER UNRESTRICTED REVENUE (EXPENSE)</b>		
Interest income	534	419
Miscellaneous income	1,079	1,659
Interest expense	(114,631)	(120,817)
Gain / (loss) on sale of assets	(1,182)	-
<b>Total Other Unrestricted Revenue (Expense)</b>	<b>(114,200)</b>	<b>(118,738)</b>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<b>132,006</b>	<b>109,551</b>
<b>OTHER NON-RECURING REVENUE (EXPENSE)</b>		
Membership fees	15,840	10,810
<b>CHANGE IN NET ASSETS</b>	<b>147,846</b>	<b>120,361</b>
<b>BEGINNING NET ASSETS</b>	<b>1,404,296</b>	<b>1,283,935</b>
<b>ENDING NET ASSETS</b>	<b>\$ 1,552,141</b>	<b>\$ 1,404,296</b>

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, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in unrestricted net assets from operations:	\$ 132,006	\$ 109,551
Adjustments to reconcile the change in net assets from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	214,912	223,278
Proceeds from sale of assets	790	-
Changes in operating assets and liabilities -		
(Increase) decrease in:		
Trade receivables	(17,591)	10,452
Invested funds	(38,989)	(18,960)
Inventory	(5,664)	8,124
Prepaid expenses	(105)	(5,600)
Increase (decrease) in:		
Trade payables	20,873	(418)
Accrued expenses	(75)	359
<b>Total Adjustments</b>	<b>174,151</b>	<b>217,235</b>
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>306,157</b>	<b>326,786</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash payments for purchase of property	(57,192)	(8,040)
Cash (payments) receipts for the (purchase) liquidation of invested fund	25,504	(1,159)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>(31,688)</b>	<b>(9,199)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long term debt	(63,551)	(241,795)
Proceeds from the issuance of long term debt	-	181,762
Proceeds from issuance of memberships	15,840	10,810
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>(47,711)</b>	<b>(49,223)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>226,758</b>	<b>268,365</b>
<b>CASH BEGINNING OF PERIOD</b>	<b>521,080</b>	<b>252,715</b>
<b>CASH AT END OF PERIOD</b>	<b>\$ 747,838</b>	<b>\$ 521,080</b>
Supplemental disclosures of cash flow information:		
Cash paid during the year for -		
Interest expense	<b>\$ 114,811</b>	<b>\$ 120,458</b>

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, 2017 and 2016. The following is a schedule of unrestricted net assets:

	<b>2017</b>	<b>2016</b>
<b>MEMBERSHIPS</b>		
Balance, October 1	\$ 226,741	\$ 215,931
Member investment - Current Year	15,840	10,810
Balance, September 30	<u>242,581</u>	<u>226,741</u>
<b>DONATED CAPITAL - USDA</b>		
Balance, October 1	10,612	10,612
Additions	-	-
Balance, September 30	<u>10,612</u>	<u>10,612</u>
<b>NET ASSETS</b>		
<b>RESERVED – BOARD DESIGNATED</b>		
Balance, October 1	159,027	158,868
Increase (Decrease) in Board Designated	21,066	159
Balance, September 30	<u>180,093</u>	<u>159,027</u>
<b>UNDESIGNATED</b>		
Balance, October 1	1,007,916	898,524
Increase (Decrease) in Board Designated	(21,066)	(159)
Change in unrestricted net assets	132,006	109,551
Balance, September 30	<u>1,118,856</u>	<u>1,007,916</u>
<b>TOTAL UNRESTRICTED NET ASSETS</b>	<b><u>\$ 1,552,141</u></b>	<b><u>\$ 1,404,296</u></b>

**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 - 39 years, for the years ended September 30, 2017 and 2016, as follows:

<b>Description</b>	<b>Life (Years)</b>	<b>Depreciation</b>		
		<b>Cost</b>	<b>Current</b>	<b>Accumulated</b>
<b>2017</b>				
Land	N/A	\$ 9,640	N/A	N/A
Distribution system	5 - 30	5,870,042	197,593	2,807,364
Buildings and improvements	39	95,109	2,436	12,996
Service vehicles; Equipment	5 - 10	187,173	13,264	167,492
Office furniture; Equipment	3 - 10	22,519	1,619	14,387
		<b>\$ 6,184,483</b>	<b>\$ 214,912</b>	<b>\$ 3,002,239</b>
<b>2016</b>				
Land	N/A	\$ 9,640	N/A	N/A
Distribution system	5 - 30	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
		<b>\$ 6,131,138</b>	<b>\$ 223,278</b>	<b>\$ 2,790,382</b>

**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 2016-2013.

**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.

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

**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, 2017 and 2016, there were 1,451 and 1,434 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

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. Additional shares are distributed, at the discretion of the CoBank Board of Directors, in the form of cash and share-equivalent patronage dividends.

**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, 2017 and 2016, the Reserve Funds consisted of the following:

	<b><u>2017</u></b>	<b><u>2016</u></b>
USDA-Rural Development Invested funds (Note G)	\$ 180,093	\$ 159,027
Required maintenance level	<u>141,906</u>	<u>117,958</u>
Reserve funds in excess of required maintenance level	<u>\$ 38,187</u>	<u>\$ 41,069</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, 2017 and 2016, a total of \$2,982 and \$2,385, respectively, was paid as employer provided 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:

The

	<b>2017</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>Amount</b>
BBVA Compass Bank - Capital Improvement		0.150%	Demand	<u>\$ 180,809</u>
<b>Reserve</b>				
BBVA Compass Bank - USDA		0.050%	Demand	\$ 51,625
BBVA Compass Bank - TWDB		0.150%	Demand	100,861
BBVA Compass Bank - CoBank		1.000%	Demand	27,607
				<u>\$ 180,093</u>
<b>2016</b>				
BBVA Compass Bank - Capital Development		0.200%	Demand	<u>\$ 141,820</u>
<b>Construction Projects</b>				
ExtraCo Banks - Escrow		0.000%	Demand	<u>\$ 46,721</u>
<b>Reserve</b>				
BBVA Compass Bank - USDA-RD		0.250%	Demand	\$ 83,026
BBVA Compass Bank - TWDB		0.225%	Demand	76,001
				<u>\$ 159,027</u>

The bank funds at BBVA Compass Bank (including the operating account) exceed the FDIC-insured amount of \$250,000 by approximately \$858,000 and \$572,000 as of September 30, 2017 and 2016, respectively.

**NOTE H - 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 \$31,899 and \$32,181 monthly payment, based on 10,633,000 and 10,727,000 gallons at \$3.00 per 1,000 gallons, for the years ending September 30, 2017 and 2016, 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, 2017 and 2016, Bluebonnet WSC has rebated \$40,080 and \$40,080, 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 \$6.0506 and \$6.05066 per acre foot of water, whether used or not, for the years ended September 30, 2017 and 2016, 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 \$36,445 and \$35,591 for the 500 acres feet for the years ended September 30, 2017 and 2016, respectively.

Moffat WSC has used 150,195,000 and 138,442,000 gallons of water purchased and delivered to its distribution system during the years ended September 30, 2017 and 2016, respectively.

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

**NOTE I - 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, 2017 and 2016 is as follows:

90-01	5.000%	2/27/2036	\$ -	\$ -	\$ -
90-02	4.375%	5/23/2046	3,180	11,442	615,885
90-04	4.375%	10/23/2046	1,120	4,154	214,132
			4,300	15,596	830,018
<b>T W D B</b>					
L110053	3.890%	5/11/2050	8,399	28,832	1,861,893
<b>CoBank, ASB</b>					
2993311	2.920%	8/20/2024	2,159	21,353	159,280
			<u>\$ 14,858</u>	<u>\$ 65,781</u>	<u>\$ 2,851,192</u>

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

					<b>2022</b>	
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>&amp; Thereafter</b>
	\$ 65,781	\$ 65,330	\$ 67,761	\$ 70,286	\$ 72,906	\$ 2,575,473

<b>2016</b>						
<b>USDA-RD</b>						
<b>Note No.</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Monthly Payment</b>	<b>Note Balance</b>		
90-01	5.000%	Paid Off	\$ -	\$ -	\$ -	
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	
<b>T W D B</b>						
L110053	3.890%	5/11/2050	8,399	27,264	1,889,625	
<b>CoBank, ASB</b>						
2993311	2.920%	8/20/2024	2,159	20,793	180,062	
			<u>\$ 14,858</u>	<u>\$ 62,987</u>	<u>\$ 2,914,743</u>	

**NOTE J - SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated subsequent events and transactions for potential recognition or disclosure as of the date of the Independent Auditor's Report, the date the financial statements were available to be issued.

# **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 entity, (the Corporation) which comprise the statement of financial position as of the year ended September 30, 2017, 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 29, 2017.

### **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 29, 2017

**MOFFAT WATER SUPPLY CORPORATION**  
**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**  
**SEPTEMBER 30, 2017**

# **ALTON D. THIELE, P.C.**

Certified Public Accountant  
300 East Avenue C  
P.O. Box 808  
Belton, TX 76513-0808

December 29, 2017

To the Board of Directors  
Moffat Water Supply Corporation

We have audited the financial statements of Moffat Water Supply Corporation for the year ended September 30, 2017, and have issued our report thereon dated December 29, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 3, 2017. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Moffat Water Supply Corporation are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2017. We noted no transactions entered into by the Corporation 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 prepared by management and are based on management's 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 affecting the financial statements was:

Management's estimate of the useful lives of fixed assets is based on historical experience. We evaluated the key factors and assumptions used to develop the useful lives of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management currently does not estimate any losses on the utility billing accounts, relying on the Membership fee to moderate the overall financial impact of unpaid utility billings.

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

### *Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all 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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *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.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 29, 2017.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

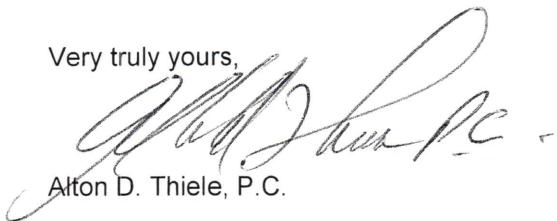
We noted continued improvement in the transaction and reporting processes by Rebecca Miller. She continues to work on several items that are complex and require some research, particularly the reconciliation of membership account balances between RVS and QuickBooks and sales tax exemption. We commend her for her efforts to improve these reporting items and recommend she continue to work on the membership account balance between the RVS and QuickBooks reports.

Management does not currently estimate an allowance for losses on the utility billing accounts, relying on the Membership fee to moderate the overall financial impact of unpaid utility billings. In prior years, it was a practice by many rural water supply entities to maintain the unpaid account balance and, as part of the reconnect, have the new member be the responsible party for the old balance. That practice has since been ruled inappropriate by TCEQ, the state regulatory agency. Therefore, the exposure to bad debts, particularly for those entities that have not modified the membership fee in several years and still charge a nominal \$100 fee, has increased significantly. We recommend the Board monitor this item in their financial statements to determine if an estimated charge should be considered in some future reporting periods.

The account balances held by BBVA Compass Bank are significantly in excess of the FDIC insured amount of \$250,000. There are agreements that can be negotiated with the bank, called "pledge of securities" to provide coverage against loss for those funds exceeding the current \$250,000 FDIC limit. We recommend the Board consider this avenue of additional protection or moving funds to other banks to utilize multiple FDIC limits.

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

Very truly yours,

A handwritten signature in black ink, appearing to read "Alton D. Thiele, P.C." The signature is fluid and cursive, with "Alton D." on the first line and "Thiele, P.C." on the second line.

Alton D. Thiele, P.C.

**MOFFAT WATER SUPPLY CORPORATION**

**COMMUNICATION OF SIGNIFICANT DEFICIENCIES**

**AND MATERIAL WEAKNESSES AS REQUIRED BY**

**AU-C Section 265**

**SEPTEMBER 30, 2017**

# **ALTON D. THIELE, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

300 E. AVENUE C

P.O. BOX 808

BELTON, TX 76513-0808

Moffat Water Supply Corporation  
5456 Lakeaire Boulevard  
Temple, Texas 76502

In planning and performing our audit of the financial statements of Moffat Water Supply Corporation (the Corporation) as of and for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Moffat Water Supply Corporation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 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 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. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected, in a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be a significant deficiency or a material weakness, as defined above. However, material weaknesses may exist that have not been identified.

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



ALTON D. THIELE, P.C.  
Belton, Texas  
December 29, 2017