

ELLINGER SEWER and WATER SUPPLY CORPORATION
AUDIT OF FINANCIAL STATEMENTS
FOR YEAR ENDED
DECEMBER 31, 2018

ELLINGER SEWER and WATER SUPPLY CORPORATION

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MEDACK & OLTMANN, LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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PROFESSIONAL STAFF

Remington O'Dell, CPA
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MEMBERS

American Institute of
Certified Public Accountants

Texas Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Ellinger Sewer and Water Supply Corporation

We have audited the accompanying financial statements of Ellinger Sewer and Water Supply Corporation, (a Texas non-profit corporation), which comprise the balance sheet as of December 31, 2018, and the related statements of income, retained earnings and cash flows for the year 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 audits 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 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 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 Ellinger Sewer and Water Supply Corporation as of December 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Medack & Oltmann, LLP

Medack & Oltmann, LLP
Giddings, Texas
November 6, 2019

Ellinger Sewer and Water Supply Corporation
Balance Sheet
December 31, 2018

ASSETS		2018
<u>Current Assets</u>		
Cash	\$	227,046
Accounts Receivable		17,171
Total Current Assets	\$	244,217
Cash-Restricted USDA		4,692
<u>Fixed Assets</u>		
Water Facilities and Other Equipment	\$	314,048
Less: Accumulated Depreciation		(200,888)
Construction in Progress		28,350
Land		42,390
Total Fixed Assets	\$	183,900
 TOTAL ASSETS	 \$	 <u><u>432,809</u></u>

LIABILITIES AND MEMBERSHIP EQUITY

<u>Current Liabilities</u>		
Accounts Payable and Accrued Expenses	\$	9,142
Notes Payable		1,540
Total Current Liabilities	\$	10,682
<u>Long Term Liabilities</u>		
Notes Payable		
Total Long Term Liabilities	\$	26,431
Total Liabilities	\$	37,113
<u>Membership Equity</u>		
Retained Earnings		395,696
Total Membership Equity	\$	395,696
 TOTAL LIABILITIES AND MEMBERSHIP EQUITY	 \$	 <u><u>432,809</u></u>

The notes are an integral part of these financial statements.

Ellinger Sewer and Water Supply Corporation
Statement of Income
Year Ended December 31, 2018

	2018
<u>Income</u>	
Water Sales	\$ 221,855
Interest Income	659
	\$ 222,514
<u>Expenses</u>	
Professional Services	\$ 100
Membership Dues	800
Insurance	3,628
Office Supplies/Postage	2,419
Payroll Taxes	1,331
Contract Labor	1,800
Salaries	17,400
Repairs/Maintenance	75,848
Supplies	20,874
Interest Expense	1,438
Operational Services	36,000
Utilities	12,393
Water Testing & Lab	3,009
Fees & Permits	1,450
Miscellaneous	1,153
Depreciation	5,523
Posting and Press	39
	\$ 185,205
Total Expenses	\$ 185,205
NET INCOME	\$ 37,309

The notes are an integral part of the financial statements.

Ellinger Sewer and Water Supply Corporation
Statement of Retained Earnings
Year Ended December 31, 2018

	<u>2018</u>
<u>Retained Earnings</u>	
Balance at Beginning of Year	\$ 358,387
Net Income for Year	<u>37,309</u>
Balance at End of Year	<u>\$ 395,696</u>

The notes are an integral part of the financial statements.

Ellinger Sewer and Water Supply Corporation
Statement of Cash Flows
Year Ended December 31, 2018

	2018
Cash flows from operating activities:	
Cash received from customers	\$ 222,546
Cash payments to suppliers and employees	(177,523)
Interest received	659
Interest paid	(1,438)
	\$ 44,244
Net cash provided by operating activities	\$ 44,244
Cash flows from investing activities:	
Capital expenditures	\$ (49,033)
Net cash provided/(used) from investing activities	(49,033)
Cash flows from financing activities:	
Principal payments on debt	\$ (1,466)
Net cash provided/(used) by financing activities	\$ (1,466)
Net increase in cash and cash equivalents	\$ (6,255)
Cash and cash equivalents at beginning of year	\$ 237,993
Cash and cash equivalents at end of year	\$ 231,738
 Reconciliation of operating income provided by operating activities:	
Net income	\$ 37,309
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	\$ 5,523
(Increase)/decrease in accounts receivable	692
Increase/(decrease) in accounts payable and accrued expenses	720
	6,935
Total adjustments	6,935
Net cash provided by operating activities	\$ 44,244
Cash: Unrestricted	\$ 227,046
Restricted-USDA	4,692
	\$ 231,738

The notes are an integral part of the financial statements.

ELLINGER SEWER AND WATER SUPPLY CORPORATION
December 31, 2018

Notes to Financial Statements

NOTE 1: ORGANIZATION

Ellinger Sewer and Water Supply Corporation was created as provided in Article 1434a of the Revised Civil Statutes of Texas of 1925, as amended, supplemented by the Texas Non-Profit Corporation Act, Article 1396-01 et seq. as amended.

Ellinger Sewer and Water Supply Corporation has a separately elected Board, which is elected by the registered voters within the Corporation's boundaries. The Corporation is independent in that it selects its own management staff, sets user charges, establishes budgets and controls all aspects of daily activities. The Corporation receives no direct funding from any other entity.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accrual basis of accounting is utilized. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Plant Assets and Depreciation

Property and equipment are stated at cost. The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets using the straight-line method. The Corporation capitalizes net interest costs and interest earned as part of the cost of construction of its facilities. The useful lives of property, plant and equipment for purposes of computing depreciation are:

Water system	40 years
Buildings	25 years
Waste Water Berms	10 years
Equipment	7 years

Land

Land values are shown at cost based on an analysis of all available records back to the inception of the company.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Corporation considers all highly liquid assets with an original maturity of three months or less to be cash equivalents.

ELLINGER SEWER AND WATER SUPPLY CORPORATION
December 31, 2018

Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Method of Determining Uncollectibility and Writing Off Receivables

The Company sells water to members who generally pay within thirty days. Accounts for which no payment has been received for one month are considered delinquent and customary collection efforts are initiated. Accounts for which no payments have been received for two months have their water service terminated. Amounts owed are first offset with the membership fees; any remaining balance is written off-the membership fee and is generally sufficient to cover amounts owed. Collections on accounts previously written off are included in income as received. Due to the Corporation's collection policy and the resulting high collection rate, no allowance for doubtful accounts has been established. The fact that the majority of members are individuals, no one person or group of affiliated individuals comprises any concentrations or credit risk.

Estimates

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, disclosures 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.

Employee Benefits

The Corporation has no obligations to its employees to provide any benefits outside of the monthly salary.

Risk Management

The Corporation is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation purchases its insurance from regular commercial companies. As of December 31, 2018, no claims or losses have been incurred that were not covered by insurance. There is no liability due to any claim or suit having ever been filed.

NOTE 3: CASH

Deposits

At December 31, 2018, the carrying amount of the Corporation's deposits was \$231,738 and the bank balance was \$233,080. At year-end, all account balances are fully insured by FDIC.

ELLINGER SEWER AND WATER SUPPLY CORPORATION
December 31, 2018

Notes to Financial Statements

NOTE 4: RESTRICTED CASH

Provisions of the U.S.D.A Rural Development Utility Service loan agreement require that Ellinger Water Supply Corporation maintain a reserve fund for purposes of meeting its debt requirements. The terms require the Corporation to deposit, into a separate cash account, \$234 per month until the balance is equal to one year of loan payments. As of December 31, 2018, the Corporation had a total reserve balance of \$4,692.

NOTE 5: FIXED ASSETS

	Balance			Balance
	12/31/2017	Additions	Retirements	12/31/2018
Land	\$ 42,390	-	-	\$ 42,390
Building & Improvements	11,720	-	-	11,720
Water & Sewer System	222,266	49,033	-	271,299
Equipment	31,029	-	-	31,029
Construction in Progress	28,350	-	-	28,350
Total Assets	\$ 335,755	49,033	-	\$ 384,788
Accumulated Depreciation				
Building & Improvements	\$ (11,720)	-	-	\$ (11,720)
Water & Sewer System	(152,616)	(5,523)	-	(158,139)
Equipemt	(31,029)	-	-	(31,029)
Total Depreciation	\$ (195,365)	(5,523)	-	(200,888)
Total Net Fixed Assets	\$ 140,390	43,510	-	\$ 183,900

Depreciation expense charged to operations was \$5,523.

ELLINGER SEWER AND WATER SUPPLY CORPORATION
December 31, 2018

Notes to Financial Statements

NOTE 6: NOTE PAYABLE

The Corporation has a loan from the United States Department of Agriculture Rural Development. The loan has a rate of 5.00%, with monthly payments of \$242 maturing in 2032. The debt is secured by a lien on all real estate, chattels and an assignment of income and contracts.

	Balance 12/31/2017	Additions	Retirements	Balance 12/31/2018	Due Within One Year
USDA Rural Development	\$ 29,437	\$ -	\$ 1,466	\$ 27,971	\$ 1,540
Total	\$ 29,437	\$ -	\$ 1,466	\$ 27,971	\$ 1,540

Principal & interest due for the year ending December 31,

	Principal	Interest	Total
2019 \$	1,540	\$ 1,364	\$ 2,904
2020	1,619	1,285	2,904
2021	1,702	1,202	2,904
2022	1,789	1,115	2,904
2023	1,881	1,023	2,904
2024-2028	10,949	3,571	14,520
2029-2032	8,491	705	9,196
\$	27,971	\$ 10,265	\$ 38,236

NOTE 7: RATES

The following rates were approved by the Corporation's Board of Directors and effective August 2018:

Water Rates		Sewer Rates	
Meter Size	Base Rate	Meter Size	Base Rate
5/8" x 3/4"	\$ 34.50	5/8" x 3/4"	\$ 25.30
1"	\$ 84.38	1"	\$ 68.58
1.5"	\$ 168.75	1.5"	\$ 139.15
*Plus \$1 per hundred gallons		*Plus \$3.80 per thousand gallons for commercial accounts	

Membership Rates & Fees			
Rates		Fees	
Water	\$ 200.00	Connection	\$ 50.00
Sewer	\$ 100.00	Reconnection	\$ 100.00
Connection Fee	\$ 50.00	Return Check	\$ 28.00
Reserve fund monthly fee per customer account - \$5.00			

ELLINGER SEWER AND WATER SUPPLY CORPORATION
December 31, 2018

Notes to Financial Statements

NOTE 8: GALLONS PUMPED AND PURCHASED

For the year ending December 31, 2018, the follows gallons were reported:

Total Pumped	11,585,000
Gallons Purchased	<u>8,940,000</u>
Gallons Lost	2,645,000

NOTE 9: RELATED PARTY

The Corporation has an agreement with one of the directors whereby she provides billings and collection services as an employee of the organization. Salaries paid for these services totaled \$8,400 in 2018.

NOTE 10: SUBSEQUENT EVENTS

The Corporation was awarded a loan from the USDA of \$863,000 in 2016 for the purpose of drilling a new well. The Corporation awarded the bids and started the process of drilling test wells in 2019. As of December 31, 2018, no funds have been received. The Corporation was also awarded a "loan forgiveness" grant from the Texas Water Development Board for \$300,000 on September 5, 2019. These funds will be used to construct a new water standpipe. This project is expected to begin sometime in 2020.

NOTE 11: DATE OF MANAGEMENT'S REVIEW

Management has evaluated subsequent events through the date the financial statements were available to be issued.