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February 21, 2012

Board of Directors
Little Hope Moore Water Supply Corporation
Ben Wheeler, Texas

I have compiled the accompanying balance sheet of Little Hope Moore Water Supply Corporation as of December 31, 2012, and the related statements of income, members' equity, and cash flows for the year then ended. I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles accepted in the United States.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

I am not independent with respect to Little Hope Moore Water Supply Corporation.

Bill Hullum
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Little Hope Moore Water Supply Corporation
Balance Sheet
December 31, 2012

ASSETS

<u>Current Assets</u>		
Cash	\$ 44,050.86	
Cash and Cash Equivalents	85,302.32	
Certificates of Deposit (Reserved Funds)	0.00	
Accounts Receivable	25,567.34	
Accrued Unbilled Water Sales	10,940.61	
Prepaid Assets	<u>11,450.10</u>	
Total Current Assets		177,311.23
<u>Fixed Assets (Pledged on Mortgage Payable)</u>		
Plant & Maintenance Equipment	158,837.14	
Vehicle	29,725.00	
Plant and Buildings	809,437.05	
Land	<u>23,451.37</u>	
Total Fixed Assets	1,021,450.56	
Less: Accumulated Depreciation	<u>(684,683.67)</u>	
Total Net Fixed Assets		336,766.89
<u>Other Assets</u>		
Construction if progress	82,688.94	
Deposits	<u>1,350.00</u>	
Total Other Assets		<u>84,038.94</u>
Total Assets	<u>\$ 598,117.06</u>	

LIABILITIES AND MEMBERS' EQUITY

<u>Current Liabilities</u>		
Accounts Payable	\$ 2,517.05	
Mortgages and Notes Payable - current portion	42,336.05	
Other Accrued Liabilities	<u>2,530.81</u>	
Total Current Liabilities		47,383.91
<u>Long-Term Liabilities</u>		
Mortgages and Notes Payable - net of current portion	<u>0.00</u>	
Total Long-Term Liabilities		<u>0.00</u>
Total Liabilities		47,383.91

See accompanying notes and accountant's report

Little Hope Moore Water Supply Corporation
Balance Sheet
December 31, 2012

<u>Members' Equity</u>		
Members Investment	42,051.24	
Retained Earnings:		
Reserved for Loan Covenants	0.00	
Unreserved	<u>508,681.91</u>	
Total Capital		<u>550,733.15</u>
Total Liabilities & Capital		<u>\$ 598,117.06</u>

See accompanying notes and accountant's report

Little Hope Moore Water Supply Corporation
Statement of Income
For the Year Ended December 31, 2012

INCOME

Water Sales	309,479.62
Late Charges	6,840.00
Meter Set Fees	8,174.05
Re-connect Fees	300.00
Transfer Fees	350.00
Other Fees	767.00
Returned Check Fees	30.00
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Total Income	325,940.67

COST OF GOODS SOLD

Utilities	14,412.45
Outside Services	229.99
Materials and Supplies	34,729.44
Water Samples	2,866.00
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Total Cost of Goods Sold	52,237.88
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Total Gross Profit	273,702.79

OPERATING EXPENSES

Auto Expenses	7,564.83
Bad Debt	440.83
Bank Charges	75.00
Contract Labor	11,985.77
Credit Card Fees	0.00
Depreciation Expense	24,373.67
Insurance Expense	14,221.61
Legal, Accounting & other Professional	7,175.01
Licenses and Fees	1,704.90
Office Supplies	3,929.77
Postage and Deliveries	2,650.40
Rent	3,754.68
Repairs and Maintenance	125.00
Salaries & Wages	100,531.99
Seminars & Education	2,333.50
Supplies	0.00
Taxes	8,163.42
Telephone	1,892.88
Utilities	2,102.21
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Total Operating Expenses	193,025.47
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Net Income after Operating Expenses	80,677.32

Little Hope Moore Water Supply Corporation
Statement of Income
For the Year Ended December 31, 2012

OTHER RESOURCES AND EXPENSES

Other Resources :	
Interest Income	456.88
Miscellaneous Income	0.00
Grant Income	0.00
Total Other Resources	<u>456.88</u>
Other Expense:	
Interest Expense	36.05
Penalties and Fines	0.00
Net Other Resources and Expenses	<u>420.83</u>
Net Income	<u>\$ 81,098.15</u>

Little Hope Moore Water Supply Corporation
Statement of Members' Equity
For the Year Ended December 31, 2012

	Members' Investment	Members' Equity Additional	Retained Earnings	Total Members' Equity
Beginning Balance 01/01/12	\$39,392.46	\$0.00	\$427,583.76	\$466,976.22
Membership Purchases	0.00	4,400.00	0.00	4,400.00
Membership Terminations	0.00	(1,741.22)	0.00	(1,741.22)
Current Year Net Income	0.00	0.00	81,098.15	81,098.15
Ending Balance 12/31/12	<u>\$39,392.46</u>	<u>\$2,658.78</u>	<u>\$508,681.91</u>	<u>\$550,733.15</u>

See accompanying notes and accountant's report

Little Hope Moore Supply Corporation
Statement of Cash Flows
For the Year Ended December 31, 2012

	Year to Date
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Income	\$ 81,098.15
Adjustments to reconcile net income to net cash provided by operating activities by operating activities	
Depreciation	24,373.67
(Increase) Decrease in Assets	
Accounts Receivable and Unbilled Water Sales	(6,000.90)
Prepaid Expenses	107.71
Other Assets	(1,350.00)
Increase (Decrease) in Liabilities	
Accounts Payable	999.66
Accrued Liabilities	<u>(151.02)</u>
Total Adjustments	<u>17,979.12</u>
Net Cash provided by Operations	<u>99,077.27</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of Plant, Property, Equipment and Land	(41,186.54)
Construction in Progress	<u>(82,688.94)</u>
Net cash used in investing	<u>(123,875.48)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal Payments on Long Term Debt	42,336.05
Members' Contribution Changes net	<u>2,658.78</u>
Net cash used in financing	<u>44,994.83</u>
Net Increase in Cash	<u>\$ 20,196.62</u>
 Summary	
Cash Balance at End of Period	\$ 129,353.18
Cash Balance at Beginning of P	<u>(109,156.56)</u>
Net Increase in Cash	<u>\$ 20,196.62</u>

Little Hope Moore Water Supply Corporation

Notes to Financial Statements

December 31, 2012

Note 1: General Information and Summary of Significant Accounting Policies

- A. Nature of Business-Little Hope Moore Water Supply Corporation (Company) is organized as a not-for-profit organization to provide water to a local community.
- B. Basis of Accounting-The Company uses the accrual basis of accounting whereby revenue is recognized when earned, and expenses are recognized when incurred. Unbilled water revenue is recorded at year-end.
- C. Allowances for Doubtful Accounts-The accounts receivable are all due from water customers and the amount believed uncollectible is considered immaterial. Accordingly, no allowance for doubtful accounts is considered necessary. If accounts become uncollectible, they will be charged to operations after application of the customer's deposit, when that determination is made.
- D. Property and Equipment-Property and equipment are stated at cost. Maintenance and repairs are charged against earnings as incurred; renewals and betterment's are capitalized and depreciated.

Depreciation is provided using the straight-line and accelerated methods over the estimated useful lives as follows:

Building	25 years
Machinery and equipment	20 to 40 years
Improvements to equipment	6 to 12 years
Office equipment	5 to 7 years
Computer software	3 to 5 years
Automobiles	5 years

Depreciation expense for the year ended December 31, 2011 amounted to \$24,374.

- E. Income Taxes-The Company has no provision for Federal income taxes since it is a not-for-profit entity. The Corporation's exempt status has been approved under Internal Revenue Service Code Section 501 (c) (12) through an exemption letter.

The Corporation has adopted the provisions of FASB ASC 740-10, (FASB Interpretation No. 48, Accounting for Income Taxes). The Corporation recorded no adjustments as a result of this implementation. Although the Corporation is a tax exempt entity as described above, it can incur taxes for unrelated business operations that are not part of its tax exempt purpose. The Corporation records a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonably estimated. We continually evaluate expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

- F. Cash-The Company considers only cash in bank and money market accounts to be cash and cash equivalents for purposes of the statement of cash flows. All certificates of deposit have a maturity date of greater than three months.

- G. Fair Value of Financial Instruments – The carrying value of cash, accounts receivable, unbilled water sales, inventory, and accounts payable approximates fair value due to the short maturity of these instruments. The carrying value of long-term debt, including the current portion, approximates fair value based, as current interest rates approximate market rates.
- H. Use of Estimates-Preparation of the financial statements in conformity with United States generally accepted accounting principles requires the Corporation's management to make estimates and assumptions that affect the reported amounts of 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 these estimates.

Note 2: Group Concentrations of Credit Risk

The Corporation maintains its bank accounts and certificates of deposit at one financial institution. These bank, money market and savings accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2012, all deposits are fully insured.

The Corporation provided water sales and related services to its members. Members are provided these services and are billed each month for usage in the prior month. The credit granted by the Corporation for usage and related services is all with its members. At December 31, 2011 the Corporation had \$25,567 in receivables for water usage and related services, as well as \$10,941 in accrued unbilled water sales.

Note 3: Mortgages and Notes Payable

The Corporation obtained financing with Mineola Community Bank in November 2012 to improve the system with a new well and tanks on a parcel of land purchased in 2012. The Corporation had borrowed \$42,366 at year end through a note advance in which interest and principal can be paid until the project is completed at which time the note will be repaid over a term of not more than 15 years at an interest rate of approximately 5%.

Currently the board is also looking at acquiring additional land and structures at Hwy 16 & 64 to expand the well site and provide to office and warehouse at one location. This possible acquisition would be negotiated with local financial institutions if it becomes viable.

Note 4: Unusual items

The Corporation was fined by TCEQ for items associated with a lawsuit in which proper recordkeeping of operations was unavailable or non-existent, problems with equipment, system operations, plans at each well site, drought contingency plan did not exist, sanitary control easements for well except had not been obtained as well as other violations. The Corporation has made all required corrections and has settled the dispute and paid a fine of \$2,550 to resolve this issue.