

MOFFAT WATER SUPPLY CORPORATION

Audited Financial Statements

For the Years Ended September 30, 2021 and 2020

and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Moffat Water Supply Corporation
Temple, Texas 76502

We have audited the accompanying financial statements of Moffat Water Supply Corporation (a non-profit organization), which comprise the balance sheets as of September 30, 2021 and 2020, and the related statements of income, membership investments, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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, 2021 and 2020, and the results of its operation and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ludwick, Montague, & Stutz, PC

Temple, Texas
January 10, 2022

MOFFAT WATER SUPPLY CORPORATION

Balance Sheets

September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash	\$ 453,206	\$ 417,074
Invested funds - Note 4	3,906,799	3,842,834
Accounts receivable	123,217	119,213
Inventory	40,859	38,398
Prepaid expenses	12,352	12,197
Total Current Assets	<u>4,536,433</u>	<u>4,429,716</u>
Fixed Assets - Note 7		
Fixed assets	7,615,832	7,341,778
Less accumulated depreciation	<u>(3,837,068)</u>	<u>(3,586,842)</u>
Total Fixed Assets	<u>3,778,764</u>	<u>3,754,936</u>
Other Assets		
Invested funds - Reserved - Note 4	384,982	382,348
Investment - Note 3	<u>500</u>	<u>500</u>
Total Other Assets	<u>385,482</u>	<u>382,848</u>
Total Assets	<u>\$ 8,700,679</u>	<u>\$ 8,567,500</u>

	2021	2020
Liabilities & Membership Investment		
Current Liabilities		
Accounts payable - trade	\$ 62,387	\$ 77,929
TCEQ payable	5,762	5,995
Payroll liabilities	3,210	5,646
Accrued interest payable	61,786	68,267
Current portion of long-term debt	145,904	143,229
Total Current Liabilities	<u>279,049</u>	<u>301,066</u>
Long Term Liabilities		
Notes payable	5,743,542	5,886,735
Less current portion - Note 6	(145,904)	(143,229)
Total Long Term Liabilities	<u>5,597,638</u>	<u>5,743,506</u>
Total Liabilities	<u>5,876,687</u>	<u>6,044,572</u>
Membership Investment		
Membership investment - Note 2	322,733	307,479
Donated investment	181,558	181,558
Retained earnings		
Appropriated - Note 5	384,982	382,348
Unappropriated	1,934,719	1,651,543
Total Membership Investment	<u>2,823,992</u>	<u>2,522,928</u>
Total Liabilities & Membership Investment	<u>\$ 8,700,679</u>	<u>\$ 8,567,500</u>

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

MOFFAT WATER SUPPLY CORPORATION

Statements of Income

For the Years Ended September 30, 2021 and 2020

	2021	2020
Revenue		
Water sales	\$ 1,513,056	\$ 1,547,000
Meter tap and equity fees	101,729	52,961
Late fees	19,250	15,910
Reconnects and other fees	10,244	3,448
Total Revenue	<u>1,644,279</u>	<u>1,619,319</u>
Operating Expenses		
Water purchases	359,533	446,380
Bank and credit card fees	7,183	6,442
Chemicals and testing	18,441	14,706
Depreciation and amortization	250,226	222,364
Dues and subscriptions	6,619	6,966
Insurance	20,654	19,420
Miscellaneous	1,087	1,487
Office expense	17,005	22,594
Professional fees	9,534	15,853
Salaries and benefits	319,245	299,546
System repairs and maintenance	66,985	60,761
Taxes- payroll	22,290	21,200
Telephone	5,001	6,554
Training and seminars	1,044	960
Travel	1,396	1,437
Utilities	43,983	39,208
Total Operating Expenses	<u>1,150,226</u>	<u>1,185,878</u>
Operating Income (Loss)	<u>494,053</u>	<u>433,441</u>
Other Income and Expense		
Interest expense	(236,961)	(310,976)
Interest and dividend income	28,718	64,326
Other income	-	382
Gain (loss) on disposal of assets	-	17,692
Total Other Income and Expense	<u>(208,243)</u>	<u>(228,576)</u>
Net income (loss)	<u>\$ 285,810</u>	<u>\$ 204,865</u>

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

MOFFAT WATER SUPPLY CORPORATION
Statements of Membership Investment
For the Years Ended September 30, 2021 and 2020

	Total Members	Membership Investment	Donated Investment	Retained Earnings		Total
				Appropriated	Unappropriated	
Balance 9/30/2019	1,600	\$ 324,887	\$ 181,558	\$ 377,368	\$ 1,451,478	\$ 2,335,291
Additions 2020	29	16,633	-	-	-	16,633
Reductions 2020	(79)	(34,041)	-	-	180	(33,861)
Net income (loss) 2020	-	-	-	4,980	199,885	204,865
Balance 9/30/2020	1,550	307,479	181,558	382,348	1,651,543	2,522,928
Additions 2021	40	18,600	-	-	-	18,600
Reductions 2021	34	(3,346)	-	-	-	(3,346)
Net income (loss) 2021	-	-	-	2,634	283,176	285,810
Balance 9/30/2021	<u>1,624</u>	<u>\$ 322,733</u>	<u>\$ 181,558</u>	<u>\$ 384,982</u>	<u>\$ 1,934,719</u>	<u>\$ 2,823,992</u>

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

MOFFAT WATER SUPPLY CORPORATION

Statements of Cash Flows

For the Years Ended September 30, 2021 and 2020

Cash Flows from Operating Activities	2021	2020
Net income (loss)	\$ 285,810	\$ 204,865
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	250,226	222,364
(Gain) loss on sale of property and equipment	-	(17,692)
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable	(4,004)	(11,637)
Decrease (increase) in prepaid expenses	(155)	83
Decrease (increase) in inventory	(2,461)	(6,177)
(Decrease) increase in accounts payable	(15,542)	37,217
(Decrease) increase in accrued interest payable	(6,481)	67,312
(Decrease) increase in payroll liabilities	(2,436)	1,005
(Decrease) increase in TCEQ assessment payable	(233)	479
Net cash provided by operating activities	<u>504,724</u>	<u>497,819</u>
Cash Flows from Investing Activities		
Purchase of certificates of deposit and reinvestment of income	(66,599)	(60,297)
Proceeds from sale of property and equipment	-	18,000
Purchase of property, equipment, and improvements	<u>(274,054)</u>	<u>(877,536)</u>
Net cash used by investing activities	<u>(340,653)</u>	<u>(919,833)</u>
Cash Flows from Financing Activities		
Repayment of long-term debt	(143,193)	(130,517)
Increase/ (Decrease) in membership investment	<u>15,254</u>	<u>(17,408)</u>
Net cash used by financing activities	<u>(127,939)</u>	<u>(147,925)</u>
Net increase (decrease) in cash	36,132	(569,939)
Cash, October 1, 2020 and 2019	<u>417,074</u>	<u>987,013</u>
Cash, September 30, 2021 and 2020	<u>\$ 453,206</u>	<u>\$ 417,074</u>
Supplemental information: Interest paid	<u>\$ 243,442</u>	<u>\$ 243,731</u>

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

MOFFAT WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended September 30, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Moffat Water Supply Corporation is a member-owned tax exempt organization, which incorporated pursuant to Chapter 67 of the Texas Water Code for the purpose of providing potable water to its' members in Bell county in Texas. Operating policies, rates, tariffs and regulations are formulated by a Board of Directors, duly elected by the members of Moffat Water Supply Corporation.

Basis of Accounting

The accrual basis of accounting is used to maintain the books of the Corporation. Revenues are recognized as billed on a cycle basis.

Cash Equivalents

For purposes of the statement of cash flow, cash deposits and all liquid investments purchased with an initial maturity of three months or less, and not designated as a component of the reserve fund, are considered to be cash equivalents.

Accounts Receivable

Accounts receivable is recorded at the amount the Corporation expects to collect on balances outstanding at year-end. Uncollectible amounts are periodically reviewed, based on historical performance the Corporation decides whether or not to write-off. Past due balances (over 60 days) as of September 30, 2021 and 2020 were immaterial.

Fixed Assets

Property and equipment are carried at cost. If an asset is donated, it is recorded at its fair market value at the time of donation. Depreciation on assets is computed by the straight-line method based on expected service life.

Investments

Certain marketable securities are held at fair market value. Investment income and gains and losses on the investments increase or decrease unrestricted net assets unless there is a restriction on its use.

Tax Exempt Status

The Corporation qualifies as an exempt organization under state franchise tax regulations. Exempt status has been granted by the Internal Revenue Service under IRC Section 501(c)(12). A required information return is filed annually. The federal income tax returns for the Corporation for 2020, 2019, and 2018 are subject to examination by the IRS, generally for three years after they were filed.

Revenue Recognition

The Corporation adopted Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" as of October 1, 2019, which related to revenue recognition. In general, for revenue not associated with financial instruments, guarantees, and lease contracts, management applies the following steps when recognizing revenue from contracts with customers:

MOFFAT WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended September 30, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

(I) identify the contract, (II) identify the performance obligation, (III) determine the transaction price, (IV) allocate the transaction price to the performance obligation and (V) recognize revenue when a performance obligation is satisfied.

The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to members in amounts that reflect the consideration to which the Corporation expects to be entitled in exchange for those goods or services. The amount to which the Corporation expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

The Corporation's contracts with customers are short-term in nature, typically due within one year or less or cancellable by us or our customer upon a short notice period. Performance obligations for customer contracts are satisfied at a single point, typically, when the transaction is complete, or overtime. For performance obligations satisfied over time, the Corporation primarily uses the output method, directly measuring the value of products/services transferred to the customer, to determine when performance obligations have been satisfied. The Corporation typically receives payment from customers and recognizes revenue concurrent with the satisfaction of its performance obligations. In most cases, this occurs within a single financial reporting period. For payments received in advance of the satisfaction of performance obligations, revenue recognition is deferred until the performance obligations have been satisfied. In cases where the Corporation has not received payment, despite the satisfaction of its performance obligations, an accrual is made of an estimate of the amount due in the period its performance obligation has been satisfied.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - MEMBERSHIP INVESTMENT

Members are required to purchase one share of stock per meter in order to use the system. The membership fee is \$600 per meter until March 15, 2021 where it was changed to \$300 per meter. The stock is non-refundable; however, it is transferable.

NOTE 3 - INVESTMENT IN BLUEBONNET WATER SUPPLY CORPORATION

Bluebonnet Water Supply Corporation is a consortium of area water supply corporations and small municipal water systems formed to provide surface water to each individual corporation's customers. Membership requires a \$500 investment in order to use the surface water system. Each member organization elects one director to the board of directors of Bluebonnet Water Supply Corporation.

MOFFAT WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended September 30, 2021 and 2020

NOTE 4 – INVESTED FUNDS

The Corporation has invested funds with various institutions as follows:

	<u>Interest Rate</u>	<u>2021</u>	<u>Interest Rate</u>	<u>2020</u>
Invested Funds				
Central National Bank - Capital Improvements	0.310%	\$ 655,806	1.120%	\$ 610,229
Central National Bank - Projects	None	199,741	None	199,741
Central National Bank - Escrow Loan	0.310%	3,048,522	1.260%	3,030,453
CoBank	None	2,730	None	2,412
		<u>\$ 3,906,799</u>		<u>\$ 3,842,835</u>
Investment Funds - Reserved				
Central National Bank - USDA	0.310%	\$ 52,641	1.120%	\$ 52,281
Central National Bank - TWDB	0.310%	304,286	1.120%	302,204
Central National Bank - CoBank	0.310%	28,055	1.120%	27,863
Total Invested Funds		<u>\$ 384,982</u>		<u>\$ 382,348</u>

Investment values for securities are stated at fair market value, which is determined by the quoted prices in an active market for identical or similar assets. There was an unrealized gain (loss) of \$0 and \$0 for the years ended September 30, 2021 and 2020, respectively.

During the years ended September 30, 2021 and 2020, the Organization reinvested qualified patronage allocations of \$318 and \$390, respectively, in Class A common stock of CoBank, ACB. Investments are reported at fair market value. As of September 30, 2021, and 2020, the fair market value is:

<u>Stock</u>	<u>2021</u>		<u>2020</u>	
	<u>Cost</u>	<u>Fair Market Value</u>	<u>Cost</u>	<u>Fair Market Value</u>
	CoBank	<u>\$ 2,730</u>	<u>\$ 2,730</u>	<u>\$ 2,412</u>
	<u>\$ 2,730</u>	<u>\$ 2,730</u>	<u>\$ 2,412</u>	<u>\$ 2,412</u>

A hierarchy of different levels is used in determining fair market value. The various levels are as follows:

Level 1 - valuations based on quoted prices in an active market for identical assets or liabilities.

Level 2 - valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – valuations based on inputs that are not observable and significant to the overall fair value measurement.

As of September 30, 2021 and 2020, all investments were classified as level one.

MOFFAT WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended September 30, 2021 and 2020

NOTE 5 – APPROPRIATED RETAINED EARNINGS

In May 2006 a loan agreement was entered into with the United States Department of Agriculture (USDA) for \$719,300 at an interest rate of 4.375%. An amount of \$38,160 is required to be held in a reserve account for this loan.

An additional loan agreement was entered into with the USDA in August 2006. This loan was for \$253,200 at an interest rate of 4.375%. An amount of \$13,220 is required to be held in a reserve account for this loan.

In April 2012 and March 2019, the Texas Water Development Board (TWDB) approved loans in the amounts of \$2,000,000 and \$3,300,000 from the Rural Water Assistance Fund and the Texas Water Development Fund, with an annual interest rate of 3.890% fixed and 3.920% blended, respectively. The Corporation is to use the loan proceeds for acquisition, construction, improvements and/or extensions to the water system. The loan is secured by all gross revenue of the waterworks system and the distribution system assets. The loans are to mature on May 11, 2050 and April 15, 2049, respectively. A provision of the loans requires the Corporation to establish and maintain a specific fund to service its annual debt service requirements. A monthly deposit, no less than 1/60th of the average annual debt service requirement, is to be made to a reserve account until 100% of the average annual debt service requirement is met. As of September 30, 2021 and 2020, amounts of \$100,800 and \$197,472, respectfully, are required to be held in reserve for these loans.

In July of 2016 a loan agreement was entered into with CoBank, ACB. Under the loan agreement with CoBank, Moffat Water Supply Corporation is required to maintain \$27,500 in cash reserve.

As of September 30, 2021 and 2020, the total balance of the reserve accounts is \$384,982 and \$382,348, respectively. Reserved funds are held at a local financial institution. Funds held at the financial institution are insured by the FDIC up to \$250,000 and letters of credit of \$5,150,000. Also see Note 4 and Note 10. As of September 30, 2021 and 2020, the required reserve for the USDA, TWDB, and CoBank loans have been met. The Corporation is in compliance with Chapter 67 of the Texas Water Code as in regards to authorized investments.

MOFFAT WATER SUPPLY CORPORATION
Notes to Financial Statements
For the Years Ended September 30, 2021 and 2020

NOTE 6 - NOTES PAYABLE

Long-term debt at September 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Note payable to USDA, interest at 4.375%, monthly payments including interest of \$3,180, secured by water system assets and revenues. Matures 5/23/2046.	\$ 566,992	\$ 580,032
Note payable to USDA, interest at 4.375%, monthly payments including interest of \$1,120, secured by water system assets and revenues. Matures 5/23/2046.	196,396	201,130
Note payable to TWDB, interest at 3.890%, monthly payments including interest of \$8,397, secured by water system assets and revenues. Matures 5/11/2050.	1,739,529	1,771,924
Note payable to TWDB, blended interest at 3.920%, varying annual payment currently including interest and principle of \$197,472, secured by water system assets and revenues. Matures 4/15/2049.	3,170,000	3,240,000
Note payable to bank, interest at 2.920%, varying monthly payments averaging \$2,127, secured by water system assets and revenues.	70,625	93,649
Total notes payable	<u>5,743,542</u>	<u>5,886,735</u>
Less: current portion	<u>(145,904)</u>	<u>(143,229)</u>
Total long-term debt	<u>\$ 5,597,638</u>	<u>\$ 5,743,506</u>

Aggregate maturities required on long-term debt at September 30, 2021 are as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 145,904
2023	148,682
2024	149,468
2025	134,048
2026	136,493
Thereafter	5,028,947
	<u>\$ 5,743,542</u>

For the years ended September 30, 2021 and 2020, interest expense related to these notes payable are \$236,961 and \$310,976, respectively.

MOFFAT WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended September 30, 2021 and 2020

NOTE 7 – FIXED ASSETS

Fixed assets, together with estimated useful lives, consisted of the following:

	September 30		Useful lives in Years
	2021	2020	
Land	\$ 21,105	\$ 9,640	
Distribution System	5,464,929	5,382,980	7 - 30
Plant and Improvements	1,104,974	1,104,974	5 - 25
New Admin Building	95,109	95,109	39
Automotive	67,646	67,646	5
Current Year Improvements	319,659	290,453	7 - 20
Construction in Progress	315,997	166,194	25
Equipment	198,702	198,702	5 - 10
Office Equipment and Furniture	27,711	26,080	3 - 10
	<u>7,615,832</u>	<u>7,341,778</u>	
Less accumulated depreciation	<u>(3,837,068)</u>	<u>(3,586,842)</u>	
Total fixed assets	<u>\$ 3,778,764</u>	<u>\$ 3,754,936</u>	

Depreciation expense for the years ended September 30, 2021 and 2020 was \$250,226 and \$222,364 respectively.

NOTE 8 – DONATED INVESTMENT

Included in donated investment are contributions made by the United States Department of Agriculture and various developers. These contributions are for capital improvements paid by and benefiting the Corporation. The Corporation elects to capitalize these assets because they add to the overall productivity of the water supply system and the Corporation assumes responsibility for the maintenance and additions thereafter.

NOTE 9 – WATER PURCHASE CONTRACT

Moffat Water Supply Corporation has entered into a contract with Bluebonnet Water Supply Corporation (BWSC) for treated lake water. The Corporation contracted BWSC to treat and deliver water to the Corporation, for the benefit of the Corporation's customers. The minimum monthly amount provided for 2021 and 2020 was 9,267,000 gallon and 10,659,000 gallons for \$29,654 and \$34,109, respectively. For the year ended September 30, 2021 and 2020, the Corporation paid \$359,533 and \$409,306, respectively, for purchased water from Bluebonnet Water Supply Corporation.

MOFFAT WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended September 30, 2021 and 2020

NOTE 10 – DEPOSITS IN EXCESS OF FDIC LIMIT

As of September 30, 2021 and 2020, the Corporation has \$-0- and \$-0- (respectively) of cash deposits in excess of the FDIC insured limit of \$250,000 and letters of credit pledged by the financial institution of \$5,150,000 and \$4,650,000 and for 2021 and 2020, respectively.

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation calculates the fair value of its assets and liabilities which qualify as financial instruments and includes this additional information in the notes to financial statements when the fair value is different than the carrying value of these financial instruments. The estimated fair value of accounts receivable, accounts payable, and accrued liabilities approximate the carrying amounts due to the relatively short maturity of these instruments. The carrying value of notes payable also approximate fair value since these instruments bear market rates of interest. None of these instruments are held for trading purposes.

NOTE 12 – RETIREMENT PLAN

The Corporation began offering a “Simple IRA” retirement plan in January 2009. The Corporation elected to contribute an amount equal to 3% of each eligible employee’s compensation. As of September 30, 2021 and 2020, \$6,227 and \$3,376, respectively was paid as employer provided retirement benefits.

NOTE 13 – EVALUATION OF SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through January 10, 2022, the date which the financial statements were available to be issued.