



Montemayor Britton Bender PC

CERTIFIED PUBLIC ACCOUNTANTS

AQUA WATER SUPPLY CORPORATION

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2020 AND 2019



Montemayor Britton Bender PC
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Aqua Water Supply Corporation

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Aqua Water Supply Corporation (Aqua WSC), which comprise the statement of financial position as of December 31, 2020 and 2019, 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 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 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 Aqua WSC as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in conformity 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 DATE, on our consideration of Aqua WSC'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 Aqua WSC's internal control over financial reporting and compliance.

Montemayor Britton Bender PC

February 11, 2021
Austin, Texas

AQUA WATER SUPPLY CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

ASSETS

CURRENT ASSETS	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$16,908,900	\$12,602,149
Accounts receivable, net of allowance for doubtful accounts of \$40,000	2,782,287	2,574,509
Inventory and other	<u>252,777</u>	<u>262,643</u>
Total current assets	19,943,964	15,439,301
RESTRICTED CASH	144,590	142,715
PROPERTY AND EQUIPMENT, net	<u>107,259,703</u>	<u>103,240,336</u>
TOTAL ASSETS	<u>\$127,348,257</u>	<u>\$118,822,352</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$328,785	\$301,469
Accrued expenses	239,124	208,868
Member deposits and other	252,351	241,152
Current maturities of long-term debt	<u>1,942,953</u>	<u>1,942,953</u>
Total current liabilities	2,763,213	2,694,442
LONG-TERM DEBT	13,377,467	15,528,539
CONTRIBUTIONS IN AID OF CONSTRUCTION	1,246,398	0
CAPACITY RESERVATION OBLIGATION	<u>880,357</u>	<u>0</u>
TOTAL LIABILITIES	<u>18,267,435</u>	<u>18,222,981</u>
NET ASSETS		
Without donor restrictions		
Undesignated	107,295,446	98,755,276
Designated by the Board	<u>1,000,000</u>	<u>1,000,000</u>
Total net assets without donor restrictions	108,295,446	99,755,276
With donor restrictions		
Purpose restrictions- wastewater facilities	<u>785,376</u>	<u>844,095</u>
TOTAL NET ASSETS	<u>109,080,822</u>	<u>100,599,371</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$127,348,257</u>	<u>\$118,822,352</u>

The accompanying notes are an integral part of this financial statement presentation.

AQUA WATER SUPPLY CORPORATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE			
Water sales	\$18,863,913	\$0	\$18,863,913
Tap fees	5,755,913	0	5,755,913
Contribution in aid of construction	246,507	0	246,507
Capacity reservation fees	54,343	0	54,343
Other revenue from contracts with customers	679,803	0	679,803
Other revenue	337,831	0	337,831
Net assets released from restriction-wastewater facilities	<u>58,719</u>	<u>(58,719)</u>	<u>0</u>
Total revenue	<u>25,997,029</u>	<u>(58,719)</u>	<u>25,938,310</u>
EXPENSES			
Program	13,965,487	0	13,965,487
General and administrative	<u>3,491,372</u>	<u>0</u>	<u>3,491,372</u>
Total expenses	<u>17,456,859</u>	<u>0</u>	<u>17,456,859</u>
CHANGE IN NET ASSETS	8,540,170	(58,719)	8,481,451
BEGINNING NET ASSETS	<u>99,755,276</u>	<u>844,095</u>	<u>100,599,371</u>
ENDING NET ASSETS	<u>\$108,295,446</u>	<u>\$785,376</u>	<u>\$109,080,822</u>

The accompanying notes are an integral part of this financial statement presentation.

AQUA WATER SUPPLY CORPORATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE			
Water sales	\$17,714,407	\$0	\$17,714,407
Tap fees	4,333,804	0	4,333,804
Contributions in aid of construction	1,714,915	0	1,714,915
Capacity reservation fees	577,880	0	577,880
Memberships	144,675	0	144,675
Other revenue	1,110,975	0	1,110,975
Net assets released from restriction-wastewater facilities	<u>58,719</u>	<u>(58,719)</u>	<u>0</u>
Total revenue	<u>25,655,375</u>	<u>(58,719)</u>	<u>25,596,656</u>
EXPENSES			
Program	13,819,656	0	13,819,656
General and administrative	<u>3,454,914</u>	<u>0</u>	<u>3,454,914</u>
Total expenses	<u>17,274,570</u>	<u>0</u>	<u>17,274,570</u>
CHANGE IN NET ASSETS	8,380,805	(58,719)	8,322,086
BEGINNING NET ASSETS	<u>91,374,471</u>	<u>902,814</u>	<u>92,277,285</u>
ENDING NET ASSETS	<u><u>\$99,755,276</u></u>	<u><u>\$844,095</u></u>	<u><u>\$100,599,371</u></u>

The accompanying notes are an integral part of this financial statement presentation.

AQUA WATER SUPPLY CORPORATION
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2020</u>	<u>2019</u>
Change in net assets	\$8,481,451	\$8,322,086
Depreciation	4,742,095	4,589,868
Bad debt expense	27,719	92,838
Gain/loss on sale of fixed assets	(3,418)	(12,900)
Change in accounts receivable	(235,497)	(497,661)
Change in inventory and other	9,866	427
Change in accounts payable	27,316	65,278
Change in accrued expenses	30,256	15,535
Change in member deposits and other	11,199	5,096
Change in capacity reservation obligation	<u>880,357</u>	<u>0</u>
Net cash provided by operating activities	<u>13,971,344</u>	<u>12,580,567</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(8,787,138)	(7,372,325)
Disposals of property and equipment	25,676	0
Proceeds from sale of property and equipment	<u>3,418</u>	<u>12,900</u>
Net cash used in investing activities	<u>(8,758,044)</u>	<u>(7,359,425)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances and contributions for construction	1,492,905	0
Payments from advances and contributions for construction	(246,507)	0
Principal payments on notes payable	<u>(2,151,072)</u>	<u>(2,051,015)</u>
Net cash used in financing activities	<u>(904,674)</u>	<u>(2,051,015)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	4,308,626	3,170,127
BEGINNING CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	<u>12,744,864</u>	<u>9,574,737</u>
ENDING CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	<u>\$17,053,490</u>	<u>\$12,744,864</u>
CASH PAID FOR INTEREST	<u>\$893,848</u>	<u>\$1,020,707</u>

The accompanying notes are an integral part of this financial statement presentation.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION

Aqua Water Supply Corporation (Aqua WSC) is a non-profit cooperative headquartered in Bastrop County, Texas, owned by its customers who are its members, with each member holding one share in the corporation. More than 50,000 people rely on Aqua WSC to provide water for their daily lives. Most are homeowners, farmers, and ranchers who count on Aqua WSC for safe and reliable drinking water.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

Aqua WSC uses the accrual basis method of accounting. Revenues and support are recorded when earned, rather than when received. Expenses are recorded when incurred regardless of when paid.

FINANCIAL STATEMENT PRESENTATION

Net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

Net Assets With Donor Restrictions

Net assets subject to donor imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

CASH AND CASH EQUIVALENTS

Aqua WSC considers all highly liquid investments with an original maturity of three months or less and certificate of deposits to be cash equivalents.

INVENTORY

Finished goods inventory is valued at the lower of cost (first-in, first-out) or market.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTS RECEIVABLE

Accounts receivable are recorded at the value of the revenue earned and require payments within thirty days. Account balances with charges over thirty days old are considered delinquent and management begins collection efforts at the time. Delinquent invoices do not accrue interest. Aqua WSC continually monitors each customer's credit worthiness individually and recognizes allowances for estimated bad debts for incorrect meter readings and uncollectible accounts. Aqua WSC regularly adjusts any allowance for subsequent collections and final determination that a trade account receivable is no longer collectible.

FUNCTIONAL EXPENSE ALLOCATION

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expense require allocation on a reasonable basis that is consistently applied. Aqua WSC allocates all costs between program, general and administrative, and fundraising by estimating the percentage of personnel time spent on each area as estimated by management. The estimates are reviewed periodically and the allocations revised, if necessary, to reflect changes in the activities of the organization.

PROPERTY AND EQUIPMENT

Fixed assets over \$5,000 are recorded at cost if purchased and estimated fair value if donated; costs that are specifically attributable to a project included in construction in progress are capitalized regardless of their cost. It is Aqua WSC's policy to imply a time restriction on all gifts of long-lived assets equal to the useful life of the assets. Depreciation is provided using the straight-line method based on the assets' estimated useful lives of 5 to 50 years.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the amount recorded may not be recoverable. An impairment loss is recognized for the amount in which the carrying amount of the asset exceeds the fair value, if the carrying amount of the asset is not recoverable. Management believes there has been no impairment as of December 31, 2020 and 2019.

NET ASSETS DESIGNATED BY THE BOARD

In December 2009, the Board designated \$1,000,000 for future operating needs.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUES FROM CONTRACTS WITH CUSTOMERS

Aqua WSC derives its revenues primarily from providing water and wastewater services to members. Other revenue from contracts with customers consists of tap fees, capacity reservation fees, miscellaneous fees charged to members, and other contracts. Costs incurred to obtain a contract are expensed as incurred when the amortization period is less than a year.

Revenues received for tap fees are recognized when Aqua WSC satisfies the performance obligation to transfer the meter to the customer, which typically occurs at a point in time when the meter is installed.

Revenues for capacity reservation fees are recognized over time because the customer both receives and consumes the benefit of having the capacity available each day. The revenues are recognized on a straight line basis over the term during which the customer has the capacity available which ranges from 10 to 40 years.

CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction are funds received from developers to offset the acquisition, improvement or construction costs of Aqua WSC's property, facilities, or equipment used to provide utility services to the public. Revenues from contributions in aid of construction are recognized as related expenses are incurred.

TAX STATUS

Aqua WSC is a nonprofit organization exempt from Federal income taxes under IRS Code Section 501(c)(12), except with respect to any unrelated business income. Therefore, no provision has been made for Federal income tax in the accompanying financial statements. Aqua WSC's policy is to record interest and penalties related to income taxes as interest and other expense, respectively. At December 31, 2020 and 2019 no interest and penalties have been or are required to be accrued.

ESTIMATES

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

SUBSEQUENT EVENTS

Aqua WSC has evaluated subsequent events as of the date of the Independent Auditor's Report, the date the financial statements were available to be issued.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 3: CONCENTRATION

At December 31, 2020 and 2019, Aqua WSC had cash balances in excess of FDIC insurance of \$8,373,220 and \$6,995,447 respectively. Aqua WSC has not experienced any losses due to this credit risk.

NOTE 4: RESTRICTED CASH

The note payable to the United States Department of Agriculture (USDA) requires that Aqua WSC reserve cash in designated accounts totaling \$136,752 that cannot be withdrawn unless prior written approval is obtained from the lenders for such things as loan installments, emergency maintenance, extensions to facilities and replacement of short-lived assets. The reserve amounts are reported on the statement of financial position as restricted cash. The notes payable have cross default provisions, which would cause a default on the notes if there were a default on any other obligations. At December 31, 2020 and 2019 the designated accounts had balances of \$144,590 and \$142,715, respectively.

NOTE 5: PROPERTY AND EQUIPMENT

	<u>2020</u>	<u>2019</u>
Land	\$3,572,886	\$3,572,886
Construction in progress	18,747,842	12,875,719
Water lines and extensions	78,788,012	76,711,302
Pump station	22,694,325	22,724,325
Well sites and easements	23,712,953	23,712,953
Wastewater facilities	8,139,732	8,139,732
Furniture and equipment	7,533,989	7,480,977
Building and improvements	3,465,239	3,428,739
Transportation equipment	3,197,061	2,977,080
Accumulated depreciation	<u>(62,592,336)</u>	<u>(58,383,377)</u>
	<u>\$107,259,703</u>	<u>\$103,240,336</u>

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 6: DEFINED CONTRIBUTION PLAN

Aqua WSC sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code (IRC) for all eligible employees who are age 21 or older and have completed one year of continuous service. Participating employees may contribute up to the maximum allowed by the IRC. Aqua WSC may make matching contributions, qualified matching contributions and non-elective contributions at the sole discretion of Aqua WSC's management. Total employer contributions to the plan during the year ended December 31, 2020 and 2019 were \$415,534 and \$498,728 respectively.

NOTE 7: COMMITMENTS

At December 31, 2020 Aqua WSC had the following commitments for contracts related to water system improvements:

<u>Vendor Name</u>	<u>Total Contract Amount</u>	<u>Remaining commitment at December 31, 2020</u>
Gulf States Protective Coatings, Inc.	\$720,520	\$207,028
TTE, LLC.	2,662,352	1,406,872
Austin Engineering Co., Inc.	<u>1,032,742</u>	<u>52,811</u>
	<u>\$4,415,614</u>	<u>\$1,666,711</u>

At December 31, 2019 Aqua WSC had the following commitments for contracts related to water system improvements:

<u>Vendor Name</u>	<u>Total Contract Amount</u>	<u>Remaining commitment at December 31, 2019</u>
Gulf States Protective Coatings, Inc.	\$441,270	\$33,080
Herschap Backhoe & Ditching, Inc.	256,583	111,660
Austin Engineering Co., Inc.	<u>1,032,742</u>	<u>1,032,742</u>
	<u>\$1,730,595</u>	<u>\$1,177,482</u>

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 8: FUNCTIONAL EXPENSE ALLOCATION

Functional expense allocation at December 31, 2020:

	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Personnel	\$4,802,466	\$1,200,617	\$6,003,083
Depreciation	3,793,676	948,419	4,742,095
General and administrative	1,957,476	489,369	2,446,845
Electric	876,226	219,057	1,095,283
Interest	721,442	180,360	901,802
Material and supplies	631,392	157,848	789,240
Repairs and maintenance	564,385	141,096	705,481
Other	<u>618,424</u>	<u>154,606</u>	<u>773,030</u>
Total expenses	<u>\$13,965,487</u>	<u>\$3,491,372</u>	<u>\$17,456,859</u>

Functional expense allocation at December 31, 2019:

	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Personnel	\$4,903,686	\$1,225,921	\$6,129,607
Depreciation	3,671,894	917,974	4,589,868
General and administrative	1,951,846	487,961	2,439,807
Electric	835,407	208,852	1,044,259
Interest	822,929	205,732	1,028,661
Material and supplies	519,988	129,997	649,985
Repairs and maintenance	481,967	120,492	602,459
Other	<u>631,939</u>	<u>157,985</u>	<u>789,924</u>
Total expenses	<u>\$13,819,656</u>	<u>\$3,454,914</u>	<u>\$17,274,570</u>

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 9: LONG-TERM DEBT

	<u>2020</u>	<u>2019</u>
\$7 million CoBank Revolving Term Loan with interest due monthly at a weekly quoted CoBank variable rate (4.45% at December 31, 2020 and 2019), matures May 20, 2037	\$ 4,181,525	\$ 4,349,301
\$2 million CoBank Revolving Term Loan with interest and principal due monthly at a weekly quoted CoBank variable rate (4.50% at December 31, 2020 and 2019) matures May 20, 2031	1,227,205	1,324,632
\$9.2 million CoBank Revolving Term Loan with principal and interest due monthly at 6.87%, matures November 20, 2022	1,256,189	1,872,163
\$4 million CoBank Revolving Term Loan with principal and interest due monthly at 6.45%, matures December 20, 2023	835,792	1,091,577
\$ 9 million CoBank Revolving Term Loan with principal and interest due monthly at 6.98% for \$3,567,753 and 6.82% for \$708,574, matures September 20, 2024	2,545,275	3,146,937
\$5.5 million CoBank Revolving Term Loan with principal and interest due monthly at 4.72%, matures January 20, 2028	3,072,030	3,378,844
\$2,293,000 Note Payable to USDA, principal and interest paid in monthly installments totaling \$10,778 at 4.75%, matures September 26, 2042, secured by all real property, personal property and assignment of income and contracts	1,687,534	1,732,622
\$54,530 Loan Payable to Texas Water Development Board, principal and interest paid in monthly installments ranging from \$560 to \$580 at a variable interest rate (3.66% and 3.66% at December 31, 2020 and 2019), matures March 15, 2024, secured by Aqua WSC's gross revenues (exclusive of restricted gifts, grants, donations and contributions)	20,630	26,630
\$800,000 CoBank Term Loan with interest and principal due monthly at a weekly quoted CoBank variable rate (3.18% at December 31, 2020 and 2019) matures October 20, 2028	<u>494,240</u>	<u>548,786</u>
	15,320,420	17,471,492
Less: current maturities of long-term debt	<u>1,942,953</u>	<u>1,942,953</u>
Total long-term debt	<u>\$13,377,467</u>	<u>\$15,528,539</u>

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 9: LONG-TERM DEBT

Future long-term debt payments as of December 31, 2020 are as follows:

2021	\$1,942,953
2022	2,310,470
2023	1,785,002
2024	1,436,354
2025	909,470
Thereafter	<u>6,936,171</u>
	<u>\$15,320,420</u>

Assets pledged as collateral on loans is all land, construction in progress, and other building and property and equipment, see Note 5.

At December 31, 2020, Aqua WSC had a \$2,000,000 CoBank line of credit, with interest due monthly at the weekly quoted CoBank variable rate, maturing on June 30, 2021. Aqua WSC did not draw on the line of credit during the year ended December 31, 2020.

At December 31, 2019, Aqua WSC had a \$2,000,000 CoBank line of credit, with interest due monthly at the weekly quoted CoBank variable rate, maturing on June 30, 2020. Aqua WSC did not draw on the line of credit during the year ended December 31, 2019.

The CoBank revolving term loans (Loans) are under a Master Loan Agreement with CoBank dated November 25, 2002, which was amended and restated on May 5, 2010, May 14, 2013, November 6, 2013, August 23, 2016 and July 19, 2018. The Loans are secured by all real and personal property of Aqua WSC. The Master Loan Agreement has cross default provisions on any other obligations. It also contains a material adverse change provision, which would allow the bank to subjectively deem adverse changes in Aqua WSC to be a default on the Loans. It requires compliance with financial covenants, including a debt service coverage ratio greater than 1.25 and a debt to capitalization ratio less than 0.65.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 10: FAIR VALUE OF FINANCIAL INSTRUMENTS

	<u>2020</u>		<u>2019</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Cash and cash equivalents	\$16,908,900	\$16,908,900	\$12,602,149	\$12,602,149
Restricted cash	\$144,590	\$144,590	\$142,715	\$142,715
Long-term debt	\$15,320,420	\$15,320,420	\$17,471,492	\$17,471,492

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents—The carrying amount is a reasonable estimate of fair value (Level 1).

Long-term debt- Based on the borrowing rates currently available to Aqua WSC for bank loans with similar terms and maturities (Level 2).

NOTE 11: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of net position date, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$16,908,900	\$12,602,149
Accounts receivable	2,782,287	2,574,509
Less: donor restricted for wastewater facilities	<u>(785,376)</u>	<u>(844,095)</u>
	<u>\$18,905,811</u>	<u>\$14,332,563</u>

As part of Aqua WSC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The policy is that monthly revenues are to cover monthly expenses. Monthly revenues and expenditures are deposited in and deducted from Aqua WSC's operating accounts.

Any excess cash for the year is to be used for general capital purchases in the next year. These funds are invested in CDARS accounts with short term maturities to be available for yearly capital spending. A capital depository account is maintained for these funds to be deposited as well as any new service monies that Aqua WSC receives.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 11: LIQUIDITY AND AVAILABILITY

In 2013 Aqua WSC's Board of Directors approved a list of financial institutions for which it may deposit funds. Limits were set at each of the financial institutions, so monies are transferred when needed to stay within the guidelines.

Aqua WSC is required to have a reserve in the amount of \$136,752 on hand per USDA loan requirements. Aqua WSC has designated a certificate of deposit to maintain compliance with the reserve. As of December 31, 2020 and 2019 the account had a balance of \$144,590 and \$142,715 respectively, and was recorded as restricted cash.

Other investments of Aqua WSC are the Board Designated Reserves. Per Board direction in 2009, \$1,000,000 was to be set aside for emergency purposes. The funds are accruing interest, but have not been spent to date.

Aqua WSC borrows for construction in progress projects when needed. As described in Note 9, Aqua WSC has an existing line of credit with CoBank in the amount of \$2,000,000, which it could draw upon in the event of an unanticipated liquidity need.

Aqua WSC is subject to certain loan covenants related to their revolving term loans as discussed in Note 9.

NOTE 12: REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table disaggregates Aqua WSC's revenue based on the timing of satisfaction of performance obligations for the year ended December 31, 2020.

Performance obligations satisfied over time	\$19,370,446
Performance obligations satisfied at a point in time	<u>\$5,983,526</u>
	<u>\$25,353,972</u>

Revenue recognized at a point of time primarily includes tap fees and miscellaneous water fees. These fees are typically recognized at the date at which control of the service transfers to the customer. Typically, control of the service is deemed to transfer at the date at which the service is provided.

Revenue recognized over time consists primarily of water and wastewater service contracts. Revenue is recognized over time as water is provided to customers. Revenue from capacity reservation fees are recognized over the life of the contract.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 12: REVENUE FROM CONTRACTS WITH CUSTOMERS

CONTRACT BALANCES

Contract assets consist of Aqua WSC's right to payment from customers for water and wastewater services that have been provided to the customers. The balances of contract receivables at December 31, 2020 and 2019 were \$2,731,710 and \$2,491,544 respectively.

Contract liabilities consist of Aqua WSC's obligation to retain water capacity for customers for which Aqua WSC has received consideration from the customer. Contract liabilities primarily relate to capacity reservation fees that are charged to customers to reserve the right to water for future years and must be recognized as revenues over the expected period of benefit. Balances of contract liabilities at December 31, 2020 and 2019 were \$880,357 and \$0 respectively.

PERFORMANCE OBLIGATIONS

With respect to tap fees and miscellaneous water fees, revenue is recognized at a point in time, then control of the services transfers to the customer in an amount that reflects the consideration Aqua WSC expects to be entitled to in exchange for those services. Typically, control is deemed to transfer at the date at which the service is provided. Payment is typically due upon completion of the services. Transaction prices vary depending on the size of the meter installed. In general, revenue recognized does not have a significant financing component because payments terms are relatively short.

Revenue related to water sales is recognized over time as control of the goods or service is transferred to the customer. Aqua WSC generally has a right to consideration in an amount that corresponds directly with the value to the customer of the entity's performance completed to date and may recognize revenue in the amount to which the entity has a right to invoice and has elected to recognize revenue for its sales of water and wastewater using the invoice practical expedient. The amounts are billed to customers one month in arrears. In general, revenue recognized does not have a significant financing component because payments terms are relatively short.

Revenue related to capacity reservation fees is recognized over time evenly on a straight-line basis, as control transfers to the customer over the life of the agreement, which is 10-40 years depending on the contract. In exchange for advance payment, Aqua WSC guarantees water services will be available for the duration of the agreement. Customers pay in advance at the time each contract is executed. Capacity reservation fees are typically \$600 per Living Unit Equivalent. In general, revenue recognized does not have a significant financing component because the customer pays in advance, and the timing of the transfer is at the discretion of the customer.

Determining a measure of progress requires management to make judgments that affect the timing of revenue recognized. Aqua WSC has determined that the above methods provide a faithful depiction of the transfer of goods or services to the customer.

AQUA WATER SUPPLY CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 13: ADOPTION OF NEW ACCOUNTING STANDARD

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. generally accepted accounting principles. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Aqua WSC adopted the new standard effective January 1, 2020, using the modified retrospective approach. As part of the adoption of the ASU, Aqua WSC elected the following transition practical expedients: (i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; and (ii) to apply the standard only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

All contracts were substantially completed as of January 1, 2020, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

The impact of applying this ASU for the year ended December 31, 2020 primarily resulted in a decrease to capacity reservation fees of approximately \$880,000, which are now accounted for as a stand ready performance obligation and recognized over the life of the contract.



Montemayor Britton Bender PC

CERTIFIED PUBLIC ACCOUNTANTS

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*

Board of Directors
Aqua 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 Aqua Water Supply Corporation (Aqua WSC), which comprise the statement of financial position as of December 31, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 11, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Aqua WSC'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 Aqua WSC's internal control. Accordingly, we do not express an opinion on the effectiveness of Aqua WSC'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.

2525 WALLINGWOOD DRIVE
BUILDING 1, SUITE 200
AUSTIN, TEXAS 78746
PHONE: 512.442.0380
FAX: 512.442.0817
www.montemayor.team



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Aqua WSC'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 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.

Montemayor Brittan Bender PC

February 11, 2021
Austin, Texas