

BASIC FINANCIAL STATEMENTS

AVALON000870

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	<u>Business-Type Activities</u>
<u>ASSETS</u>	
Current assets	\$ 166,301
Cash and cash equivalents	31,386
Accounts receivable	(14,561)
Less: Allowance for uncollectibles	8,213
Prepays	<u>191,339</u>
Total current assets	
Non-current assets	41,510
Water rights	
Property, plant and equipment	25,551
Land and land rights	10,460
Furniture and fixtures	11,896
Transportation	46,182
Machinery and equipment	1,458,363
Buildings and distribution system	41,502
Construction in progress	(721,713)
Less: Accumulated depreciation	<u>913,751</u>
Total non-current assets	
Total assets	<u><u>1,105,090</u></u>
<u>LIABILITIES</u>	
Current liabilities	19,280
Accounts payable	1,385
Accrued taxes	450
Accrued interest	20,270
Current portion of long-term debt	<u>41,385</u>
Total current liabilities	
Non-current liabilities	35,971
Membership deposits	306,846
Long-term debt	<u>342,817</u>
Total long-term liabilities	
Total liabilities	<u><u>384,202</u></u>
<u>NET ASSETS</u>	
Unrestricted available for operations	<u>720,888</u>
Total net assets	<u><u>720,888</u></u>
Total liabilities and net assets	<u><u>\$ 1,105,090</u></u>

See accompanying notes to financial statements.

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
STATEMENT OF ACTIVITIES
DECEMBER 31, 2011

			Program Revenues			
	<u>Expenses</u>	<u>Indirect Expenses Allocation</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Functions/Programs						
Business-type activities:						
Water and sewer utilities	290,857	-	287,628	-	-	(3,229)
Total business-type activities	290,857	-	287,628	-	-	(3,229)
Total	<u>\$ 290,857</u>	<u>\$ -</u>	<u>\$ 287,628</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,229)</u>

	<u>Business-Type Activities</u>	<u>Total</u>
Change in net assets:		
Net (expense) revenue	<u>\$ (3,229)</u>	<u>\$ (3,229)</u>
General revenues:		
Interest income	2,492	2,492
Gain on disposition of assets	-	-
Total general revenues and transfers	<u>2,492</u>	<u>2,492</u>
Change in net assets	(737)	(737)
Net assets-beginning	<u>721,625</u>	<u>721,625</u>
Net assets-ending	<u>\$ 720,888</u>	<u>\$ 720,888</u>

See accompanying notes to financial statements.

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2011

	<u>Business-Type Activities</u>
<u>ASSETS</u>	
Current assets	
Cash and cash equivalents	\$ 166,301
Accounts receivable	31,386
Less: Allowance for uncollectibles	(14,561)
Prepays	<u>8,213</u>
Total current assets	<u>191,339</u>
Non-current assets	
Water rights	41,510
Property, plant and equipment	
Land and land rights	25,551
Furniture and fixtures	10,460
Transportation	11,896
Machinery and equipment	46,182
Buildings and distribution system	1,458,363
Construction in progress	41,502
Less: Accumulated depreciation	<u>(721,713)</u>
Total non-current assets	<u>913,751</u>
Total assets	<u><u>1,105,090</u></u>
<u>LIABILITIES</u>	
Current liabilities	
Accounts payable	19,280
Accrued taxes	1,385
Accrued interest	450
Current portion of long-term debt	<u>20,270</u>
Total current liabilities	<u>41,385</u>
Non-current liabilities	
Membership deposits	35,971
Long-term debt	<u>306,846</u>
Total long-term liabilities	<u>342,817</u>
Total liabilities	<u>384,202</u>
<u>NET ASSETS</u>	
Unrestricted	<u>720,888</u>
Total net assets	<u><u>\$ 720,888</u></u>

See accompanying notes to financial statements.

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Business-type Activities
<u>OPERATING REVENUES</u>	
Charges for services:	
Water sales	223,738
Sewer sales	44,495
Connect charges	2,025
Late charges	10,740
Water rights	3,200
Miscellaneous	<u>3,430</u>
Total operating revenues	<u>287,628</u>
<u>OPERATING EXPENSES</u>	
Chemicals	11,402
Depreciation	43,681
Dues and fees	8,982
Insurance	7,490
Legal and professional	2,200
Management fees	55,500
Miscellaneous	190
Office expense	455
Rent and leases	680
Repair and maintenance	46,022
Salaries	36,516
Supplies	11,877
Taxes - payroll	2,955
Travel and automobile	6,211
Utilities and telephone	40,390
Water inspection fees	<u>889</u>
Total operating expenses	<u>275,440</u>
Operating income (loss)	<u>12,188</u>
<u>NON-OPERATING REVENUE (EXPENSE)</u>	
Gain on disposition of assets	-
Interest income	2,492
Interest expense	<u>(15,417)</u>
Total non-operating revenue (expense)	<u>(12,925)</u>
Change in net assets	(737)
Total net assets, beginning	<u>721,625</u>
Total net assets, ending	<u>720,888</u>

See accompanying notes to financial statements.

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
PROPRIETARY FUNDS
YEAR END DECEMBER 31, 2011

	<u>Business-Type Activities</u>
<u>Cash flows from operating activities:</u>	
Cash received from customers	\$ 285,791
Cash payments to suppliers for goods and services	(232,372)
	<hr/>
Net cash provided (used) by operating activities	<u>53,419</u>
<u>Cash flows from non-capital financing activities</u>	
Member deposits	300
	<hr/>
Net cash provided (used) by non-capital financing activities	<u>300</u>
<u>Cash flows from capital and related financing activities</u>	
Interest paid on notes	(15,417)
Net loan paydown	(19,305)
Acquisition and construction of capital assets	(34,330)
Sale of capital assets	<hr/> -
Net cash provided (used) by capital and related financing activities	(69,052)
<u>Cash flows from investing activities</u>	
Investment income	<u>2,492</u>
Net increase (decrease) in cash and cash equivalents	(12,841)
Cash and cash equivalents at December 31, 2010	<u>179,142</u>
Cash and cash equivalents at December 31, 2011	<u><u>\$ 166,301</u></u>

See accompanying notes to financial statements.

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
PROPRIETARY FUNDS
YEAR END DECEMBER 31, 2011

	<u>Business-type Activities</u>
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</u>	
Operating income (loss)	\$ 12,188
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	43,681
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(1,813)
(Increase) decrease in prepaids	(96)
Increase (decrease) in accounts payable	(613)
Increase (decrease) in other payables	72
	<hr/>
Net cash provided (used) by operating activities	<u>\$ 53,419</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

AVALON000877

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Avalon Water Supply & Sewer Service Corporation (the Corporation) was incorporated in the State of Texas on March 26, 1970. The Corporation was formed as a nonprofit corporation under the articles of the Texas Nonprofit Corporation Act and is exempt from federal income taxes under section 501(c)(12) of the Internal Revenue Code.

Reporting Entity

The Board of Directors of the Corporation has oversight responsibility and control over all activities of the Corporation. The Corporation is not included in any other "reporting entity", since board members are elected by the membership and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

General Accounting

The operations of the Corporation are organized into a single set of self-balancing accounts that comprise its assets, liabilities, equity, revenue and expenses.

The single set of accounts is used to record transactions for operations that are financed and operated in a manner similar to private business enterprises where the cost (including depreciation) of providing water and sewer service to the Corporation's customers on a continuing basis is financed through user charges.

Measurement Focus / Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The proprietary fund type is accounted for on a cost-of-service measurement focus using the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the related liabilities are incurred.

Budgets and Budgetary Accounting

The Corporation does not prepare an annual budget.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For the purpose of the statement of cash flows, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents.

Investments

Investments are recorded at cost, which approximates market value. As of December 31, 2011, the Corporation had no investments other than certificates of deposit, which are considered cash equivalents.

Inventories

The Corporation does not maintain inventories. Materials are purchased as needed.

Accounts Receivable

The Corporation grants credit to its members, substantially all of whom are local residents. At December 31, 2011, the Corporation set up an allowance for uncollectible accounts receivable for any outstanding receivable over 1 year old. This amount was \$14,561.

Use of Estimates

Management used estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Fixed Assets

Fixed assets consist primarily of water and sewer distribution facilities and related equipment. Fixed assets are recorded at cost. Major fixed asset additions are financed primarily from grant and loan proceeds.

Depreciation of all fixed assets is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet.

Depreciation is recorded using the straight-line method over the estimated useful lives of the fixed assets. The estimated useful lives are as follows:

Structures and improvements	40 years
Distribution system	5 – 10 years
Other equipment	3 – 10 years

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalized Interest

The Corporation capitalizes net interest costs and interest earned as part of the cost of constructing various projects when material. There was no interest capitalized during the year ended December 31, 2011.

2. CASH AND INVESTMENTS

At December 31, 2011, the carrying amount of the Corporation's deposits (cash and certificates of deposit) was \$168,223.

The Corporation's deposits at December 31, 2011 were entirely covered by FDIC insurance or by pledged collateral held by the Corporation's agent bank in the Corporation name.

3. CHANGES IN FIXED ASSETS

	Balance 12/31/10	Additions	Retirements	Balance 12/31/11
Land & Land Rights	\$ 25,551	-	-	25,551
Furniture and Fixtures	10,460	-	-	10,460
Transportation	11,896	-	-	11,896
Machinery and Equipment	46,129	709	656	46,182
Buildings and Distribution System	1,447,700	10,663	-	1,458,363
Construction in Progress	15,078	26,424	-	41,502
	<u>\$ 1,556,814</u>	<u>37,796</u>	<u>656</u>	<u>1,593,954</u>

Accumulated depreciation at December 31, 2011 was \$721,713.

Buildings and Distribution System has been reduced by \$73,111. This represents an amount (net of amortization) paid by a customer of the Corporation for distribution equipment.

4. LONG-TERM DEBT

The Corporation has two notes payable to the USDA Rural Development Department.

Note #91-03 was created April 20, 1976. The original loan proceeds were \$300,000. The note carries an interest rate of 5.00% with monthly payments of \$1,449. The balance of this note at December 31, 2011 was \$42,346.

Note #91-04 was created February 20, 2003. The original loan proceeds were \$321,500. The note carries an interest rate of 4.50% with monthly payments of \$1,447. The balance of this note at December 31, 2011 was \$284,770.

Each note has a term of 40 years and is secured by the Corporation's water system.

Debt service requirements through maturity are as follows:

Year end <u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 20,270	14,482	34,752
2013	21,283	13,469	34,752
2014	15,378	12,460	27,838
2015	5,314	12,050	17,364
2016	5,558	11,806	17,364
Thereafter	<u>259,313</u>	<u>171,671</u>	<u>430,984</u>
Totals	\$ <u>327,116</u>	<u>235,938</u>	<u>563,054</u>

Changes in long term debt for the year ended December 31, 2011 are as follows:

	Balance <u>12/31/10</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>12/31/11</u>
Note #				
91-03	57,212	-	14,866	42,346
91-04	<u>289,211</u>	-	<u>4,441</u>	<u>284,770</u>
Totals	\$ <u>346,423</u>	-	<u>19,307</u>	<u>327,116</u>

4. LONG-TERM DEBT (continued)

The Corporation had no other debt outstanding at December 31, 2011.

5. CONCENTRATIONS OF CREDIT RISK

The Corporation grants credit to its customers. Financial instruments that potentially subject the Corporation to credit risk consist of accounts receivable.

6. CONTINGENCIES

The Texas Commission on Environmental Quality was pursuing a fine against the Corporation for violations related to its sewer operations. As of December 31, 2011, the TCEQ was considering how much the fine would be. For this reason, no amount was recorded on the books as a payable.

OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

AVALON000883

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Avalon Water Supply & Sewer Service Corporation

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Avalon Water Supply & Sewer Service Corporation, as of and for the year ended December 31, 2011, which collectively comprise the Avalon Water Supply & Sewer Service Corporation basic financial statements and have issued my report thereon dated March 31, 2012. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Avalon Water Supply & Sewer Service Corporation's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Avalon Water Supply & Sewer Service Corporation's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Avalon Water Supply & Sewer Service Corporation's internal control over financial reporting.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Avalon Water Supply & Sewer Service Corporation's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, board members, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kendall Stone, CPA
March 31, 2012

**AVALON WATER SUPPLY & SEWER
SERVICE CORPORATION**

FINANCIAL REPORT

December 31, 2012

AVALON000886

AVALON WATER SUPPLY AND SEWER SERVICE CORPORATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Unrestricted Revenues, Expenses and Other Changes in Membership Equity	3
Statement of Functional Expenses	4
Statement of Changes in Membership Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 11

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Avalon Water Supply and Sewer Service Corporation

I have audited the accompanying statement of financial position of Avalon Water Supply and Sewer Service Corporation (a nonprofit corporation) as of December 31, 2012, and the related statements of unrestricted revenues and expenses, functional expenses, membership equity, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Avalon Water Supply and Sewer Service Corporation, as of December 31, 2012, and the changes in its membership equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



December 9, 2013

AVALON WATER SUPPLY AND SEWER SERVICE CORPORATION
STATEMENT OF FINANCIAL POSITION

December 31, 2012

ASSETS

CURRENT ASSETS

Cash on Hand	\$	50	
Cash in Banks		7,334	
Certificates of Deposit		<u>85,075</u>	
Total Cash			92,459

Accounts Receivable, net			32,375
Prepays			<u>6,019</u>
TOTAL CURRENT ASSETS			130,854

Water Rights			41,510
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Property and Equipment, Net			<u>879,551</u>
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TOTAL ASSETS			<u><u>1,051,915</u></u>
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LIABILITIES & MEMBERSHIP EQUITY

CURRENT LIABILITIES

Accounts Payable			7,853
Accrued Expenses			714
Current Portion of Notes Payable			<u>21,283</u>
TOTAL CURRENT LIABILITIES			29,850

LONG TERM LIABILITIES

Membership Deposits			36,271
Note Payable			<u>285,564</u>
TOTAL LONG TERM LIABILITIES			<u>321,835</u>

TOTAL LIABILITIES

351,685

MEMBERSHIP EQUITY

Unrestricted:

Paid in Capital			117,200
Cumulative Excess of Revenue over Expenditures			<u>583,030</u>

TOTAL MEMBERSHIP EQUITY

700,230

TOTAL LIABILITIES & MEMBERSHIP EQUITY

\$ 1,051,915

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

AVALON WATER SUPPLY AND SEWER SERVICE CORPORATION
STATEMENT OF UNRESTRICTED REVENUES, EXPENSES
AND OTHER CHANGES IN MEMBERSHIP EQUITY
For the Year Ended December 31, 2012

UNRESTRICTED REVENUE

Water Revenue	\$ 225,245
Sewer Revenue	32,572
Install and Connect Fees	1,875
Late Fees	8,765
Miscellaneous Service Revenue	13,869
Non-Utility Income	753
Interest Income	<u>1,701</u>

TOTAL UNRESTRICTED REVENUE	<u><u>284,780</u></u>
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EXPENSES

Program Services	299,222
Supporting Services	<u>6,216</u>

TOTAL EXPENSES	<u><u>305,438</u></u>
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EXCESS OF REVENUES OVER EXPENSES	(20,658)
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UNRESTRICTED MEMBERSHIP EQUITY,	
BEGINNING OF YEAR	<u><u>603,688</u></u>

UNRESTRICTED MEMBERSHIP EQUITY,	
END OF SEPTEMBER	<u><u>\$ 583,030</u></u>

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

AVALON WATER SUPPLY AND SEWER SERVICE CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2012

PROGRAM SERVICES:

Bank Charges	\$ 73
Advertising	625
Chemicals	8,091
Contract Labor	1,815
Depreciation	43,541
Dues and Fees	8,348
Employee Benefits	346
Insurance	8,145
Interest Expense	14,033
Management Fees	55,000
Miscellaneous	2,345
Office Supplies	1,630
Payroll Taxes	3,217
Permits	1,250
Rents	270
Repairs and Maintenance	34,960
Salaries	42,780
Supplies	15,413
Testing	8,189
Transportation	5,581
Travel	757
Utilities	<u>42,814</u>
 TOTAL PROGRAM SERVICES EXPENSE	 299,222

SUPPORTING SERVICES:

Legal and Accounting	<u>6,216</u>
 TOTAL EXPENSES	 <u><u>\$ 305,438</u></u>

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

AVALON WATER SUPPLY AND SEWER SERVICE CORPORATION
STATEMENT OF CHANGES IN MEMBERSHIP EQUITY
For the Year Ended December 31, 2012

	Paid in Capital in	Cumulative Excess of Revenue Over Expenses	Total Unrestricted Membership Equity
Balance, January 1, 2012	\$ 117,200	\$ 603,688	\$ 720,888
Excess (deficit) of Revenues over Expenses	-	(20,658)	(20,658)
Balance, December 31, 2012	\$ 117,200	\$ 583,030	\$ 700,230

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

AVALON WATER SUPPLY AND SEWER SERVICE CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in Membership Equity		(20,658)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		43,541
(Increase) Decrease in:		
Accounts Receivable	(15,550)	
Prepays	<u>2,194</u>	
		(13,356)
Increase (Decrease) in:		
Accounts Payable	(11,427)	
Accrued Expenses	(1,121)	
Memberships	<u>300</u>	
		<u>(12,248)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES (2,721)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Property, Plant and Equipment	<u>(50,853)</u>
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NET CASH USED BY INVESTING ACTIVITIES (50,853)

CASH FLOWS FROM FINANCING ACTIVITIES

Payment of Notes Payable	(20,268)
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NET CASH PROVIDED BY FINANCING ACTIVITIES (20,268)

NET INCREASE IN CASH (73,842)

CASH AT BEGINNING OF YEAR 166,301

CASH AT END OF PERIOD \$ 92,459

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

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Avalon Water Supply & Sewer Service Corporation (the Corporation) was incorporated in the State of Texas on March 26, 1970. The Corporation was formed as a nonprofit corporation under the articles of the Texas Nonprofit Corporation Act and is exempt from federal income taxes under section 501(c)(12) of the Internal Revenue Code.

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The single set of accounts is used to record transactions for operations that are financed and operated in a manner similar to private business enterprises where the cost (including depreciation) of providing water and sewer service to the Corporation's customers on a continuing basis is financed through user charges.

Measurement Focus / Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The proprietary fund type is accounted for on a cost-of-service measurement focus using the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the related liabilities are incurred.

Budgets and Budgetary Accounting

The Corporation does not prepare an annual budget.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For the purpose of the statement of cash flows, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents.

Investments

Investments are recorded at cost, which approximates market value. As of December 31, 2012, the Corporation had no investments other than certificates of deposit, which are considered cash equivalents.

Inventories

The Corporation does not maintain inventories. Materials are purchased as needed.

Accounts Receivable

The Corporation grants credit to its members, substantially all of whom are local residents. At December 31, 2012, the Corporation set up an allowance for uncollectible accounts receivable for any outstanding receivable over 1 year old. This amount was \$14,561.

Use of Estimates

Management used estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Fixed Assets

Fixed assets consist primarily of water and sewer distribution facilities and related equipment. Fixed assets are recorded at cost. Major fixed asset additions are financed primarily from grant and loan proceeds.

Depreciation of all fixed assets is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet.

Depreciation is recorded using the straight-line method over the estimated useful lives of the fixed assets. The estimated useful lives are as follows:

Structures and improvements	40 years
Distribution system	5 – 10 years
Other equipment	3 – 10 years

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalized Interest

The Corporation capitalizes net interest costs and interest earned as part of the cost of constructing various projects when material. There was no interest capitalized during the nine months ended December 31, 2012.

2. CASH AND INVESTMENTS

At December 31, 2012, the carrying amount of the Corporation's deposits (cash and certificates of deposit) was \$95,015.

The Corporation's deposits at December 31, 2012 were entirely covered by FDIC insurance or by pledged collateral held by the Corporation's agent bank in the Corporation name.

3. CHANGES IN FIXED ASSETS

	Balance 12/31/11	Additions	Retirements	Balance 12/31/12
Land & Land Rights	\$ 25,551	-	-	25,551
Furniture and Fixtures	10,460	6,382	-	16,842
Transportation	11,896	-	-	11,896
Machinery and Equipment	46,182	599	-	46,781
Buildings and Distribution System	1,458,363	10,292	-	1,468,655
Construction in Progress	41,502	36,175	-	77,677
	<u>\$ 1,593,954</u>	<u>53,448</u>	<u>-</u>	<u>1,647,402</u>

Accumulated depreciation at December 31, 2012 was \$767,851.

Buildings and Distribution System has been reduced by \$69,645. This represents an amount (net of amortization) paid by a customer of the Corporation for distribution equipment.

4. LONG-TERM DEBT

The Corporation has two notes payable to the USDA Rural Development Department.

Note #91-03 was created April 20, 1976. The original loan proceeds were \$300,000. The note carries an interest rate of 5.00% with monthly payments of \$1,449. The balance of this note at December 31, 2012 was \$26,721.

Note #91-04 was created February 20, 2003. The original loan proceeds were \$321,500. The note carries an interest rate of 4.50% with monthly payments of \$1,447. The balance of this note at December 31, 2012 was \$280,126.

Each note has a term of 40 years and is secured by the Corporation's water system.

Debt service requirements through maturity are as follows:

<u>Year end</u> <u>December 31</u>	<u>Principals</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 21,283	13,469	34,752
2014	15,378	12,460	27,838
2015	5,314	12,050	17,364
2016	5,555	11,606	17,364
2017	5,814	11,550	17,364
Thereafter	<u>258,688</u>	<u>163,848</u>	<u>422,536</u>
Totals	\$ <u>312,015</u>	<u>224,983</u>	<u>536,998</u>

Changes in long term debt for the nine months ended December 31, 2012 are as follows:

<u>Note #</u>	<u>Balance</u> <u>12/31/11</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/12</u>
91-03	42,346	-	15,625	26,721
91-04	<u>284,770</u>	<u>-</u>	<u>4,644</u>	<u>280,126</u>
Totals	\$ <u>327,116</u>	<u>-</u>	<u>20,269</u>	<u>306,847</u>

4. LONG-TERM DEBT (continued)

The Corporation had no other debt outstanding at December 31, 2012.

5. CONCENTRATIONS OF CREDIT RISK

The Corporation grants credit to its customers. Financial instruments that potentially subject the Corporation to credit risk consist of accounts receivable.

**AVALON WATER SUPPLY &
SEWER SERVICE CORPORATION**

FINANCIAL STATEMENTS

Year Ended December 31, 2013



CULPEPPER & LAWRENCE
CERTIFIED PUBLIC ACCOUNTANTS A PROFESSIONAL CORPORATION

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Avalon Water Supply & Sewer Service Corporation

We have audited the accompanying financial statements of Avalon Water Supply & Sewer Service Corporation (a nonprofit organization) which comprise the statement of financial position as of December 31, 2013, and the related statements of activities 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 audit 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 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.

Board of Directors
Avalon Water Supply & Sewer Service Corporation
Page Two

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Avalon Water Supply & Sewer Service Corporation as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Culpepper & Lawrence, P.C.

Culpepper & Lawrence, P.C.
Certified Public Accountants

October 28, 2014

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 107,061
Accounts receivable	36,145
Prepaid expenses and other current assets	<u>6,678</u>
Total Current Assets	<u>149,884</u>

PROPERTY AND EQUIPMENT

Land	25,551
Distribution system	1,495,724
Furniture, fixtures and equipment	<u>145,610</u>
	1,666,885
Less: Accumulated Depreciation	<u>(812,114)</u>
Net Property and Equipment	<u>854,771</u>

OTHER ASSETS

Restricted Cash	36,944
Water Rights	<u>17,282</u>
Total Other Assets	<u>54,226</u>

TOTAL ASSETS

\$ 1,058,881

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 22,964
Accrued expenses	8,769
Current portion of long-term liabilities	<u>45,295</u>
Total Current Liabilities	<u>77,028</u>

LONG-TERM LIABILITIES

Long-term liabilities, less current portion	<u>275,267</u>
Total Long-Term Liabilities	<u>275,267</u>
Total Liabilities	<u>352,295</u>

NET ASSETS

Unrestricted:	
Memberships	32,600
Members' contributed capital	126,759
Operations	<u>547,227</u>
Total Unrestricted Net Assets	<u>706,586</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 1,058,881

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

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

REVENUE

Water Sales	\$ 247,382
Sewer Sales	45,962
Interest	1,073
Late charges	12,320
Transfer fees	175
Other	<u>4,027</u>
Total Revenue	<u>310,939</u>

EXPENSES

Program Services:

Interest	14,150
Telephone and utilities	47,218
Insurance	9,694
Fuel	812
Repairs	39,832
Payroll taxes	5,955
Salaries	70,093
Contract services	38,656
Office supplies	8,044
Depreciation and amortization	47,144
Materials and supplies	35,367

Supporting Services:

Penalties	8,351
Legal and accounting	<u>24,600</u>
Total Expenses	<u>349,916</u>

Change in Net Assets from Operations	(38,977)
Net Assets at Beginning of Year, Restated	<u>586,204</u>
Net Assets at End of Year	<u><u>\$ 547,227</u></u>

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

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (38,974)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization	47,144
(Increase) Decrease in accounts receivable	3,391
(Increase) Decrease in prepaid expenses and other current assets	306
Increase (Decrease) in accounts payable	14,495
Increase (Decrease) in accrued expenses	3,278
Total Adjustments	<u>68,614</u>
Net Cash Provided By (Used In) Operating Activities	<u>29,640</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Property & Equipment	<u>(1,268)</u>
Net Cash Provided By (Used In) Investing Activities	<u>(1,268)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from long-term liabilities	35,000
Principal paid on long-term liabilities	(21,286)
Sale of memberships	200
Memberships refunded	(300)
Capital contributions from members	9,559
Net Cash Provided By (Used In) Financing Activities	<u>23,173</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 51,545

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 92,460

CASH AND CASH EQUIVALENTS AT END OF YEAR \$144,005

SUPPLEMENTAL DISCLOSURE:

Interest Paid	<u>\$ 16,455</u>
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The accompanying notes are an integral part of these financial statements.

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE A - GENERAL

BUSINESS ACTIVITY

Avalon Water Supply & Sewer Service Corporation (Corporation) is a nonprofit Corporation which was incorporated in the State of Texas on March 26, 1970. The Corporation is engaged in supplying water and sewer service for general farm use and domestic purposes to its members residing in the rural community of Avalon, Texas and the surrounding area.

BASIS OF ACCOUNTING

The Corporation's policy is to prepare its financial statements on an accrual basis.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash on hand, cash in bank, certificates of deposit and money market accounts are considered to be cash and cash equivalents. The certificates of deposit bear interest at 1.25%.

ACCOUNTS RECEIVABLE

In management's opinion all accounts receivable at December 31, 2013 are collectible; therefore no allowance for uncollectible accounts was recorded. Any receivables that are considered uncollectible are written off immediately.

INVENTORY

The Corporation does not maintain inventories. Materials are purchased as needed.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. The Corporation follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$100 with a usual life in excess of one year. Depreciation is computed on a straight-line basis over the useful lives of the assets ranging from five to fifty years.

Major outlays for system improvements are capitalized as projects are constructed. Interest incurred during the construction phase is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period.

All assets of the Corporation are pledged on a note payable to USDA - Rural Development.

USE OF ESTIMATES

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE A - GENERAL (continued)

INCOME TAX STATUS

The Corporation received a certificate of incorporation from the State of Texas pursuant to the provisions of the Texas Non-Profit Corporation Act. The Corporation was formed as a nonprofit corporation under the articles of the Texas Nonprofit Corporation Act and is exempt from federal income taxes under section 501(c)12 of the Internal Revenue Code.

DATE OF MANAGEMENT'S REVIEW

Management has evaluated subsequent events through October 28, 2014, the date on which the financial statements were available to be issued.

Subsequent to the end of the year, the Corporation acquired land for \$5,095 and entered into a construction commitment for \$22,500.

NOTE B - CONCENTRATION OF BUSINESS AND CREDIT RISK

The Corporation maintains cash balances in banks. These balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. All balances were fully insured as of December 31, 2013.

NOTE C - RESTRICTED CASH

The resolution authorizing the long-term debt of the Corporation requires that the Corporation make monthly transfers to a reserve account until the sum of \$36,944 is accumulated. When necessary, disbursements from the account may be used for payments due on the debt. Whenever disbursements are made from the account, monthly deposits shall then be resumed until the original required amount has been accumulated. At December 31, 2013 the reserve account contained the required amount of \$36,944.

NOTE D - LONG-TERM DEBT

Long-term debt at December 31, 2013 consisted of the following:

Note payable to First State Bank at 3.25%, monthly payments of interest only, collateralized by Corporation assets, due on or before September 3, 2014	\$	35,000
Note payable to USDA - Rural Development at 5.00%, monthly payments of \$1,449 including interest, collateralized by Corporation assets, due on or before April 20, 2016		10,295

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE D - LONG-TERM DEBT (continued)

Note payable to USDA - Rural Development at 4.50%, monthly payments of \$1,447 including interest, collateralized by Corporation assets, due on or before February 20, 2043

	275,267
	<u>320,562</u>
Less current portion	<u>(45,295)</u>
	<u>\$ 275,267</u>

Long-term debt maturing in future years consists of:

Year	Principal	Interest	Total
2014	\$ 45,295	\$ 15,313	\$ 60,608
2015	4,992	12,373	17,365
2016	5,221	12,143	17,364
2017	5,462	11,902	17,364
2018	5,713	11,651	17,364
Thereafter	253,879	165,289	419,168
	<u>\$ 320,562</u>	<u>\$ 228,671</u>	<u>\$ 549,233</u>

NOTE E - MEMBERSHIPS AND MEMBERS' CONTRIBUTED CAPITAL

Upon qualification for service, qualification for membership, and payment of the required fees, the Corporation issues a membership certificate. The membership certificate provides proof of membership in the Corporation and entitles the member to one connection to the Corporation's water main and one share of Corporation stock. In addition to a membership fee, each applicant shall be required to pay a distribution system fee in an amount projected to defray the cost of upgrading system facilities to meet growth demands creating by adding customers.

The change in memberships and members' contributed capital is as follows:

	Memberships	Member's Contributed Capital
December 31, 2012	\$ 32,700	\$ 117,200
Memberships forfeited/repurchased	(300)	-
Sale of memberships	200	9,559
December 31, 2013	<u>\$ 32,600</u>	<u>\$ 126,759</u>

NOTE F—PRIOR YEAR ADJUSTMENTS

During 2013, management discovered financial statement errors that caused an understatement of December 31, 2012 previously reported net assets of \$3,172 and previously reported change in net assets from operations of \$3,172.

**AVALON WATER SUPPLY &
SEWER SERVICE CORPORATION**

FINANCIAL STATEMENTS

Year Ended December 31, 2014



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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Avalon Water Supply & Sewer Service Corporation

I have audited the accompanying financial statements of Avalon Water Supply & Sewer Service Corporation (a nonprofit organization) which comprise the statement of financial position as of December 31, 2014, and the related statements of activities 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Board of Directors
Avalon Water Supply & Sewer Service Corporation
Page Two

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Avalon Water Supply & Sewer Service Corporation as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Misty Culpepper, CPA, PLLC

Misty Culpepper, CPA, PLLC
Certified Public Accountant

July 27, 2015

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 98,480
Accounts receivable	37,980
Prepaid expenses and other current assets	9,304
Total Current Assets	<u>145,764</u>

PROPERTY AND EQUIPMENT

Land	32,304
Distribution system	1,567,028
Furniture, fixtures and equipment	148,781
	<u>1,748,113</u>
Less: Accumulated Depreciation	<u>(856,275)</u>
Net Property and Equipment	<u>891,838</u>

OTHER ASSETS

Restricted Cash	36,944
Water Rights	16,317
Total Other Assets	<u>53,261</u>

TOTAL ASSETS

\$ 1,090,863

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 5,411
Accrued expenses	10,089
Current portion of long-term liabilities	22,855
Total Current Liabilities	<u>38,355</u>

LONG-TERM LIABILITIES

Long-term liabilities, less current portion	270,186
Total Long-Term Liabilities	<u>270,186</u>
Total Liabilities	<u>308,541</u>

NET ASSETS

Unrestricted:	
Memberships	33,200
Members' contributed capital	139,094
Operations	610,028
Total Unrestricted Net Assets	<u>782,322</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 1,090,863

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

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

REVENUE

Water Sales	\$ 278,595
Sewer Sales	61,514
Interest	563
Late charges	12,000
Transfer fees	275
Other	<u>14,332</u>
Total Revenue	<u>367,279</u>

EXPENSES

Program Services:

Interest	12,608
Telephone and utilities	45,959
Insurance	12,973
Repairs	12,514
Payroll taxes	6,207
Salaries	74,923
Licenses and fees	5,027
Office supplies	11,856
Depreciation and amortization	45,126
Materials and supplies	41,764
Travel	6,039

Supporting Services:

Salaries	9,335
Payroll taxes	714
Legal and accounting	<u>19,433</u>
Total Expenses	<u>304,478</u>

Change in Net Assets from Operations 62,801

Net Assets at Beginning of Year 547,227

Net Assets at End of Year \$ 610,028

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

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 62,801
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization	45,126
(Increase) Decrease in accounts receivable	(1,835)
(Increase) Decrease in prepaid expenses and other current assets	(2,625)
Increase (Decrease) in accounts payable	(17,553)
Increase (Decrease) in accrued expenses	1,319
Total Adjustments	<u>24,432</u>
Net Cash Provided By (Used In) Operating Activities	<u>87,233</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Property & Equipment	<u>(81,228)</u>
Net Cash Provided By (Used In) Investing Activities	<u>(81,228)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal paid on long-term liabilities	(27,521)
Sale of memberships	600
Capital contributions from members	<u>12,335</u>
Net Cash Provided By (Used In) Financing Activities	<u>(14,586)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,581)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>144,005</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$135,424</u>
SUPPLEMENTAL DISCLOSURE:	
Interest Paid	<u>\$ 12,926</u>

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

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A - GENERAL

BUSINESS ACTIVITY

Avalon Water Supply & Sewer Service Corporation (Corporation) is a nonprofit Corporation which was incorporated in the State of Texas on March 26, 1970. The Corporation is engaged in supplying water and sewer service for general farm use and domestic purposes to its members residing in the rural community of Avalon, Texas and the surrounding area.

BASIS OF ACCOUNTING

The Corporation's policy is to prepare its financial statements on an accrual basis.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash on hand, cash in bank, certificates of deposit and money market accounts are considered to be cash and cash equivalents. The certificates of deposit bear interest at .90%.

ACCOUNTS RECEIVABLE

In management's opinion all accounts receivable at December 31, 2014 are collectible; therefore no allowance for uncollectible accounts was recorded. Any receivables that are considered uncollectible are written off immediately.

INVENTORY

The Corporation does not maintain inventories. Materials are purchased as needed.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. The Corporation follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$100 with a usual life in excess of one year. Depreciation is computed on a straight-line basis over the useful lives of the assets ranging from five to fifty years.

Major outlays for system improvements are capitalized as projects are constructed. Interest incurred during the construction phase is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period.

All assets of the Corporation are pledged on a note payable to USDA - Rural Development.

USE OF ESTIMATES

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A - GENERAL (continued)

INCOME TAX STATUS

The Corporation received a certificate of incorporation from the State of Texas pursuant to the provisions of the Texas Non-Profit Corporation Act. The Corporation was formed as a nonprofit corporation under the articles of the Texas Nonprofit Corporation Act and is exempt from federal income taxes under section 501(c)12 of the Internal Revenue Code.

DATE OF MANAGEMENT'S REVIEW

Management has evaluated subsequent events through July 27, 2015, the date on which the financial statements were available to be issued.

NOTE B - CONCENTRATION OF BUSINESS AND CREDIT RISK

The Corporation maintains cash balances in banks. These balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. All balances were fully insured as of December 31, 2014.

NOTE C - RESTRICTED CASH

The resolution authorizing the long-term debt of the Corporation requires that the Corporation make monthly transfers to a reserve account until the sum of \$36,944 is accumulated. When necessary, disbursements from the account may be used for payments due on the debt. Whenever disbursements are made from the account, monthly deposits shall then be resumed until the original required amount has been accumulated. At December 31, 2014 the reserve account contained the required amount of \$36,944.

NOTE D - LONG-TERM DEBT

Long-term debt at December 31, 2014 consisted of the following:

Note payable to First State Bank at 3.25%, monthly payments of interest only, collateralized by Corporation assets, due on or before October 1, 2015	\$ 22,855
Note payable to USDA - Rural Development at 4.50%, monthly payments of \$1,447 including interest, collateralized by Corporation assets, due on or before February 20, 2043	<u>270,186</u>
	293,041
	<u>(22,855)</u>
Less current portion	<u>\$ 270,186</u>

AVALON WATER SUPPLY & SEWER SERVICE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE D - LONG-TERM DEBT (continued)

Long-term debt maturing in future years consists of:

Year	Principal	Interest	Total
2015	\$ 22,855	\$ 8,069	\$ 30,924
2016	3,673	11,902	\$ 15,575
2017	5,462	11,651	\$ 17,113
2018	5,713	11,388	\$ 17,101
2019	5,976	11,113	\$ 17,089
Thereafter	249,362	142,789	392,151
	<u>\$ 293,041</u>	<u>\$ 196,912</u>	<u>\$ 489,953</u>

NOTE E - MEMBERSHIPS AND MEMBERS' CONTRIBUTED CAPITAL

Upon qualification for service, qualification for membership, and payment of the required fees, the Corporation issues a membership certificate. The membership certificate provides proof of membership in the Corporation and entitles the member to one connection to the Corporation's water main and one share of Corporation stock. In addition to a membership fee, each applicant shall be required to pay a distribution system fee in an amount projected to defray the cost of upgrading system facilities to meet growth demands creating by adding customers.

The change in memberships and members' contributed capital is as follows:

	Memberships	Member's Contributed Capital
December 31, 2013	\$ 32,600	\$ 126,759
Memberships repurchased	200	-
Sale of memberships	400	12,335
December 31, 2014	<u>\$ 33,200</u>	<u>\$ 139,094</u>



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July 27, 2015

To the Board of Directors
Avalon Water Supply & Sewer Service Corporation

I have audited the financial statements of Avalon Water Supply & Sewer Service Corporation for the year ended December 31, 2014, and have issued my report thereon dated July 27, 2015. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my engagement letter to you dated January 2, 2015. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Avalon Water Supply & Sewer Service Corporation are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. I noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the allowance for accumulated depreciation is based on the estimated useful life of the capital asset. I evaluated the key factors and assumptions used to develop the allowance for accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Return of Organization Exempt From Income Tax

2012

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

The organization may have to use a copy of this return to satisfy state reporting requirements.

A For the 2012 calendar year, or tax year beginning 2012, and ending 20

B Check if applicable:

- ☐ Address change
☐ Name change
☐ Initial return
☐ Terminated
☐ Amended return
☐ Application pending

C Name of organization AVALON WATER SUPPLY & SEWER SVC COR

Doing Business As

Number and street (or P.O. box if mail is not delivered to street address)

PO BOX 70

City, town or post office, state, and ZIP code

AVALON, TX 76623

F Name and address of principal officer:

H(a) Is this organization?

☐ Yes ☒ No

H(b) Is this organization?

☐ Yes ☒ NoI Tax-exempt status: ☐ 501(c)(3) ☒ 501(c)(12) (insert no.) ☐ 4947(a)(1) or ☐ 527

J Website: N/A

K Form of organization: ☒ Corporation ☐ Trust ☐ Association ☐ Other

L Year of formation: 1970

M State of legal domicile: TX

Part I Summary

1 Briefly describe the organization's mission or most significant activities: PROVIDE WATER AND SEWER SERVICE

2 Check this box ☐ if the organization discontinued its operations or disposed of more than 25% of its net assets.

3 Number of voting members of the governing body (Part VI, line 1a) 7

4 Number of independent voting members of the governing body (Part VI, line 1b) 7

5 Total number of individuals employed in calendar year 2012 (Part V, line 2a) 1

6 Total number of volunteers (estimate if necessary) 0

7a Total unrelated business revenue from Part VIII, column (C), line 12 0

b Net unrelated business taxable income from Form 990-T, line 34 0

8 Contributions and grants (Part VIII, line 1h) 0

9 Program service revenue (Part VIII, line 2g) 287,628

10 Investment income (Part VIII, column (A), lines 3, 4, and 5) 2,492

11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9, 10, and 11e) 0

12 Total revenue - add lines 8 through 11 (must equal Part VIII, column (A), line 12) 290,120

13 Grants and similar amounts paid (Part IX, column (A), lines 1-3) 0

14 Benefits paid to or for members (Part IX, column (A), line 4) 0

15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5-10) 39,471

16a Professional fundraising fees (Part IX, column (A), line 11) 0

b Total fundraising expenses (Part IX, column (A), line 12) 0

17 Other expenses (Part IX, column (A), lines 13-14 and 15-24e) 251,386

18 Total expenses. Add lines 13-14 (must equal Part IX, column (A), line 25) 290,857

19 Revenue less expenses. Subtract line 18 from line 12 (757) (20,659)

20 Total assets (Part X, line 1) 1,105,090

21 Total liabilities (Part X, line 2) 384,202

22 Net assets or fund balances. Subtract line 21 from line 20 720,888

Part II Signature block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature of officer

Date

Type or print name and title

Paid Preparer Use Only

Print/Type preparer's name

KENDALL STONE

Preparer's signature

Date

11-11-2013

Check ☒ if PTIN

self-employed

Firm's name

KENDALL STONE CPA

Firm's EIN

Firm's address

123 TOPEKA STE C

Phone no.

254-772-8505

May the IRS discuss this return with the preparer shown above? (see instructions) ☒ Yes ☐ No

For Paperwork Reduction Act Notice, see the separate instructions.

AVALON000916 Form 990 (2012)

Part III Statement of Program Service AccomplishmentsCheck if Schedule O contains a response to any question in this Part III ☐

1 Briefly describe the organization's mission:

PROVIDE WATER AND SEWER SVC2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? ☐ Yes ☒ No

If "Yes," describe these new services on Schedule O.

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? ☐ Yes ☒ No

If "Yes," describe these changes on Schedule O.

4 Describe the organization's program service accomplishments for each of its three largest program services, measured by expenses. Section 501(c)(3) and 501(c)(4) organizations are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a (Code:) (Expenses \$ 305,438 including grants of \$ (Revenue \$ 283,078)PROVIDE WATER AND SEWER SERVICE TO ITS MEMBERS

4b (Code:) (Expenses \$ including grants of \$ (Revenue \$)

4c (Code:) (Expenses \$ including grants of \$ (Revenue \$)

4d Other program services. (Describe in Schedule O.)

(Expenses \$ including grants of \$ (Revenue \$)

4e Total program service expenses ▶ 305,438

Form 990 (2012)

Part IV Checklist of Required Schedules

	Yes	No
1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? If "Yes," complete Schedule A		X
2 Is the organization required to complete Schedule B, Schedule of Contributors (see instructions)?		X
3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "Yes," complete Schedule C, Part I		X
4 Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If "Yes," complete Schedule C, Part II		
5 Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If "Yes," complete Schedule C, Part III		
6 Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If "Yes," complete Schedule D, Part I		X
7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? If "Yes," complete Schedule D, Part II		X
8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III		X
9 Did the organization report an amount in Part X, line 21, for escrow or custodial account liability, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? If "Yes," complete Schedule D, Part IV		X
10 Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? If "Yes," complete Schedule D, Part V		X
11 If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable.		
a Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI	X	
b Did the organization report an amount for investments - other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VII		X
c Did the organization report an amount for investments - program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VIII		X
d Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part IX		X
e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X	X	
f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under EFIN 45 (ASC 740)? If "Yes," complete Schedule D, Part X		X
12a Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI and XII	X	
b Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI and XII is optional		X
13 Is the organization a school described in section 501(b)(1)(A)(ii)? If "Yes," complete Schedule E		X
14a Did the organization maintain an office, employees, or agents outside of the United States?		X
b Did the organization have a gross revenue or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? If "Yes," complete Schedule F, Parts I and IV		X
15 Did the organization report in Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the United States? If "Yes," complete Schedule F, Parts II and IV		X
16 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the United States? If "Yes," complete Schedule F, Parts III and IV		X
17 Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part VIII, column (A), lines 6 and 11e? If "Yes," complete Schedule G, Part I (see instructions)		X
18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, line 8c and 8a? If "Yes," complete Schedule G, Part II		X
19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III		X
20a Did the organization operate one or more hospital facilities? If "Yes," complete Schedule H		X
b If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return?		

Part IV Checklist of Required Schedules (continued)

	Yes	No
21 Did the organization report more than \$5,000 of grants and other assistance to any government or organization in the United States on Part IX, column (A), line 1? If "Yes," complete Schedule I, Parts I and II		X
22 Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? If "Yes," complete Schedule I, Parts I and III		X
23 Did the organization answer "Yes" to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? If "Yes," complete Schedule J		X
24a Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25		X
b Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?		
c Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?		
d Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?		
25a Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? If "Yes," complete Schedule L, Part I		
b Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? If "Yes," complete Schedule L, Part I		
26 Was a loan to or by a current or former officer, director, trustee, key employee, highest compensated employee, or disqualified person outstanding as of the end of the organization's tax year? If "Yes," complete Schedule L, Part II		X
27 Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or a 35% controlled entity or family member of any of these persons? If "Yes," complete Schedule L, Part III		X
28 Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions):		
a A current or former officer, director, trustee, or key employee? If "Yes," complete Schedule L, Part IV	X	
b A family member of a current or former officer, director, trustee, or key employee? If "Yes," complete Schedule L, Part IV		X
c An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? If "Yes," complete Schedule L, Part IV		X
29 Did the organization receive more than \$25,000 in non-cash contributions? If "Yes," complete Schedule M		X
30 Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? If "Yes," complete Schedule M		X
31 Did the organization liquidate, terminate, or dissolve and cease operations? If "Yes," complete Schedule N, Part I		X
32 Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? If "Yes," complete Schedule N, Part II		X
33 Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? If "Yes," complete Schedule R, Part I		X
34 Was the organization related to any tax-exempt or taxable entity? If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1		X
35a Did the organization have a controlled entity within the meaning of section 512(b)(13)?		X
b If "Yes" to line 35a, did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? If "Yes," complete Schedule R, Part V, line 2		X
36 Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? If "Yes," complete Schedule R, Part V, line 2		
37 Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? If "Yes," complete Schedule R, Part V		X
38 Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11b and 19? Note. Form 990 filers are required to complete Schedule O	X	

Form 990 (2012)