

ELLINGER SEWER AND WATER SUPPLY CORPORATION

AUDIT OF FINANCIAL STATEMENTS

DECEMBER 31, 2020

TRLICEK & CO., P. C.
CERTIFIED PUBLIC ACCOUNTANTS
LA GRANGE, TEXAS

**ELLINGER SEWER AND WATER SUPPLY CORPORATION
AUDIT OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Ellinger Sewer and Water Supply Corporation
P.O. Box 130
Ellinger, Texas 78938

We have audited the accompanying financial statements of Ellinger Sewer and Water Supply Corporation (a nonprofit organization), which comprise the balance sheet as of December 31, 2020, and the related statements of income and expenses, changes in retained earnings and memberships, 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 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 Ellinger Sewer and Water Supply Corporation as of December 31, 2020, and its net income 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 September 7, 2021, on our consideration of Ellinger Sewer and 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 Ellinger Sewer and Water Supply Corporation's internal control over financial reporting and compliance.

Trubek & Co., P.C.

La Grange, Texas
September 7, 2021

Basic Financial Statements

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Ellinger Sewer and Water Supply Corporation
Balance Sheet
December 31, 2020

Assets

Current Assets

Cash - Operating Account	\$	464,300
Accounts Receivable		35,112
Total Current Assets		499,412

Restricted Assets

Cash		310,117
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Fixed Assets

Property and Equipment, at cost		586,833
Less: Accumulated depreciation		(216,476)
Total Fixed Assets		370,357
Total Assets	\$	1,179,886

Liabilities and Membership Equity

Current Liabilities

Accounts Payable	\$	198,024
Notes Payable - Current Portion		24,705
Accrued Interest Payable		414
Total Current Liabilities		223,143

Long - Term Debt, Net of Current Portion

Total Liabilities		390,075
		613,218

Membership Equity

Retained Earnings		566,668
Total Membership Equity		566,668
Total Liabilities and Membership Equity	\$	1,179,886

The accompanying notes to the financial statements are an integral part of this statement.

Ellinger Sewer and Water Supply Corporation
Statement of Income and Expenses
December 31, 2020

<u>Operating Income</u>	
Water Sales	\$ 225,447
Total Operating Income	225,447
 <u>Operating Expenses</u>	
Salaries and Benefits	18,311
Operational Services	36,000
Repairs and Maintenance	69,354
Utilities	12,601
Materials and Supplies	2,174
Depreciation	7,819
Total Operating Expenses	146,259
Gross Margin	79,188
 <u>General and Administrative Expenses</u>	
Postage and Office Supplies	5,665
Insurance	5,252
Interest	4,439
Legal and Professional	5,047
Other General and Administrative Expense	10,559
Total General and Administrative Expenses	30,962
Net Income From Operations	48,226
 <u>Other Income (Expense)</u>	
Interest Income	579
Total Other Income	579
Net Income	\$ 48,805

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

Ellinger Sewer and Water Supply Corporation
Statement of Changes of Retained Earnings and Memberships
For the Year Ended December 31, 2020

Retained Earnings

Retained Earnings - Beginning	\$ 517,863
Net Income	<u>48,805</u>
Retained Earnings - Ending	<u><u>\$ 566,668</u></u>

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

Ellinger Sewer and Water Supply Corporation
Statement of Cash Flows
For the Year Ended December 31, 2020

Cash Flows from Operating Activities-	
Cash received from customers	\$ 226,181
Cash paid to suppliers and employees	(160,251)
Interest received	579
Interest paid	<u>(4,362)</u>
Net Cash Provided by Operating Activities	<u>62,147</u>
Cash Flows from Investing Activities-	
Acquisitions of fixed assets	<u>-</u>
Net Cash Used in Investing Activities	<u>-</u>
Cash Flows from Capital & Financing Activities-	
Proceeds from issuance of new debt	179,730
Principal payments on debt	<u>(26,610)</u>
Net Cash Provided by Financing Activities	<u>153,120</u>
Net Increase (Decrease) in Cash	215,267
Cash and Cash Equivalents at Beginning of Year	<u>559,150</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 774,417</u></u>
Summary of cash and cash equivalents, end of year	
Cash - Unrestricted	\$ 464,300
Cash - Rerestricted	310,117
	<u><u>\$ 774,417</u></u>

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

Ellinger Sewer and Water Supply Corporation
Statement of Cash Flows
For the Year Ended December 31, 2020

Reconciliation of operating income to net cash provided by operating activities:

Operating income (loss)	\$	48,805
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation Expense		7,819
(Increase) Decrease in:		
Accounts Receivable		734
Increase (Decrease) in:		
Accounts Payable		4,712
Accrued Interest Payable		77
Total adjustments		<u>13,342</u>
Net cash provided by operating activities	\$	<u>62,147</u>

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

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ELLINGER SEWER AND WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 - BACKGROUND

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. The Corporation was formed for the purpose of furnishing a water supply for general farm use and domestic purposes to individuals residing in the rural community of Ellinger, Texas, and the surrounding rural areas in Fayette County. The governing body consists of a Board of Directors totaling seven members. These directors are elected by the registered voters within the Corporation's boundaries and they serve without any type of compensation. The Corporation selects its own management staff, sets its user charges, establishes its own budgets, and control all aspects of daily operations. It receives no direct funding from any outside entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Method 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.

B. Property and Depreciation

Property and equipment are recorded at cost. For financial statement reporting, depreciation is provided on the straight-line method over the estimated useful lives of the assets. 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 the purpose of depreciation are:

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

C. Land

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

D. Cash and Cash Equivalents

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

ELLINGER SEWER AND WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Method of Determining Uncollectibility and Writing off Receivables

The Corporation 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 and any remaining amounts are written off. The membership fee 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.

F. Budget

Prior to the beginning of each fiscal year, the manager of the Corporation submits a budget to the Board of Directors for approval. This budget sets forth the proposed expenditures and the means of financing those expenditures.

G. Employee Benefits

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

H. 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 and 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.

I. 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, 2020, 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 - DEPOSITS

As of December 31, 2020, the carrying amount of the Corporation's balance of cash, including restricted cash, was \$774,417; the bank balance was \$775,941. These deposits were held in two separate banks. As of December 31, 2020, deposits exceeded FDIC coverage by \$225,941 in one bank account and by \$50,000 in the other bank account.

ELLINGER SEWER AND WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 4 – RESTRICTED CASH

The Corporation's restricted cash at December 31, 2020 is shown below:

Reserve Fund	\$ 10,117
Grant Proceeds	300,000
	<u>\$ 310,117</u>

Provisions of the USDA Rural Development Utility Service loan agreement require that Ellinger Sewer and 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 payments. The Corporation had a total reserve balance \$10,117 as of December 31, 2020.

The Corporation received a grant from the Texas Water Development Board for future well projects in the amount of \$300,000.

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2020, are as follow:

Billed	\$ 17,651
Unbilled	17,461
Total	<u>35,112</u>
Less: Allow. for Doubtful Accts.	-
Total Accounts Receivable	<u>\$ 35,112</u>

NOTE 6 – DEBT

The Corporation has a loan of \$50,000 dated February 4, 1994 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.

The Corporation received a loan from the United States Department of Agriculture Rural Development dated June 4, 2020, in the amount of \$863,000 for the purpose of drilling a new water well. The loan is a draw note and as of December 31, 2020 \$427,735 was drawn. Terms of the loan are an interest rate of 1.375%, maturity of June 4, 2059, monthly payments of \$2,339 beginning July 4, 2019.

Date of Instrument	Face Amount	Rate	Balance 12/31/2020	Maturity
2/4/1994	\$ 50,000	5.00%	\$ 24,811	1/1/2032
6/4/2019	427,735	1.375%	389,968	6/4/2059
Total	<u>\$ 477,735</u>		\$ 414,779	
Less: Current			(24,705)	
Long-Term			<u>\$ 390,074</u>	

ELLINGER SEWER AND WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 6 – DEBT (CONTINUED)

Changes in Outstanding Debt

Transactions for the year ended December 31, 2020, are summarized as follows:

	Balance 12/31/19	Additions	Retirements	Balance 12/31/20
USDA Rural Development #3	\$ 26,430	\$ -	\$ (1,619)	\$ 24,811
USDA Rural Development #5	235,229	179,730	(24,991)	389,968
Total	<u>\$ 261,659</u>	<u>\$ 179,730</u>	<u>\$ (26,610)</u>	<u>\$ 414,779</u>

The principal due for the years ending December 31, is as follows:

2021	\$ 24,705
2022	24,956
2023	25,368
2024	25,789
2025	26,220
2026-2030	137,911
2031-2035	138,048
2036	11,782
Total	<u>\$ 414,779</u>

NOTE 7 – FIXED ASSETS

The following is a summary of changes in general fixed assets:

	Balance 12/31/19	Additions	Deletions	Balance 12/31/20
Water & Sewer System	\$ 271,649	\$ -	\$ -	\$ 271,649
Equipment	31,029	-	-	31,029
Buildings and Improvements	11,720	-	-	11,720
Land	42,390	-	-	42,390
Construction in Progress	47,775	182,270	-	230,045
Total Assets	<u>404,563</u>	<u>182,270</u>	<u>-</u>	<u>586,833</u>
Accumulated Depreciation				
Water and Sewer System	(165,908)	(7,819)	-	(173,727)
Equipment	(31,029)	-	-	(31,029)
Buildings and Improvements	(11,720)	-	-	(11,720)
Total Accumulated Depreciation	<u>(208,657)</u>	<u>(7,819)</u>	<u>-</u>	<u>(216,476)</u>
Total Assets-Net	<u>\$ 195,906</u>	<u>\$ 174,451</u>	<u>\$ -</u>	<u>\$ 370,357</u>

Depreciation expense charged to operations for 2020 was \$7,819.

**ELLINGER SEWER AND WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 8 – GALLONS PUMPED AND PURCHASED

For the year ending December 31, 2020, the following gallons were reported.

Total Gallons Pumped	11,046,000
Gallons Purchased	<u>8,034,000</u>
Gallons Lost	3,012,000

NOTE 9 – GRANTS

The Corporation was also awarded a “loan forgiveness” grant from the Texas Water Development Board for \$300,000 on September 5, 2020. These funds will be used to construct a new water standpipe. This project is expected to begin sometime in 2021. No funds were expended in the 2020 year.

NOTE 10 – DATE OF MANAGEMENT’S REVIEW

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

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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*

Ellinger Sewer and Water Supply Corporation
P.O. Box 130
Ellinger, Texas 78938

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ellinger Sewer and Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, 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 September 7, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Ellinger Sewer and 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 the Ellinger Sewer and Water Supply Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ellinger Sewer and Water Supply Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ellinger Sewer and 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 instance 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 organization'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.

Tallich & Co., P.C.

La Grange, Texas
September 7, 2021