

ARMSTRONG  
WATER SUPPLY CORPORATION  
AUDITED FINANCIAL STATEMENTS  
And  
INDEPENDENT AUDITORS' REPORT  
SEPTEMBER 30, 2014

## ARMSTRONG WATER SUPPLY CORPORATION

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

Certified Public Accountant  
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BELTON, TX 76513-0808

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Armstrong Water Supply Corporation  
Holland, Texas

We have audited the accompanying financial statements of Armstrong Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of September 30, 2014 and 2013, 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 opinions 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 Armstrong Water Supply Corporation as of September 30, 2014 and 2013, 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 March 3, 2015, on our consideration of Armstrong 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 Armstrong Water Supply Corporation's internal control over financial reporting and compliance.

*Edmund Burke P.C.*

March 3, 2015  
Belton, Texas



## **FINANCIAL STATEMENTS**

**ARMSTRONG WATER SUPPLY CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**

September 30, 2014 and 2013

**ASSETS**

	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS</b>		
Cash on hand and in banks	\$ 330,701	\$ 324,267
Invested funds	282,514	293,304
Trade accounts receivable	84,745	72,325
Prepaid expenses	<u>4,518</u>	<u>4,518</u>
<b>Total Current Assets</b>	702,478	694,413
<b>PROPERTY AND EQUIPMENT (net of accumulated depreciation)</b>	3,001,861	1,534,483
<b>OTHER ASSETS</b>		
Invested funds - Reserve	122,257	103,734
Member investment	500	500
Investment in CoBank	2,140	1,000
Construction period interest	<u>45,276</u>	<u>9,359</u>
<b>Total Other Assets</b>	<u>170,173</u>	<u>114,592</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,874,512</u></u>	<u><u>\$ 2,343,488</u></u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Trade accounts payable	\$ 39,598	\$ 33,726
Regulatory assessment fee payable	3,033	2,989
Payroll taxes payable	3,072	2,234
Accrued interest	4,660	1,821
Current portion long-term debt	<u>59,070</u>	<u>11,850</u>
<b>Total Current Liabilities</b>	109,433	52,620
<b>LONG-TERM DEBT (net of current portion)</b>	<u>2,042,242</u>	<u>806,731</u>
<b>TOTAL LIABILITIES</b>	2,151,675	859,351
<b>NET ASSETS</b>		
Unrestricted	<u>1,722,837</u>	<u>1,484,137</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 3,874,512</u></u>	<u><u>\$ 2,343,488</u></u>

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

# ARMSTRONG WATER SUPPLY CORPORATION

## STATEMENT OF ACTIVITIES

For the Years ended September 30, 2014 and 2013

	2014	2013
<b>UNRESTRICTED NET ASSETS</b>		
<b>OPERATING REVENUES</b>		
Metered water sales	\$ 779,540	\$ 769,831
Tap and equity fees	41,658	62,533
Penalty and reconnect fees	18,351	16,820
Service charges	1,557	2,000
Miscellaneous income	5,874	(70)
Total Operating Revenues	846,980	851,114
<b>OPERATING EXPENSES</b>		
Water purchased	273,402	322,324
Bad debt	511	-
Auto expense	16,518	12,672
Depreciation and amortization	65,506	52,749
Dues and subscriptions	3,729	3,364
Insurance expense	11,455	9,641
Miscellaneous expense	2,569	3,127
Office expense	11,596	10,455
Professional fees	4,578	6,169
Power for pumping and offices	17,904	18,571
Other utilities	1,483	1,032
Telephone	3,450	3,814
Salaries, wages, and benefits	168,213	140,128
System management	5,789	14,444
System repair and maintenance	30,393	36,986
Total Operating Expenses	617,096	635,476
Change in Operating Net Assets	229,884	215,638
<b>OTHER REVENUE (EXPENSE)</b>		
Investment income	7,223	7,135
Patronage dividends	6,035	-
Unrealized gain (loss) on holdings	1,226	(7,290)
Interest expense	(8,868)	-
Total Other Income (Expense)	5,616	(154)
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	235,500	215,484
<b>OTHER NON-RECURRING REVENUE (EXPENSE)</b>		
Member fees (net of forfeitures)	3,200	7,800
Total Non-Recurring Revenue (Expense)	3,200	7,800
<b>CHANGE IN NET ASSETS</b>	238,700	223,284
<b>BEGINNING NET ASSETS</b>	1,484,137	1,260,853
<b>ENDING NET ASSETS</b>	\$ 1,722,837	\$ 1,484,137

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

# ARMSTRONG WATER SUPPLY CORPORATION

## STATEMENT OF CASH FLOWS

For the Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets from operations	\$ 235,500	\$ 215,484
Adjustments to reconcile change in net assets from operations to net cash:		
Depreciation and amortization	65,506	52,749
(Increase) decrease in trade accounts receivable	(12,420)	6,948
(Increase) decrease in other assets	(37,057)	(9,359)
Increase (decrease) in trade accounts payable	5,872	4,582
(Increase) decrease in prepaid expenses	-	290
Increase (decrease) in other payables	<u>3,721</u>	<u>1,962</u>
Total Adjustments	<u>25,622</u>	<u>57,172</u>
Net cash provided by (used in) operating activities	<u>261,122</u>	<u>272,656</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash payments for the purchase of property and equipment	(1,532,885)	(951,712)
Cash payments for the purchase of invested funds	<u>(7,734)</u>	<u>(99,317)</u>
Net cash provided by (used in) investing activities	<u>(1,540,619)</u>	<u>(1,051,029)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal reduction of long term debt	(4,736)	(59,574)
Proceeds from the issuance of long term debt	1,287,467	878,155
Proceeds from the issuance of memberships (net of forfeitures)	<u>3,200</u>	<u>7,800</u>
Net cash provided by (used in) financing activities	<u>1,285,931</u>	<u>826,381</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	6,434	48,008
<b>CASH AT BEGINNING OF PERIOD</b>	<u>324,267</u>	<u>276,259</u>
<b>CASH AT END OF PERIOD</b>	<u><u>\$ 330,701</u></u>	<u><u>\$ 324,267</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	<u><u>\$ 6,034</u></u>	<u><u>\$ 7,537</u></u>

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



**ARMSTRONG WATER SUPPLY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014 AND 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Line of business:** Armstrong Water Supply 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 a valid Certificate of Convenience and Necessity (CCN) 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.

**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.

**Financial statement presentation:** Armstrong Water Supply 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 Armstrong Water Supply Corporation's net assets were unrestricted at September 30, 2014. The following is a schedule of unrestricted net assets:

**MEMBERSHIPS**

	<b>2014</b>	<b>2013</b>
Balance, October 1	\$ 143,300	\$ 135,500
Member investment - current year	6,800	7,800
Member forfeitures - current year	(3,600)	-
Balance, September 30	<u>146,500</u>	<u>143,300</u>

**DESIGNATED AS RESERVE**

Balance, October 1	103,734	103,734
Allocation (to) from unappropriated net assets	18,523	-
Balance, September 30	<u>122,257</u>	<u>103,734</u>

**UNAPPROPRIATED**

Balance, October 1	1,237,103	1,125,353
Allocation (to) from Reserve	(18,523)	(103,734)
Change in net assets from operations	235,500	215,484
Balance, September 30	<u>1,454,080</u>	<u>1,237,103</u>

Total Unrestricted Net Assets	<u>\$ 1,722,837</u>	<u>\$ 1,484,137</u>
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**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.

**ARMSTRONG WATER SUPPLY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014 AND 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**Trade accounts receivable:** The Corporation records its accounts receivable 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.

**Concentration of credit risk:** The Corporation invests its excess funds in FDIC/FSLIC-insured money market, or other time deposit securities, which fall outside the scope of FDIC/FSLIC coverage. The Board of Directors makes investment decisions relative to diversification and maturities that maintain safety and liquidity within established guidelines. These guidelines are reviewed periodically and modified to take advantage of trends in yields and interest rates.

**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.

**Property and equipment:** Property and equipment are recorded at cost. Depreciation is provided for using the straight-line method in amounts sufficient to amortize the cost of depreciable assets over their estimated useful lives of 3 – 40 years, as follows:

Description	Life (Years)	Cost	Current	Accumulated
Land	N/A	\$ 147,163	N/A	N/A
Distribution system	5 - 40	4,075,462	\$ 58,369	\$ 1,256,859
Equipment	5 - 12	135,341	4,471	134,428
Office equipment	3 - 7	18,402	1,044	14,466
Buildings & improvements	10 - 39	58,175	1,622	26,928
		<u>\$ 4,434,543</u>	<u>\$ 65,506</u>	<u>\$ 1,432,681</u>

**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 cost of the related assets and will be amortized over the assets' useful life.

**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 2010 – 2013.

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



**ARMSTRONG WATER SUPPLY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014 AND 2013**

**NOTE B - MEMBER INVESTMENT**

Membership in the Corporation is sold for \$400 per member and one membership must be purchased to use the system. The membership cost is not refundable; however it is transferable. At September 30, 2014 and 2013 there were 906 and 894 active memberships, respectively.

**NOTE C - 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 required a \$500 investment in order to use the system.

CoBank, a banking co-operative for rural infrastructure projects, requires, as part of its 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. An additional \$1,140 was added during the year as equity patronage from CoBank.

**NOTE D - DEBT SERVICE 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, 2014, the Reserve Account consisted of the following:

	2014	2013
Invested funds - Reserve	\$ 122,257	\$ 103,734
Required fund balance	115,000	115,000
Funds in excess (deficit) of loan agreement	<u>\$ 7,257</u>	<u>\$ (11,266)</u>

**NOTE E - NOTES PAYABLE**

The corporation is indebted to CoBank for major improvements to the water distribution system with the largest note being guaranteed by the USDA. Collateral consists of a perfected first priority lien and security interest in personal, tangible and intangible, present and future assets of the Corporation and title opinion evidencing the deed of trust or mortgage as a first lien on specified property. Note detail is as follows:

<u>2014</u>					
Note No.	Interest	Maturity	Monthly	Note Balance	
	Rate	Date	Payment	Current	Total
2661362	2.66%	8/20/2034	Varies	\$ 29,259	\$ 757,639
2661648	2.66%	8/20/2044	Varies	29,811	1,343,673
				<u>\$ 59,070</u>	<u>\$ 2,101,312</u>

Maturities of long term debt are noted below:

<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	Subsequent
\$60,661	\$62,294	\$63,972	\$65,694	\$67,463	<u>Years</u>
					\$1,722,158

**ARMSTRONG WATER SUPPLY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014 AND 2013**

**NOTE F - INVESTED FUNDS**

**Invested funds:** The Corporation carries certain marketable securities, more fully described in the summary below, at the lower of cost or fair market value (FMV), based upon quoted market prices.

The Corporation has invested funds with various financial institutions as follows:

	<b>Interest</b>		
<b>2014</b>	<b>Rate</b>	<b>Maturity</b>	<b>Amount</b>
Invesco Short Term Bond Fund			
Edward Jones	N/A	Demand	\$ 276,268
Horizon Bank - CD	0.750%	1/15/2015	6,246
Total			<u>\$ 282,514</u>
<b>Reserve</b>			
Federated Fund for US Govt Securities			
Edward Jones	N/A	Demand	\$ 70,639
Columbia Federal Securities Fund			
Edward Jones	N/A	Demand	36,549
Invesco Short Term Bond Fund	N/A	Demand	
Edward Jones			15,069
Total			<u>\$ 122,257</u>
<b>2013</b>			
Invesco Short Term Bond Fund			
Edward Jones	N/A	Demand	\$ 287,104
Horizon Bank - MMA	0.300%	Demand	-
Horizon Bank - CD	0.750%	1/15/2014	6,199
Total			<u>\$ 293,304</u>
<b>Reserve</b>			
Federated Fund for US Govt Securities			
Edward Jones	N/A	Demand	\$ 68,475
Columbia Federal Securities Fund			
Edward Jones	N/A	Demand	35,259
Total			<u>\$ 103,734</u>

**NOTE G – CAPITALIZED INTEREST**

The following table summarizes the Corporation's interest cost incurred, capitalized and expensed as interest expense during the years ended September 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Capitalized interest - beginning of year	\$ 9,359	\$ -
Interest incurred	37,078	9,359
Interest expensed:		
Amortized directly to interest expense	(1,161)	-
Capitalized interest - end of year	<u>\$ 45,276</u>	<u>\$ 9,359</u>

**ARMSTRONG WATER SUPPLY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014 AND 2013**

**NOTE G – COMMITMENTS AND CONTINGENCIES**

**Surface water contract:** The Corporation has entered into separate contracts to supply water currently, and for future years. A minimum "take or pay" agreement stipulates a basic monthly payment of \$20,184 for 6,796,000 gallons, plus \$0.0848 per thousand gallons for actual usage. For usage in excess of the 6.796 million gallons, the monthly payment is \$20,184 plus \$3.0598 per thousand for the excess usage. The basic rate for the fiscal year ending September, 30, 2014 was \$2.97. The charge for capital investment is \$.0848 per 1,000 gallons based on actual usage. A futures contract, paid annually, obligates the Corporation for \$4,226 and \$4,226 in 2014 and 2013 to reserve approximately 280 acre-feet of water, at \$15.11 per acre foot, in Stillhouse Hollow Reservoir. The rate on this futures contract may fluctuate each year. The Corporation also pays \$69.50 per acre - foot for an additional 175 acre - feet in reserve in Stillhouse Hollow Reservoir. The cost for this water reserve was \$12,163 and \$11,489 for 2014 and 2013, respectively.

**NOTE H – SUBSEQUENT EVENTS**

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through March 3, 2015, the date the financial statements were available to be issued.

## **COMPLIANCE AND INTERNAL CONTROL SECTION**



# ALTON D. THIELE, P.C.

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Belton, TX 76513-0808

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

To the Board of Directors of  
Armstrong Water Supply Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Armstrong Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of September 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 3, 2015.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Armstrong Water Supply Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Armstrong Water Supply 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 *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.

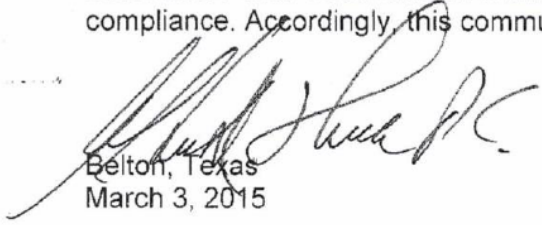
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control described in a separate report titled "Communication of Significant Deficiencies and Material Weaknesses as Required by AU-C Section 265" that we consider to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Armstrong Water Supply Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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  
March 3, 2015