

MOFFAT WATER SUPPLY CORPORATION

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

SEPTEMBER 30, 2015

MOFFAT WATER SUPPLY CORPORATION
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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ALTON D. THIELE, P. C.

Certified Public Accountant
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

Moffat Water Supply Corporation
5456 Lakeaire Boulevard
Temple, TX 76502

Report on the Financial Statements

We have audited the accompanying financial statements of Moffat Water Supply Corporation (a nonprofit corporation), which comprise the statement of financial position as of September 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2015 and 2014, and the changes in net assets and 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 7, 2015, 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.

Belton, Texas
December 7, 2015

Moffat Water Supply Corporation
STATEMENT OF FINANCIAL POSITION

September 30, 2015 and 2014

ASSETS

	2015	2014
CURRENT ASSETS		
Cash in banks and on hand	\$ 252,715	\$ 45,037
Invested funds - NOTE F	122,860	131,263
Trade accounts receivable	94,761	117,337
Inventory	36,921	27,772
Prepaid expenses	6,590	13,670
Total Current Assets	513,848	335,078
 PROPERTY AND EQUIPMENT (net of accumulated depreciation)	 3,555,994	 3,410,399
OTHER ASSETS		
Investment-Bluebonnet WSC - NOTE C	500	500
Invested funds-Construction projects - NOTE F	46,721	408,331
Invested funds-Reserve - NOTE F	158,868	158,284
Total Other Assets	206,089	567,115
 TOTAL ASSETS	 \$ 4,275,931	 \$ 4,312,593

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Trade accounts payable	\$ 9,733	\$ 5,374
Payroll taxes payable	2,527	6,906
Regulatory assessment fee payable	4,158	3,714
Accrued interest payable	803	822
Current portion of long-term debt	59,053	57,642
Total Current Liabilities	76,274	74,457
 LONG-TERM LIABILITIES		
Long-term debt (net of current portion) - NOTE G	2,915,722	2,974,780
 NET ASSETS		
Unrestricted - NOTE A	1,283,935	1,263,355
 TOTAL LIABILITIES AND NET ASSETS	 \$ 4,275,931	 \$ 4,312,593

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, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Metered water sales	\$ 1,076,625	\$ 973,297
Penalty and reconnect fees	23,705	25,295
Meter tap and equity fees	20,240	29,415
Other revenues	1,874	2,511
	1,122,444	1,030,518
OPERATING EXPENSES		
Water purchased - NOTE I	453,880	463,537
Water testing	6,632	5,376
Travel, meetings and training	3,709	8,344
Depreciation and amortization	217,235	209,213
Dues and subscriptions	5,212	5,281
Insurance	26,948	20,626
Miscellaneous expense	475	306
Office expenses	25,950	31,360
Professional fees	10,372	9,995
Power purchased for pumping	33,492	34,743
Salaries and benefits	173,494	252,491
Repairs and maintenance	18,261	40,119
Service vehicles fuel and maintenance	11,149	17,957
Telephone	6,587	5,876
Bad debts (recoveries)	(107)	1,513
	993,288	1,106,737
INCREASE (DECREASE) IN OPERATING REVENUES OVER OPERATING EXPENSES	129,156	(76,218)
OTHER UNRESTRICTED REVENUE (EXPENSE)		
Interest income	703	997
Miscellaneous income	-	-
Interest expense	(123,492)	(121,908)
Gain / (loss) on sale of assets	5,775	(631)
	(117,014)	(121,541)
CHANGE IN NET ASSETS FROM OPERATIONS	12,142	(197,760)
OTHER NON-RECURING REVENUE (EXPENSE)		
Membership fees	8,437	6,120
	20,580	(191,640)
CHANGE IN NET ASSETS	20,580	(191,640)
BEGINNING NET ASSETS	1,263,355	1,454,995
ENDING NET ASSETS	\$ 1,283,935	\$ 1,263,355

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, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets from operations:	\$ 12,142	\$ (197,760)
Adjustments to reconcile the change in net assets from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	217,235	209,213
(Gain) loss from sale of assets	(5,775)	631
Changes in operating assets and liabilities - (Increase) decrease in:		
Trade receivables	22,576	(20,387)
Invested funds	8,403	
Inventory	(9,149)	(483)
Prepaid expenses	7,080	30,089
Increase (decrease) in:		
Trade payables	577	(33,371)
Accrued expenses	(19)	(1,680)
Total Adjustments	240,928	184,012
Net Cash Provided By (Used In) Operating Activities	253,070	(13,748)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash payments for purchase of property	(357,208)	(512,334)
Proceeds from the sale of assets	-	-
Cash payments for the purchase of invested funds	361,026	(628,532)
Proceeds from the redemption of invested funds	-	-
Net Cash Provided By (Used In) Investing Activities	3,818	(1,140,866)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long term debt	(57,647)	(56,051)
Proceeds from issuance of memberships	8,437	6,120
Net Cash Provided By (Used In) Financing Activities	(49,210)	(49,931)
NET INCREASE (DECREASE) IN CASH	207,678	(1,204,545)
CASH BEGINNING OF PERIOD	45,037	1,249,582
CASH AT END OF PERIOD	\$ 252,715	\$ 45,037
Supplemental disclosures of cash flow information:		
Cash paid during the year for -		
Interest expense	\$ 123,505	\$ 125,967

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, 2015 and 2014. The following is a schedule of unrestricted net assets:

	2015	2014
MEMBERSHIPS		
Balance, October 1	\$ 207,494	\$ 201,374
Member investment - Current Year	8,437	6,120
Balance, September 30	215,931	207,494
DONATED CAPITAL - USDA		
Balance, October 1	10,612	10,612
Additions	-	-
Balance, September 30	10,612	10,612
NET ASSETS		
RESERVED – BOARD DESIGNATED		
Balance, October 1	158,284	151,436
Increase (Decrease) in Board Designated	584	6,848
Balance, September 30	158,868	158,284
UNDESIGNATED		
Balance, October 1	886,966	1,091,573
Increase (Decrease) in Board Designated	(584)	(6,848)
Change in unrestricted net assets	12,142	(197,760)
Balance, September 30	898,524	886,965
TOTAL UNRESTRICTED NET ASSETS	\$ 1,283,935	\$ 1,263,355

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 F, 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)	Cost	Depreciation	
			Current	Accumulated
Land	N/A	\$ 9,640	N/A	N/A
Distribution system	5 - 40	5,818,143	188,068	2,411,441
Buildings and improvements	39	95,109	2,461	8,124
Service vehicles; Equipment	5 - 10	180,204	25,216	133,297
Office furniture; Equipment	3 - 10	20,002	1,490	14,242
		<u>\$ 6,123,098</u>	<u>\$ 217,235</u>	<u>\$ 2,567,104</u>

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 sold for \$360 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, 2015 and 2014, there were 1,417 and 1,415 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 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. At September 30, 2015 and 2014, the Reserve Fund consisted of the following:

<u>USDA-Rural Development</u>	<u>2015</u>	<u>2014</u>
Invested funds (Note F)	\$ 158,868	\$ 158,284
Required maintenance level	<u>114,062</u>	<u>108,902</u>
Reserve funds in excess of required maintenance level	<u>\$ 44,806</u>	<u>\$ 49,382</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, 2015 and 2014, a total of \$2,316 and \$2,391, respectively, was paid as retirement benefits.

NOTE F - INVESTED FUNDS

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

<u>2015</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Amount</u>
BBVA Compass Bank - Capital Improvement	0.200%	Demand	<u>\$ 122,860</u>
Construction Projects			
ExtraCo Banks	0.000%	Demand	<u>\$ 46,721</u>
Reserve			
BBVA Compass Bank - USDA	0.250%	Demand	\$ 82,943
BBVA Compass Bank - TWDB	0.225%	Demand	<u>75,925</u>
			<u>\$ 158,868</u>
2014			
BBVA Compass Bank - Impact	0.200%	Demand	\$ 48,150
BBVA Compass Bank - USDA / TWDB	0.000%	Demand	15,117
BBVA Compass Bank - TCEQ	0.000%	Demand	2,067
BBVA Compass Bank - Capital Improvement	0.000%	Demand	60,086
BBVA Compass Bank - Capital Development	0.000%	Demand	<u>5,842</u>
			<u>\$ 131,262</u>
Construction Projects			
ExtraCo Banks	0.000%	Demand	\$ 368,966
ExtraCo Banks - Escrow	0.000%	Demand	<u>39,365</u>
			<u>\$ 408,331</u>
Reserve			
BBVA Compass Bank	0.400%	Demand	\$ 82,786
BBVA Compass Bank	0.225%	Demand	<u>75,498</u>
			<u>\$ 158,284</u>

Amounts in excess of the FDIC \$250,000 insurance cap are secured by bank investments.

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

NOTE G - NOTES PAYABLE

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

Detail of the debts outstanding as of September 30, 2015 and 2014 is as follows:

<u>USDA-RD</u>		<u>2015</u>			
<u>Note No.</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Monthly Payment</u>	<u>Note Balance</u>	
				<u>Current</u>	<u>Total</u>
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
<u>T W D B</u>					
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:

<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021 & Thereafter</u>
\$ 59,053	\$ 61,626	\$ 64,313	\$ 67,120	\$ 70,042	\$ 2,652,621

<u>USDA-RD</u>		<u>2014</u>			
<u>Note No.</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Monthly Payment</u>	<u>Note Balance</u>	
				<u>Current</u>	<u>Total</u>
90-01	5.000%	2/27/2036	\$ 2,397	\$ 18,303	\$ 217,533
90-02	4.375%	5/23/2046	3,180	10,037	647,368
90-04	4.375%	10/23/2046	1,120	3,644	225,563
			\$ 6,697	\$ 31,984	\$ 1,090,464
<u>T W D B</u>					
L110053	3.890%	5/11/2050	\$ 8,399	\$ 25,658	\$ 1,941,959
			\$ 15,096	\$ 57,642	\$ 3,032,423

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

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020 & Thereafter</u>
\$ 57,642	\$ 60,208	\$ 62,886	\$ 65,687	\$ 68,616	\$ 2,717,384

NOTE H - 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.

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 \$34,869 and \$35,754 monthly payment, based on 11,623,000 and 11,918,000 gallons at \$3.00 per 1,000 gallons, for the years ending September 30, 2015 and 2014, 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, 2015 and 2014, Bluebonnet WSC has rebated \$30,357 and \$14,478, respectively.

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

NOTE I - COMMITMENTS AND CONTINGENCIES (continued)

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 \$5.9075 per acre foot of water, whether used or not. 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 \$35,452 and \$33,043 for the 500 acres feet for the years ended September 30, 2015 and 2014, respectively. Moffat WSC has used 126,360,000 and 134,684,000 gallons of water purchased and delivered to its distribution system during the years ended September 30, 2015 and 2014, respectively.

NOTE K - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 7, 2015; the date the financial statements were available to be issued. No change to the financial statements for the fiscal year ending September 30, 2015 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

To the Board of Directors of
Moffat 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 Moffat Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of September 30, 2015, 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 7, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Moffat 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 Moffat Water Supply Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of 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. We did identify certain deficiencies 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 significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Moffat 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*.

MOFFAT WATER SUPPLY CORPORATION
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
SEPTEMBER 30, 2015

ALTON D. THIELE, P.C.

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

December 7, 2015

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, 2015, and have issued our report thereon dated December 7, 2015. 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 July 31, 2015. 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, 2015. 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.

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 7, 2015.

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.

During our testing of transaction for internal control purposes, we noted instances of certain vendors assessing state and local sales taxes. Your corporation is exempt from the assessment of ad valorem and sales taxes because you are part of a "regional" water provider network (Bluebonnet W S C is the regional provider) and you agreed to be subject to the State of Texas Open Meetings and Open Records Act. The exemption letter (a statutory provision of the legislature, not part of the tax code) should be forwarded to AT&T, Lowe's, Sam's Club, and others that are providers of services, supplies or materials.

During our review of accounts receivable, we noted several accounts with balances and yet the account notations appear to indicate the meter has been pulled or the account had been "written off." In discussions with your office manager it was concluded this is remnants of procedures which existed several years ago, but, due to TCEQ rulings, are no longer applicable. We recommended to Rebecca Miller she compile a list of the accounts for approval from the Board before she completes the write-off process.

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,



Alton D. Thiele, P.C.