

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

December 31, 2013

(1) NATURE OF ACTIVITIES

North Collin Water Supply Corporation originated in 1970 with a mission to deliver water to rural customers. Treated water is purchased from Lake Lavon through the North Texas Municipal Water District in Wylie, Texas for delivery to customers in rural northern Collin County.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the North Collin Water Supply Corporation (Corporation) conform to accounting principles generally accepted in the United States of America. The following is a summary of the significant policies.

A. Basis of Accounting

The financial statements of the Corporation were prepared using the accrual basis of accounting. Material amounts of goods and services are recorded as assets or expenses at the time the liabilities arise, which is normally when title to the goods pass or when the services are received. Encumbrances representing outstanding purchase orders and other commitments for materials or services not yet received are not liabilities as of the reporting date.

B. Basis of Presentation

In order to comply with accounting principles generally accepted in the United States of America, the Corporation must prepare its external financial statements in accordance with statements issued by the Financial Accounting Standards Board. The Board requires that all not-for-profit organizations provide a statement of financial position, a statement of activities, and a statement of cash flows. It requires reporting amounts for the Corporation's total assets, liabilities, and net assets in a statement of financial position; reporting the change in the Corporation's net assets in a statement of activities; and reporting the change in its cash and cash equivalents in a statement of cash flows.

C. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

-continued-

-6-

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

December 31, 2013

-continued-

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

D. **Tax Status**

The Organization is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code as evidenced by an exemption letter dated March 1970. The Organization is also exempt from Texas state franchise and sales taxes.

As of December 31, 2013, the tax years that remain subject to examination by taxing authorities begin with 2010. Tax returns for 2010, 2011 and 2012 remain open to examination by taxing authorities. Management believes that all positions taken in those returns would be sustained if examined by taxing authorities.

(3) **CASH AND CASH EQUIVALENTS**

For the purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and highly liquid debt instruments with original maturities of three months or less from date of purchase.

At December 31, 2013, the Corporation's carrying amount of deposits was \$508,344 and the bank balance of the Corporation's deposits was \$518,673. Of the bank balance \$518,673 was covered by federal depository insurance.

(4) **INVESTMENTS**

Investments consist of four certificate-of-deposits at Independent Bank as follows:

<u>Balance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
\$ 107,373	07/03/14	.40000%
109,632	02/04/16	.99850%
101,025	02/04/16	.99850%
102,345	03/26/15	1.19288%
<u>173,745</u>	NONE	.25000%
 <u>\$ 594,120</u>		

All certificates of deposit are managed by Independent Bank, however the deposits are placed with multiple institutions providing FDIC coverage for the full carrying value of deposits.

-continued-

-7-

Attachment No. 4 - Question 16
North Collin SUD
P. O. Box 343, 2333 Sam Rayburn Hwy.,
Melissa, Texas 75454

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

December 31, 2013

-continued-

(5) CAPITAL ASSETS

Activity in capital assets for the year ended December 31, 2013, was as follows:

	Balance December 31, <u>2012</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2013</u>
Land	\$ 38,059			38,059
Storage facilities	2,143,353	88,563		2,231,916
Water lines	6,074,514	209,546		6,284,060
Buildings	122,189			122,189
Office equipment	51,117			51,117
Heavy equipment	163,781			163,781
Equipment	679,310	55,225		734,535
Software	<u>65,497</u>			<u>65,497</u>
Total cost	9,337,820	353,334		9,691,154
Less: accumulated depreciation (as restated)	<u>(3,245,761)</u>	<u>(269,247)</u>		<u>(3,515,008)</u>
Land buildings and equipment (as restated)	<u>\$ 6,092,059</u>	<u>84,087</u>		<u>6,176,146</u>

Assets are valued at cost and are being depreciated using the straight-line method, over the following estimated lives:

	<u>Estimated Life</u>
Wells, storage and distribution system	* 40 years
Heavy equipment	40 years
Buildings	35 years
Office equipment	5 years
Equipment	5 years
Software	5 years

It is the Corporation's policy to capitalize expenditures of \$500 or more for assets with a useful life exceeding one year or that extend the life of another asset.

(6) LONG-TERM DEBT

On November 21, 2006 the Corporation entered into a loan agreement with the United States Department of Agriculture for \$1,420,000. The purpose of the loan was to fund construction of the Chambersville overhead storage tank and associated water lines. The loan requires monthly payments of \$6,447 beginning on January 21, 2008 for a period of forty years. Payments include an interest rate of 4.5%.

-continued-

-8-

Attachment No. 4 - Question 16

North Collin SUD

P. O. Box 343, 2333 Sam Rayburn Hwy.,
Melissa, Texas 75454

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

December 31, 2013

-continued-

(6) LONG-TERM DEBT (continued)

On October 21, 2010 the Corporation entered into an agreement with Independent Bank for a line of credit in the amount of \$400,000. Annualized interest of 2.90% is charged on the outstanding balance at the end of each month. The line of credit is secured by certificates of deposit.

Long-term debt activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable - USDA	\$ 1,343,161		(17,277)	1,325,884	18,069
Note payable - Independent Bank	<u>399,400</u>	<u>230,000</u>	<u>(460,000)</u>	<u>169,400</u>	<u> </u>
	<u>\$ 1,742,561</u>	<u>230,000</u>	<u>(477,277)</u>	<u>1,495,284</u>	<u>18,069</u>

Annual requirements to amortize the debt are as follows:

Note Payable - USDA			
<u>Fiscal Year End</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 18,069	59,295	77,364
2015	18,899	58,465	77,364
2016	19,767	57,597	77,364
2017	20,675	56,689	77,364
2018	21,625	55,739	77,364
Thereafter	<u>1,226,849</u>	<u>926,921</u>	<u>2,153,770</u>
Total	<u>\$ 1,325,884</u>	<u>1,214,706</u>	<u>2,540,590</u>

(7) SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 4, 2014, which is the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

-continued-

-9-

Attachment No. 4 - Question 16
North Collin SUD
P. O. Box 343, 2333 Sam Rayburn Hwy.,
Melissa, Texas 75454

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

December 31, 2013

-continued-

(8) RETIREMENT ARRANGEMENT

The Corporation offers full-time employees the opportunity to participate in a 401(k) plan. The Corporation makes a discretionary match up to 3% of the employee's compensation for the calendar year ended December 31, 2013. The Corporation incurred expense of \$2,913 for retirement plan match during the year ended December 31, 2013.

(9) RESTATEMENT OF NET ASSETS

As of December 31, 2012, net assets have been restated by \$608 to correct an error in the capitalization of assets for the prior year.

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



Nabors CPA Services, P.C.
CERTIFIED PUBLIC ACCOUNTANT
AUDIT, TAX AND CONSULTING SERVICES

(972) 464-1226
 5566 Main Street
 Frisco, Texas 75053

How well do you know your CPA?

**REPORT OF 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
 North Collin Water Supply Corporation

I have audited the financial statements of North Collin Water Supply Corporation as of and for the year ended December 31, 2013, and have issued my report thereon dated March 4, 2014. 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.

Compliance

As part of obtaining reasonable assurance about whether North Collin Water Supply 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*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered North Collin Water Supply Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

March 4, 2014

Member of:
American Institute of CPA's
Texas Society of CPA's

-12-

Attachment No. 4 - Question 16
 North Collin SUD
 P. O. Box 343, 2333 Sam Rayburn Hwy.,
 Melissa, Texas 75454

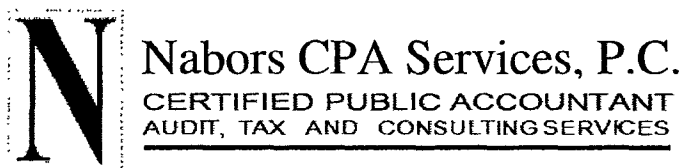
**NORTH COLLIN WATER
SUPPLY CORPORATION**

Financial Statements
(With Auditor's Report Thereon)

December 31, 2014

TABLE OF CONTENTS

Independent Auditor's Report	1
Financial Section	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Report of Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12



(972) 464-1226
 8765 Stockard Drive
 Suite 404
 Frisco, Texas 75033

How well do you know your CPA?

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
North Collin Water Supply Corporation
 Melissa, Texas

I have audited the accompanying financial statements of North Collin Water Supply 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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.

Opinion

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

Nabors CPA Services, P.C.

March 28, 2015

Member of:
 American Institute of CPAs
 Texas Society of CPAs

-1-

Attachment No. 4 - Question 16
 North Collin SUD
 P. O. Box 343, 2333 Sam Rayburn Hwy.,
 Melissa, Texas 75454

FINANCIAL SECTION

NORTH COLLIN WATER SUPPLY CORPORATION
Statements of Financial Position
December 31, 2014

	<u>2014</u>	<u>2013</u>
ASSETS:		
Cash and cash equivalents	\$ 429,374	508,944
Investments	548,262	594,120
Accounts receivable	118,372	131,820
Prepaid insurance	8,821	8,821
Capital assets, (net of accumulated depreciation)	<u>6,449,117</u>	<u>6,176,146</u>
Total assets	<u>\$ 7,553,946</u>	<u>7,419,851</u>
 LIABILITIES and NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 62,594	74,845
Payroll tax liabilities	59	70
Customer deposits	14,750	
Note payable - USDA - current portion	<u>18,899</u>	<u>18,069</u>
Total current liabilities	<u>96,302</u>	<u>92,984</u>
Long-term liabilities:		
Note payable - USDA	1,288,914	1,307,815
Note payable - Independent Bank	<u>169,400</u>	<u>169,400</u>
Total long-term liabilities	<u>1,288,914</u>	<u>1,477,215</u>
Net assets:		
Unrestricted	<u>6,168,730</u>	<u>5,849,652</u>
Total net assets	<u>6,168,730</u>	<u>5,849,652</u>
Total liabilities and net assets	<u>\$ 7,553,946</u>	<u>7,419,851</u>

The accompanying notes are an integral part of these statements.

NORTH COLLIN WATER SUPPLY CORPORATION
Statement of Activities
For the Year Ended December 31, 2014

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Water sales, memberships and extensions	\$ <u>1,968,435</u>	<u>1,929,954</u>
Total revenues	<u>1,968,435</u>	<u>1,929,954</u>
OPERATING EXPENSES:		
Cost of water	680,869	620,309
General and administrative	89,288	100,783
Insurance	64,725	76,088
Materials and supplies	31,955	21,771
Professional fees	27,277	32,273
Repairs and maintenance	12,195	20,749
Utilities	110,308	110,257
Payroll expenses	297,355	268,513
Other operating expenses	22,071	16,283
Depreciation	<u>280,782</u>	<u>269,247</u>
Total expenses	<u>1,616,825</u>	<u>1,536,273</u>
Operating income/(loss)	351,610	393,681
OTHER INCREASES/(DECREASES) IN NET ASSETS:		
Capital contributions	23,100	50,948
Interest income	4,330	4,531
Interest expense	<u>(59,962)</u>	<u>(70,811)</u>
Total other increases/(decreases) in net assets	<u>(32,532)</u>	<u>(15,332)</u>
Increase/(decrease) in net assets	319,078	378,349
Net assets at beginning of year (as restated)	<u>5,849,652</u>	<u>5,471,303</u>
Net assets at end of year	\$ <u>6,168,730</u>	<u>5,849,652</u>

The accompanying notes are an integral part of these statements.

NORTH COLLIN WATER SUPPLY CORPORATION

Statement of Cash Flows

For the Year Ended December 31, 2014

	<u>2014</u>	<u>2013</u>
Cash flow from operating activities:		
Cash received from customers and others	\$ 1,981,883	1,935,221
Cash paid to vendors	(1,036,200)	(990,402)
Cash paid to employees	<u>(297,355)</u>	<u>(270,017)</u>
Net cash provided/(used) by operating activities	<u>648,328</u>	<u>674,802</u>
Cash flow from capital and related financing activities:		
Payments on long-term debt	(187,471)	(477,277)
Purchase of fixed assets	(553,753)	(353,334)
Proceeds from long-term debt		230,000
Interest paid on debt	(59,962)	(70,811)
Capital contributions	<u>23,100</u>	<u>50,948</u>
Net cash used in capital and related financing activities	<u>(778,086)</u>	<u>(620,474)</u>
Cash flow from investing activities:		
(Purchase)/sale of investments	45,858	(77,466)
Interest on deposits and investments	<u>4,330</u>	<u>4,531</u>
Net cash used by investing activities	<u>50,188</u>	<u>(72,935)</u>
Increase/(decrease) in cash	(79,570)	(18,607)
Cash and cash equivalents at beginning of year	<u>508,944</u>	<u>527,551</u>
Cash and cash equivalents at end of year	\$ <u>429,374</u>	<u>508,944</u>

Reconciliation of Increase in Net Assets to Net Cash Provided/(Used) by Operating Activities:

Operating income/(loss)	\$ 351,610	393,681
Adjustment to reconcile operating income/(loss) to net cash provided/(used) by operating activities:		
Depreciation	280,782	269,247
(Increase)/decrease in accounts receivable	13,448	5,267
(Increase)/decrease in prepaid insurance		(720)
Increase/(decrease) in accounts payable	(12,251)	8,831
Increase/(decrease) in payroll tax liabilities	(11)	(1,504)
Increase/(decrease) in customer deposits	<u>14,750</u>	
Net cash provided/(used) by operating activities	\$ <u>648,328</u>	<u>674,802</u>

The accompanying notes are an integral part of these statements.

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

December 31, 2014

(1) NATURE OF ACTIVITIES

North Collin Water Supply Corporation originated in 1970 with a mission to deliver water to rural customers. Treated water is purchased from Lake Lavon through the North Texas Municipal Water District in Wylie, Texas for delivery to customers in rural northern Collin County.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the North Collin Water Supply Corporation (Corporation) conform to accounting principles generally accepted in the United States of America. The following is a summary of the significant policies.

A. Basis of Accounting

The financial statements of the Corporation were prepared using the accrual basis of accounting. Material amounts of goods and services are recorded as assets or expenses at the time the liabilities arise, which is normally when title to the goods pass or when the services are received. Encumbrances representing outstanding purchase orders and other commitments for materials or services not yet received are not liabilities as of the reporting date.

B. Basis of Presentation

In order to comply with accounting principles generally accepted in the United States of America, the Corporation must prepare its external financial statements in accordance with statements issued by the Financial Accounting Standards Board. The Board requires that all not-for-profit organizations provide a statement of financial position, a statement of activities, and a statement of cash flows. It requires reporting amounts for the Corporation's total assets, liabilities, and net assets in a statement of financial position; reporting the change in the Corporation's net assets in a statement of activities; and reporting the change in its cash and cash equivalents in a statement of cash flows.

C. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

-continued-

-6-

Attachment No. 4 - Question 16
North Collin SUD
P. O. Box 343, 2333 Sam Rayburn Hwy.,
Melissa, Texas 75454

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

December 31, 2014

-continued-

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

D. **Tax Status**

The Organization is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code as evidenced by an exemption letter dated March 1970. The Organization is also exempt from Texas state franchise and sales taxes.

As of December 31, 2014, the tax years that remain subject to examination by taxing authorities begin with 2011. Tax returns for 2011, 2012 and 2013 remain open to examination by taxing authorities. Management believes that all positions taken in those returns would be sustained if examined by taxing authorities.

(3) **CASH AND CASH EQUIVALENTS**

For the purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and highly liquid debt instruments with original maturities of three months or less from date of purchase.

At December 31, 2014, the Corporation's carrying amount of deposits was \$428,774 and the bank balance of the Corporation's deposits was \$431,637. Of the bank balance \$250,000 was covered by federal depository insurance.

(4) **INVESTMENTS**

Investments consist of four certificate-of-deposits at Independent Bank as follows:

<u>Balance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
\$ 107,801	07/02/15	.35000%
110,733	02/04/16	.99850%
102,038	02/04/16	.99850%
103,573	03/26/15	1.19288%
<u>124,117</u>	NONE	.25000%
<u>\$ 548,262</u>		

All certificates of deposit are managed by Independent Bank, however the deposits are placed with multiple institutions providing FDIC coverage for the full carrying value of deposits.

-continued-

-7-

Attachment No. 4 - Question 16
North Collin SUD
P. O. Box 343, 2333 Sam Rayburn Hwy.,
Melissa, Texas 75454

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

December 31, 2014

-continued-

(5) CAPITAL ASSETS

Activity in capital assets for the year ended December 31, 2014, was as follows:

	Balance December 31, <u>2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2014</u>
Land	\$ 38,059			38,059
Storage facilities	2,231,916			2,231,916
Water lines	6,284,060	491,605		6,775,665
Buildings	122,189			122,189
Office equipment	51,117			51,117
Heavy equipment	163,781			163,781
Equipment	734,535	51,564		786,099
Software	<u>65,497</u>	<u>10,584</u>		<u>76,081</u>
Total cost	9,691,154	553,753		10,244,907
Less: accumulated depreciation (as restated)	(3,515,008)	(280,782)		(3,795,790)
Land buildings and equipment (as restated)	<u>\$ 6,176,146</u>	<u>272,971</u>		<u>6,449,117</u>

Assets are valued at cost and are being depreciated using the straight-line method, over the following estimated lives:

	<u>Estimated Life</u>
Wells, storage and distribution system	40 years
Heavy equipment	40 years
Buildings	35 years
Office equipment	5 years
Equipment	5 years
Software	5 years

It is the Corporation's policy to capitalize expenditures of \$500 or more for assets with a useful life exceeding one year or that extend the life of another asset.

(6) LONG-TERM DEBT

On November 21, 2006 the Corporation entered into a loan agreement with the United States Department of Agriculture for \$1,420,000. The purpose of the loan was to fund construction of the Chambersville overhead storage tank and associated water lines. The loan requires monthly payments of \$6,447 beginning on January 21, 2008 for a period of forty years. Payments include an interest rate of 4.5%.

-continued-

-8-

Attachment No. 4 - Question 16
North Collin SUD
P.O. Box 343, 2333 Sam Rayburn Hwy.,
Melissa, Texas 75454

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

December 31, 2014

-continued-

(6) LONG-TERM DEBT (continued)

On October 21, 2010 the Corporation entered into an agreement with Independent Bank for a line of credit in the amount of \$400,000. Annualized interest of 2.90% is charged on the outstanding balance at the end of each month. The line of credit is secured by certificates of deposit.

Long-term debt activity for the year ended December 31, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable - USDA	\$ 1,325,884		18,071	1,307,813	18,899
Note payable - Independent Bank	<u>169,400</u>		<u>169,400</u>	<u> </u>	<u> </u>
	<u>\$ 1,495,284</u>		<u>187,471</u>	<u>1,307,813</u>	<u>18,899</u>

Annual requirements to amortize the debt are as follows:

Note Payable - USDA			
<u>Fiscal Year End</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 18,899	58,465	77,364
2016	19,767	57,597	77,364
2017	20,675	56,689	77,364
2018	21,625	55,739	77,364
2019	22,618	54,746	77,364
Thereafter	<u>1,204,229</u>	<u>872,171</u>	<u>2,076,400</u>
Total	<u>\$ 1,307,813</u>	<u>1,155,407</u>	<u>2,463,220</u>

(7) RETIREMENT ARRANGEMENT

The Corporation offers full-time employees the opportunity to participate in a 401(k) plan. The Corporation makes a discretionary match up to 3% of the employee's compensation for the calendar year ended December 31, 2014. The Corporation incurred expense of \$16,342 for retirement plan match during the year ended December 31, 2014.

-continued-

-9-

Attachment No. 4 - Question 16
North Collin SUD
P. O. Box 343, 2333 Sam Rayburn Hwy.,
Melissa, Texas 75454

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

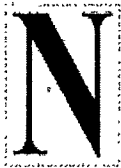
December 31, 2014

-continued-

(8) SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 28, 2015, which is the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

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



Nabors CPA Services, P.C.
CERTIFIED PUBLIC ACCOUNTANT
AUDIT, TAX AND CONSULTING SERVICES

(972) 464-1226
 5566 Main Street
 Frisco, Texas 75053

How well do you know your CPA?

REPORT OF 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
 North Collin Water Supply Corporation

I have audited the financial statements of North Collin Water Supply Corporation as of and for the year ended December 31, 2014, and have issued my report thereon dated March 28, 2015. 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.

Compliance

As part of obtaining reasonable assurance about whether North Collin Water Supply 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*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered North Collin Water Supply Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Nabors CPA Services, P.C.

March 28, 2015

Member of:
American Institute of CPA's
Texas Society of CPA's

-12-

Attachment No. 4 - Question 16
 North Collin SUD
 P. O. Box 343, 2333 Sam Rayburn Hwy.,
 Melissa, Texas 75454

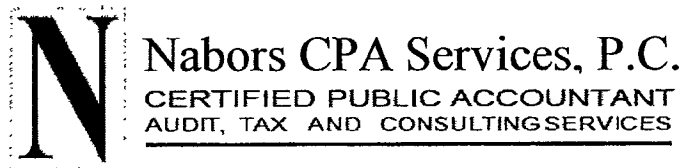
**NORTH COLLIN WATER
SUPPLY CORPORATION**

Financial Statements
(With Auditor's Report Thereon)

December 31, 2015

TABLE OF CONTENTS

Independent Auditor's Report	1
Financial Section	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Report of Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	13



(972) 464-1226
 8765 Stockard Drive, Suite 404
 Frisco, Texas 75034

How well do you know your CPA?

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
North Collin Water Supply Corporation
 Melissa, Texas

Report on the Financial Statements

I have audited the accompanying financial statements of North Collin Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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.

Member of:
 American Institute of CPAs
 Texas Society of CPAs

-1-

Attachment No. 4 - Question 16
 North Collin SUD
 P. O. Box 343, 2333 Sam Rayburn Hwy.,
 Melissa, Texas 75454

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Collin Water Supply Corporation as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

DRAFT

April 19, 2016

DRAFT

FINANCIAL SECTION

NORTH COLLIN WATER SUPPLY CORPORATION
Statements of Financial Position
December 31, 2015

	<u>2015</u>	<u>2014</u>
ASSETS:		
Cash and cash equivalents	\$ 181,806	429,374
Investments	449,893	548,262
Accounts receivable	97,382	118,372
Prepaid insurance	10,835	8,821
Capital assets, (net of accumulated depreciation)	<u>7,823,372</u>	<u>6,449,117</u>
Total assets	\$ <u>8,563,288</u>	<u>7,553,946</u>
LIABILITIES and NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 80,313	62,594
Payroll tax liabilities		59
Customer deposits	22,250	14,750
Note payable - USDA - current portion	<u>19,767</u>	<u>18,899</u>
Total current liabilities	<u>122,330</u>	<u>96,302</u>
Long-term liabilities:		
Note payable - USDA	1,269,145	1,288,914
Note payable - Independent Bank	<u>400,000</u>	
Total long-term liabilities	<u>1,669,145</u>	<u>1,288,914</u>
Net assets:		
Unrestricted	<u>6,771,813</u>	<u>6,168,730</u>
Total net assets	<u>6,771,813</u>	<u>6,168,730</u>
Total liabilities and net assets	\$ <u>8,563,288</u>	<u>7,553,946</u>

The accompanying notes are an integral part of these statements.

NORTH COLLIN WATER SUPPLY CORPORATION

Statement of Activities
For the Year Ended December 31, 2015

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES:		
Water sales, memberships and extensions	\$ 2,495,491	<u>1,968,435</u>
Total revenues	<u>2,495,491</u>	<u>1,968,435</u>
OPERATING EXPENSES:		
Cost of water	750,074	680,869
General and administrative	118,728	89,288
Insurance	69,633	64,725
Materials and supplies	66,897	31,955
Professional fees	82,366	27,277
Repairs and maintenance	15,812	12,195
Utilities	120,938	110,308
Payroll expenses	326,363	297,355
Other operating expenses	17,984	22,071
Depreciation	<u>318,136</u>	<u>280,782</u>
Total expenses	<u>1,886,931</u>	<u>1,616,825</u>
Operating income/(loss)	608,560	351,610
OTHER INCREASES/(DECREASES) IN NET ASSETS:		
Capital contributions	49,438	23,100
Interest income	3,684	4,330
Interest expense	<u>(58,599)</u>	<u>(59,962)</u>
Total other increases/(decreases) in net assets	<u>(5,477)</u>	<u>(32,532)</u>
Increase/(decrease) in net assets	603,083	319,078
Net assets at beginning of year (as restated)	<u>6,168,730</u>	<u>5,849,652</u>
Net assets at end of year	\$ <u>6,771,813</u>	<u>6,168,730</u>

The accompanying notes are an integral part of these statements.

NORTH COLLIN WATER SUPPLY CORPORATION

Statement of Cash Flows

For the Year Ended December 31, 2015

	<u>2015</u>	<u>2014</u>
Cash flow from operating activities:		
Cash received from customers and others	\$ 2,523,981	1,981,883
Cash paid to vendors	(1,226,786)	(1,036,200)
Cash paid to employees	<u>(326,363)</u>	<u>(297,355)</u>
Net cash provided/(used) by operating activities	<u>970,832</u>	<u>648,328</u>
Cash flow from capital and related financing activities:		
Payments on long-term debt	(218,901)	(187,471)
Purchase of fixed assets	(1,692,391)	(553,753)
Proceeds from long-term debt	600,000	
Interest paid on debt	(58,599)	(59,962)
Capital contributions	<u>49,438</u>	<u>23,100</u>
Net cash used in capital and related financing activities	<u>(1,320,453)</u>	<u>(778,086)</u>
Cash flow from investing activities:		
(Purchase)/sale of investments	98,369	45,858
Interest on deposits and investments	<u>3,684</u>	<u>4,330</u>
Net cash used by investing activities	<u>102,053</u>	<u>50,188</u>
Increase/(decrease) in cash	(247,568)	(79,570)
Cash and cash equivalents at beginning of year	<u>429,374</u>	<u>508,944</u>
Cash and cash equivalents at end of year	\$ <u>181,806</u>	<u>429,374</u>

Reconciliation of Increase in Net Assets to Net Cash Provided/(Used) by Operating Activities:

Operating income/(loss)	\$ 608,560	351,610
Adjustment to reconcile operating income/(loss) to net cash provided/(used) by operating activities:		
Depreciation	318,136	280,782
(Increase)/decrease in accounts receivable	20,990	13,448
(Increase)/decrease in prepaid insurance	(2,014)	
Increase/(decrease) in accounts payable	17,719	(12,251)
Increase/(decrease) in payroll tax liabilities	(59)	(11)
Increase/(decrease) in customer deposits	<u>7,500</u>	<u>14,750</u>
Net cash provided/(used) by operating activities	\$ <u>970,832</u>	<u>648,328</u>

The accompanying notes are an integral part of these statements.

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

December 31, 2015

(1) NATURE OF ACTIVITIES

North Collin Water Supply Corporation originated in 1970 with a mission to deliver water to rural customers. Treated water is purchased from Lake Lavon through the North Texas Municipal Water District in Wylie, Texas for delivery to customers in rural northern Collin County.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the North Collin Water Supply Corporation (Corporation) conform to accounting principles generally accepted in the United States of America. The following is a summary of the significant policies.

A. Basis of Accounting

The financial statements of the Corporation were prepared using the accrual basis of accounting. Material amounts of goods and services are recorded as assets or expenses at the time the liabilities arise, which is normally when title to the goods pass or when the services are received. Encumbrances representing outstanding purchase orders and other commitments for materials or services not yet received are not liabilities as of the reporting date.

B. Basis of Presentation

In order to comply with accounting principles generally accepted in the United States of America, the Corporation must prepare its external financial statements in accordance with statements issued by the Financial Accounting Standards Board. The Board requires that all not-for-profit organizations provide a statement of financial position, a statement of activities, and a statement of cash flows. It requires reporting amounts for the Corporation's total assets, liabilities, and net assets in a statement of financial position; reporting the change in the Corporation's net assets in a statement of activities; and reporting the change in its cash and cash equivalents in a statement of cash flows.

C. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

-continued-

-7-

Attachment No. 4 - Question 16
North Collin SUD
P. O. Box 343, 2333 Sam Rayburn Hwy.,
Melissa, Texas 75454

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

December 31, 2015

-continued-

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Tax Status

The Organization is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code as evidenced by an exemption letter dated March 1970. The Organization is also exempt from Texas state franchise and sales taxes.

As of December 31, 2015, the tax years that remain subject to examination by taxing authorities begin with 2012. Tax returns for 2012, 2013 and 2014 remain open to examination by taxing authorities. Management believes that all positions taken in those returns would be sustained if examined by taxing authorities.

(3) CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and highly liquid debt instruments with original maturities of three months or less from date of purchase.

At December 31, 2015, the Corporation's carrying amount of deposits was \$181,206 and the bank balance of the Corporation's deposits was \$200,803. All of the bank balance was covered by federal depository insurance.

(4) INVESTMENTS

Investments consist of four certificate-of-deposits at Independent Bank as follows:

<u>Balance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
\$ 108,178	06/30/16	.35000%
111,844	02/04/16	.99850%
103,062	02/04/16	.99850%
104,580	03/22/18	.90000%
<u>22,229</u>	NONE	.25000%
<u>\$ 449,893</u>		

All certificates of deposit are managed by Independent Bank, however the deposits are placed with multiple institutions providing FDIC coverage for the full carrying value of deposits.

-continued-

-8-

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

December 31, 2015

-continued-

(5) CAPITAL ASSETS

Activity in capital assets for the year ended December 31, 2015, was as follows:

	Balance December 31, <u>2014</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2015</u>
Land	\$ 38,059			38,059
Storage facilities	2,231,916			2,231,916
Water lines	6,775,665	1,578,184		8,353,849
Buildings	122,189			122,189
Office equipment	51,117			51,117
Heavy equipment	163,781			163,781
Equipment	786,099	114,207		900,306
Software	<u>76,081</u>			<u>76,081</u>
Total cost	10,244,907	1,692,391		11,937,298
Less: accumulated depreciation (as restated)	<u>(3,795,790)</u>	<u>(318,136)</u>		<u>(4,113,926)</u>
Land buildings and equipment (as restated)	<u>\$ 6,449,117</u>	<u>1,374,255</u>		<u>7,823,372</u>

Assets are valued at cost and are being depreciated using the straight-line method, over the following estimated lives:

	<u>Estimated Life</u>
Wells, storage and distribution system	40 years
Heavy equipment	40 years
Buildings	35 years
Office equipment	5 years
Equipment	5 years
Software	5 years

It is the Corporation's policy to capitalize expenditures of \$500 or more for assets with a useful life exceeding one year or that extend the life of another asset.

(6) LONG-TERM DEBT

On November 21, 2006 the Corporation entered into a loan agreement with the United States Department of Agriculture for \$1,420,000. The purpose of the loan was to fund construction of the Chambersville overhead storage tank and associated water lines. The loan requires monthly payments of \$6,447 beginning on January 21, 2008 for a period of forty years. Payments include an interest rate of 4.5%.

-continued-

-9-

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

December 31, 2015

-continued-

(6) LONG-TERM DEBT (continued)

On October 21, 2010 the Corporation entered into an agreement with Independent Bank for a line of credit in the amount of \$400,000. Annualized interest of 2.90% is charged on the outstanding balance at the end of each month. The line of credit is secured by certificates of deposit.

Long-term debt activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable - USDA	\$ 1,307,813		(18,901)	1,288,912	19,767
Note payable - Independent Bank		600,000	(200,000)	400,000	
	<u>\$ 1,307,813</u>	<u>600,000</u>	<u>(218,901)</u>	<u>1,688,912</u>	<u>19,767</u>

Annual requirements to amortize the debt are as follows:

	<u>Note Payable - USDA</u>		
<u>Fiscal Year End</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 19,767	57,597	77,364
2017	20,675	56,689	77,364
2018	21,625	55,739	77,364
2019	22,618	54,746	77,364
2020	23,657	53,707	77,364
Thereafter	<u>1,180,570</u>	<u>818,464</u>	<u>1,999,034</u>
Total	<u>\$ 1,288,912</u>	<u>1,096,942</u>	<u>2,385,854</u>

(7) RETIREMENT ARRANGEMENT

The Corporation offers full-time employees the opportunity to participate in a 401(k) plan. The Corporation makes a discretionary match up to 3% of the employee's compensation for the calendar year ended December 31, 2015. The Corporation incurred expense of \$14,630 for retirement plan match during the year ended December 31, 2015.

-continued-

-10-

NORTH COLLIN WATER SUPPLY CORPORATION

Notes to Financial Statements

December 31, 2015

-continued-

(8) SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 19, 2016, which is the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

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



Nabors CPA Services. P.C.
CERTIFIED PUBLIC ACCOUNTANT
AUDIT, TAX AND CONSULTING SERVICES

(972) 464-1226
 8765 Stockard Drive, Suite 404
 Frisco, Texas 75034

How well do you know your CPA?

**REPORT OF 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
 North Collin Water Supply Corporation

I have audited the financial statements of North Collin Water Supply Corporation as of and for the year ended December 31, 2015, and have issued my report thereon dated April 19, 2016. 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.

Compliance

As part of obtaining reasonable assurance about whether North Collin Water Supply 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*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered North Collin Water Supply Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

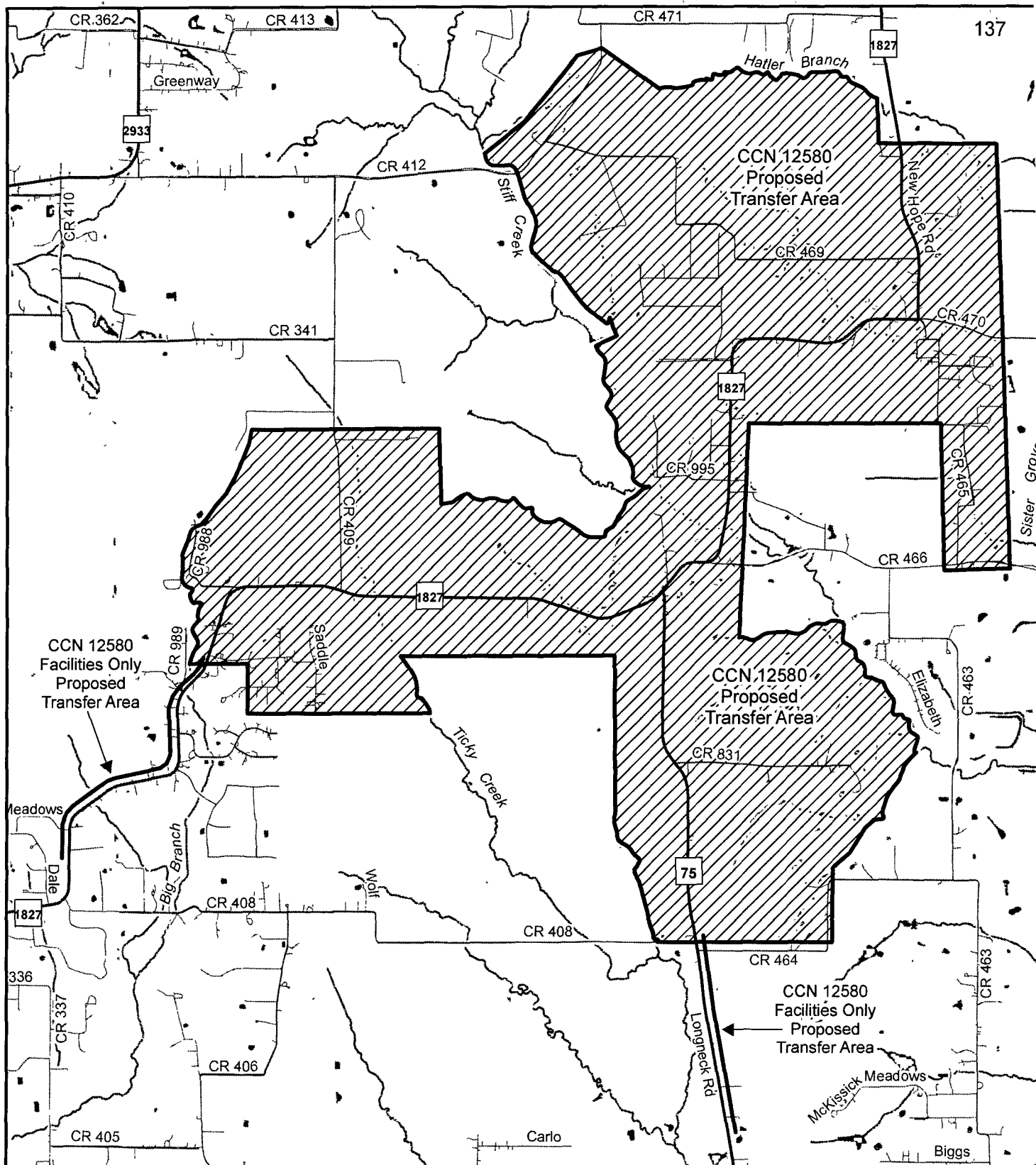
DRAFT

April 19, 2016

Member of:
American Institute of CPA's
Texas Society of CPA's

-13-

Attachment No. 4 - Question 16
 North Collin SUD
 P. O. Box 343, 2333 Sam Rayburn Hwy.,
 Melissa, Texas 75454



Large Scale Map

Application of North Collin SUD, CCN No. 11035
to Transfer and Cancel Altoga WSC, CCN No. 12580
in Collin County

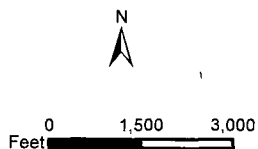
Attachment No. 5
Question 24
North Collin SUD
P. O. Box 343; 2333 Sam Rayburn Hwy.,
Melissa, Texas 75454



CCN 12580 - Altoga WSC

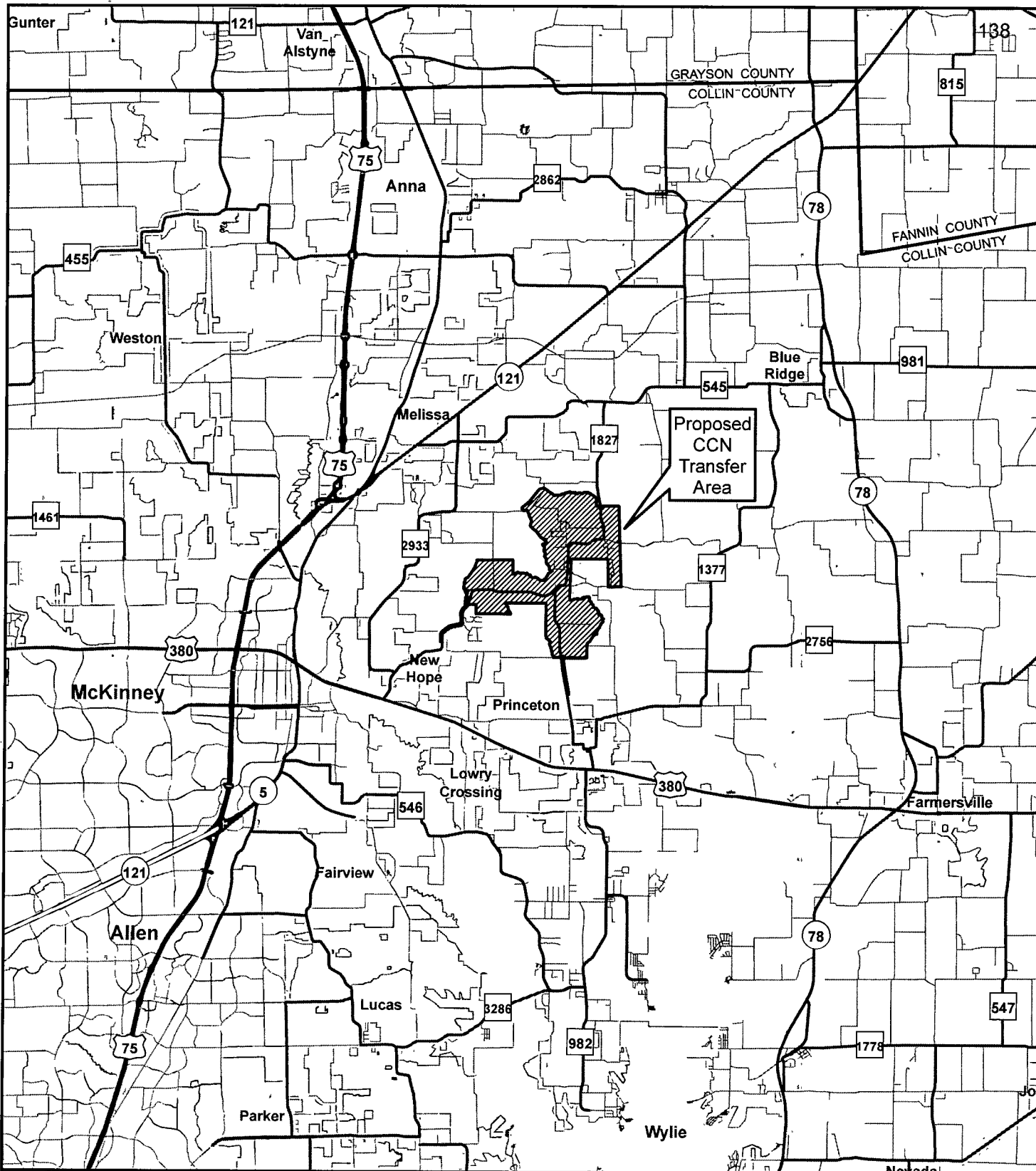


CCN 12580 - Altoga WSC "Facilities Only"



Map by: S. Burt, ASBGI
Date Oct. 11, 2016


Project North Collin SUD_Altoga WSC STM Large Scale.mxd



General Location

Application of North Collin SUD, CCN No. 11035
to Transfer and Cancel Altoga WSC, CCN No. 12580
in Collin County

Attachment No. 5
Question 24
North Collin SUD

 CCN 12580 - Altoga WSC

 CCN 12580 - Altoga WSC "Facilities Only"

P. O. Box 343, 2333 Sam Rayburn Hwy.,
Melissa, Texas 75454

