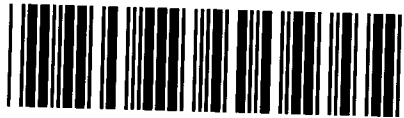


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Gay L. Zimmerman, CPA
Robert F. Edgar, CPA, CFPA
Charlotte A. Yeates, CPA
Sherr K. DelMaga, CPA

Wm. Tim Edgar, CPA
Charles A. Kiker, Jr., CPA
Nathan H. Cross, CPA
Ellis M. (Mike) Frank, CPA

Cheryl Ray, CPA
Joshua LeBlanc, CPA
Debra Deslats, CPA



**EDGAR
KIKER &
CROSS**
ESTABLISHED 1952

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS
A PROFESSIONAL CORPORATION

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

November 4, 2013

To Management
North Orange Water & Sewer, LLC
Orange, Texas

We have compiled the accompanying statement of assets liabilities and equity – income tax basis of North Orange Water & Sewer, LLC. (a corporation) as of December 31, 2012, and the related statement of revenue and expenses for the year then ended. We 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 the income tax basis of accounting.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the income tax basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilations 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.

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared in accordance with the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, equity, revenues and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Very truly yours,

EDGAR, KIKER & CROSS, PC
Certified Public Accountants and Consultants

GLZ:lfh

North Orange Water Sewer, LLC
Statements of Assets, Liabilities and Equity
Income Tax Basis
December 31, 2012

ASSETS

Current Assets

Cash - Compass - CH	\$ 340.20
Cash - Compass - L	(4,482.15)
Cash on Hand	6,592.29
Cash - Compass - CS	(7,885.98)
Cash - MCT	404.12
A/R - Trade	5,711.47
A/R - Longford	10,532.53
A/R - Country Squire	30,858.80
Investment-MM-NOWS	(24.96)
N/R - Buford Mooney	391,851.16
N/R - Cammie Vincent	415,551.83
N/R - Bobby Manshack	411,638.71
N/R - Mike Manshack	243,651.21
Accrued Interest Receivable	<u>14,945.10</u>

Total Current Assets

1,519,684.33

Property and Equipment

Water Systems - Longford	115,037.89
Sewer Systems - Longford	140,037.88
Water Systems - Country Squire	320,037.89
Sewer Systems - Country Squire	576,037.88
Manholes-Longford-Sewer	108,000.00
Manholes-Country Squire-Sewer	200,000.00
Meters-Longford-Water	7,651.28
Meters-Longford-Sewer	336.09
Meters-Country Squire-Water	24,178.28
Meters-Country Squire-Sewer	336.09
Furn & Fix -Longford-Water	567.60
Furn & Fix -Longford-Sewer	567.60
Furn & Fix -C Squire-Water	865.75
Furn & Fix -C Squire-Sewer	865.75
Lift Station-Longford-Sewer	30,000.00
Lift Station-C Squire-Sewer	60,000.00
Building & Struc-Longford-W	12,600.00
Building & Struc-C Squire-Wat	5,000.00
Equipment-Longford-Water	72,143.21
Equipment-Longford-Sewer	197,533.04
Equipment-C Squire-Water	94,372.06
Equipment-C Squire-Sewer	129,079.40
Wells-Longford-Water	45,000.00
Wells-Country Squire-Water	45,000.00
Tanks-Longford-Water	23,000.00
Tanks-C Squire-Water	29,500.00
Tanks-C Squire-Sewer	150,000.00
Vehicles-Longford-Water	17,135.35
Vehicles-Longford-Sewer	4,635.36
Vehicles-C Squire-Water	18,135.36

See accountants' compilation report.

North Orange Water Sewer, LLC
Statements of Assets, Liabilities and Equity
Income Tax Basis
December 31, 2012

Vehicles-C Squire-Sewer	5,635.36
Fence-LongfordWater	10,000.00
Fence-C Squire-Water	5,000.00
Fence-C Squire-Sewer	1,800.00
Leasehold Improve-Longford-W	17,013.00
Leasehold Improve-Longford-S	12,745.00
Leasehold Improve-C Squire-W	17,510.55
Leasehold Improve-C Squire-S	26,970.98
Land-Longford-Water	5,000.00
Land-C Squire-Water	6,250.00
Land-C Squire-Sewer	30,000.00
Less: Accum Depr-Longford-Wat	(313,215.32)
Less: Accum Depr-Longford-Sew	(487,514.12)
Less: Accum Depr-C Squire-Wate	(550,235.29)
Less: Accum Depr-C Squire-Sewe	<u>(1,135,680.29)</u>
Total Property and Equipment	<u>78,933.63</u>
Total Assets	<u>\$ 1,598,617.96</u>

LIABILITIES AND CAPITAL

Current Liabilities	
A/P - Trade	\$ 42,930.17
TNRCC Fees Payable-Longford-Wa	689.18
TNRCC Fees Payable-Longford-Se	689.19
TNRCC Fees Payable-C Squire-Wa	1,466.50
TNRCC Fees Payable-C Squire-Se	1,466.50
Payroll Taxes Payable	854.21
FUT Payable	267.02
Federal Income Taxes Payable	451,527.86
Notes Payable - Current	<u>24,421.15</u>
Total Current Liabilities	524,311.78
Long-Term Liabilities	
N/P - Manshack & Sons	5,783.88
N/P - Chasse Planning	29,200.00
N/P - Compass Bank LOC	46,312.37
N/P - MCT 052	55,903.58
Less: Current Portion	<u>(24,421.15)</u>
Total Long-Term Liabilities	<u>112,778.68</u>
Total Liabilities	637,090.46
Capital	
Common Stock	10,000.00

See accountants' compilation report.

North Orange Water Sewer, LLC
Statements of Assets, Liabilities and Equity
Income Tax Basis
December 31, 2012

Contributed Capital	240,594.50	
Balance-Beginning	706,548.81	
Net Income	<u>4,384.19</u>	
Total Capital		<u>961,527.50</u>
Total Liabilities & Capital		<u>\$ 1,598,617.96</u>

See accountants' compilation report.

North Orange Water Sewer, LLC
Statement of Revenue and Expenses - Combined
Income Tax Basis
For the Twelve Months Ending December 31, 2012

	Year to Date
Sales	
Sales - Water	\$ 161,610.24
Sales - Sewer	208,214.24
Reconnect/Other Adjustments	<u>3,050.50</u>
Total Revenues	<u>372,874.98</u>
 Cost of Sales	
Chemicals	8,242.33
Salaries	83,072.24
Taxes - Payroll	10,692.88
Truck Expense	30.41
Contract Labor	21,646.25
Engineering	1,500.00
Supplies	<u>15,252.38</u>
Total Cost of Sales	<u>140,436.49</u>
Gross Profit	<u>232,438.49</u>
 Expenses	
Bank Charges	587.50
Depreciation	15,539.00
Fuel & Lubrication	9,429.57
Insurance - General	(3,003.10)
Insurance - Group	3,458.00
Interest	11,847.49
Lease-Vehicle	6,900.00
Legal & Accounting	11,325.00
Licenses & Permits	210.00
Miscellaneous	1,363.83
Lab Analysis	13,733.60
Office Supplies	3,485.21
Postage	2,068.31
Rent - Building Office	11,700.00
Rent - Equipment	1,219.98
Repairs & Maintenance	27,683.55
Salaries - Office	42,560.00
Sludge Removal	9,446.25
Taxes - Payroll	7,042.30
	678.10
Taxes - Other	9,956.98
	2,500.00
Telephone	2,912.78
Tire, Tubes Repair	1,127.45
TNRCC Assessment Fees	4,275.44
Utilities	<u>29,252.20</u>
Total Expenses	227,299.44

See accountants' compilation report

North Orange Water Sewer, LLC
Statement of Revenue and Expenses - Combined
Income Tax Basis
For the Twelve Months Ending December 31, 2012

	<u>Year to Date</u>
Total Operating Income	<u>5,139.05</u>
Other Income and Expenses	
Penalties	(4,026.95)
Interest Income	<u>3,272.09</u>
Total Other Income and Expenses	<u>(754.86)</u>
Net Income (Loss)	<u><u>\$ 4,384.19</u></u>

See accountants' compilation report.

Attachment D: Known and Measurable Changes

Allocation of Expenses for North Orange Water & Sewer, LLC

Calculation of Cost Allocation Factors

Total Number of North Orange Connections (December 2012): = 350 Connections

Allocation Factor for Country Squire:

250 connections ÷ 350 total connections = .714 or 71%

Water and Sewer allocated at 50% each except for direct cost

Allocation Factor for Longford Place:

Water: 100 connections ÷ 350 total connections = .286 or 29%

Water allocated at 45% and sewer allocated at 55% each except for direct cost

General Ledger Account	General Ledger Totals:	Country Squire		Longford Place	
		Water	Sewer	Water	Sewer
Chemicals	\$ 8,242	\$ 2,926	\$ 2,926	\$ 1,076	\$ 1,315
Salaries	\$ 83,072	\$ 29,491	\$ 29,491	\$ 10,841	\$ 13,250
Taxes - Payroll	\$ 10,693	\$ 3,796	\$ 3,796	\$ 1,395	\$ 1,706
Truck Expense	\$ 30	\$ 11	\$ 11	\$ 4	\$ 5
Contract Labor	\$ 21,646	\$ 7,684	\$ 7,684	\$ 2,825	\$ 3,453
Engineering	\$ 1,500	\$ 533	\$ 533	\$ 196	\$ 239
Supplies	\$ 15,252	\$ 5,414	\$ 5,414	\$ 1,990	\$ 2,433
Bank Charges	\$ 588	\$ 209	\$ 209	\$ 77	\$ 94
Fuel & Lubrication	\$ 9,430	\$ 3,348	\$ 3,348	\$ 1,231	\$ 1,504
Insurance - General	\$ (3,003)	\$ (1,066)	\$ (1,066)	\$ (392)	\$ (479)
Insurance - Group	\$ 3,458	\$ 1,228	\$ 1,228	\$ 451	\$ 552
Lease - Vehicle	\$ 6,900	\$ 2,450	\$ 2,450	\$ 900	\$ 1,101
Legal & Accounting	\$ 11,325	\$ 4,020	\$ 4,020	\$ 1,478	\$ 1,806
Licenses & Permits	\$ 210	\$ 75	\$ 75	\$ 27	\$ 33
Miscellaneous	\$ 1,364	\$ 484	\$ 484	\$ 178	\$ 218
Lab Analysis	\$ 13,734	\$ 4,876	\$ 4,876	\$ 1,792	\$ 2,191
Office Supplies	\$ 3,485	\$ 1,237	\$ 1,237	\$ 455	\$ 556
Postage	\$ 2,068	\$ 734	\$ 734	\$ 270	\$ 330
Rent - Ofc. Building	\$ 11,700	\$ 4,154	\$ 4,154	\$ 1,527	\$ 1,866
Rent - Equipment	\$ 1,220	\$ 433	\$ 433	\$ 159	\$ 195
Repairs & Maint.	\$ 27,684	\$ 9,828	\$ 9,828	\$ 3,613	\$ 4,416
Salaries - Office	\$ 42,560	\$ 15,109	\$ 15,109	\$ 5,554	\$ 6,788
Sludge Removal	\$ 9,446	\$ 0	\$ 6,707	\$ 0	\$ 2,739
Taxes - Payroll	\$ 7,042	\$ 2,500	\$ 2,500	\$ 919	\$ 1,123
Water Fees	\$ 678	\$ 481	\$ 0	\$ 197	\$ 0
Taxes - Other	\$ 9,957	\$ 3,535	\$ 3,535	\$ 1,299	\$ 1,588
TCEQ Permits Water	\$ 2,500	\$ 1,775	\$ 0	\$ 725	\$ 0
Telephone	\$ 2,913	\$ 1,034	\$ 1,034	\$ 380	\$ 465
Tire, Tubes, Repair	\$ 1,127	\$ 400	\$ 400	\$ 147	\$ 180
Utilities	\$ 29,252	\$ 10,384	\$ 10,384	\$ 3,817	\$ 4,666
Totals:	\$ 336,073	\$ 117,081	\$ 121,531	\$ 43,132	\$ 54,329

Attachment D: Known and Measurable Changes

Allocation of Notes Payable for North Orange Water & Sewer LLC

Allocations calculated based on current outstanding balance of notes at end of test year times percentage of total net book value for water and sewer plants

Total Outstanding Balance of Notes Payable (End of Test Year):

Compass Bank LOC	\$	46,312
MCT 052 LOC	\$	55,904
Totals:	\$	102,216

Utility Plant	Total Net Book Value	Percentage
Country Squire - Water	\$ 161,175	\$ 0.372
Country Squire - Sewer	\$ 131,950	\$ 0.305
Longford Place - Water	\$ 50,168	\$ 0.116
Longford Place - Sewer	\$ 89,911	\$ 0.208
Totals:	\$ 433,204	\$ 1.000

Utility Plant	Compass Bank Allocation	MCT 052 Allocation
Country Squire - Water	\$ 17,228	\$ 20,796
Country Squire - Sewer	\$ 14,079	\$ 16,995
Longford Place - Water	\$ 5,372	\$ 6,485
Longford Place - Sewer	\$ 9,633	\$ 11,628
Totals:	\$ 46,312	\$ 55,904

Country Squire - Sewer: Cost Classification (January 1, 2012 to December 31, 2012)

Account	Salaries	Contract Labor	Chemicals	Utilities	Repairs & Maint.	Office Expense	Account. & Legal	Insurance	Misc.	Payroll Taxes	Property Taxes	Totals
Chemicals			2926									2926
Salaries	29491											29491
Taxes - Payroll												
Truck Expense										3796		3796
Contract Labor		7684			11							11
Engineering												
Supplies					533							533
Bank Charges					5414							5414
Fuel & Lubrication						209						209
Insurance - General					3348							3348
Insurance - Group								-1066				-1066
Lease - Vehicle								1228				1228
Legal & Accounting					2450		4020					2450
Licenses & Permits												4020
Miscellaneous									75			75
Lab Analysis									484			484
Office Supplies									4876			4876
Postage						1237						1237
Rent - Ofc. Building						734						734
Rent - Equipment						4154						4154
Repairs & Maint.						433						433
Salaries - Office	15109				9828							9828
Sludge Removal												15109
Taxes - Payroll										2500		2500
Water Fees												0
Taxes - Other											3535	3535
TCEQ Permits Water												0
Telephone						1034						1034
Tire, Tubes, Repair					400							400
Utilities				10384								10384
Totals:	44600	7684	2926	10384	21984	7801	4020	162	5435	6296	3535	121534

Account	Salaries	Contract Labor	Chemicals	Utilities	Repairs & Maint.	Office Expense	Account. & Legal	Insurance	Misc.	Payroll Taxes	Property Taxes	Totals
Chemicals			2926									2926
Salaries	29491											29491
Taxes - Payroll					11					3796		3796
Truck Expense												11
Contract Labor		7684										7684
Engineering					533							533
Supplies					5414							5414
Bank Charges												209
Fuel & Lubrication												
Insurance - General					3348							3348
Insurance - Group								-1066				-1066
Lease - Vehicle								1228				1228
Legal & Accounting					2450		4020					2450
Licenses & Permits												4020
Miscellaneous										75		75
Lab Analysis										484		484
Office Supplies										4876		4876
Postage						1237						1237
Rent - Ofc. Building						734						734
Rent - Equipment						4154						4154
Repairs & Maint.						433						433
Salaries - Office	15109				9828							9828
Sludge Removal												15109
Taxes - Payroll												0
Water Fees										2500		2500
Taxes - Other												481
TCEQ Permits Water											3535	3535
Telephone									1775			1775
Tire, Tubes, Repair					400							400
Utilities				10384								10384
Totals:	44600	7684	2926	10384	21984	7801	4020	162	7691	6296	3535	117083

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