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PUC DOCKET NO. 48299

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APPLICATION OF LEVI
WATER SUPPLY CORPORATION TO
AMEND A WATER CERTIFICATE OF
CONVENIENCE AND NECESSITY IN
MCLENNAN AND FALLS COUNTIES

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PUBLIC UTILITY COMMISSION
OFFICE OF
FILING CLERK
OF
TEXAS

**LEVI WATER SUPPLY CORPORATION'S RESPONSE TO
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION**

COMES NOW Levi Water Supply Corporation (Levi) and files this Response to the Third Request for Information of Public Utility Commission Staff (Staff), which was filed with the Public Utility Commission (PUC or Commission) on July 27, 2018 and served on Levi on July 30, 2018. This response is timely filed. Levi agrees and stipulates that all parties may treat these responses as if the answers were filed under oath.

Dated: August 6, 2018

Respectfully submitted,



Mary Margaret Croft

State Bar No. 24082875

MaryMargaret@carpenterandcroft.com

CARPENTER & CROFT, PLLC

7901 Fish Pond Rd., Ste. 210

Waco, Texas 76710

T: (254) 300-7909

**ATTORNEY FOR LEVI WATER SUPPLY
CORPORATION**

CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on this the 6th day of August, 2018 in accordance with 16 TAC § 22.74.



Mary Margaret Croft

PUC DOCKET NO. 48299

APPLICATION OF LEVI	§	PUBLIC UTILITY COMMISSION
WATER SUPPLY CORPORATION TO	§	
AMEND A WATER CERTIFICATE OF	§	OF
CONVENIENCE AND NECESSITY IN	§	
MCLENNAN AND FALLS COUNTIES	§	TEXAS
	§	

**LEVI WATER SUPPLY CORPORATION'S RESPONSE TO
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION**

QUESTION NO. STAFF 3-1

STAFF 3-1: Please refer to pages 9 and 10 of the application.

- (a) Provide historical financial statements for years ending December 31, 2015 and 2016.
- (b) Provide projected financial statements for years ending December 31, 2018, 2019, 2020, 2021, and 2022.
- (c) If the projections show losses, explain how Levi will cover the losses.

RESPONSE 3-1:

- (a) Please see attached Exhibit A.
- (b) Please see page 3-3 and Schedules 6 and 8 of Exhibit B to Levi Water Supply Corporation's Response to PUC Staff's 2nd Request for Information, filed July 12, 2018 incorporated by reference and made a part hereof for all purposes. Financial data for the year 2022 is not currently available.
- (c) No losses are projected; however, if losses occur, they would be covered by the emergency fund (listed as "temporarily restricted net assets" on the financial statements) set aside for improvements and emergencies. See for example, Levi's use of said funds for emergencies and capital improvements in Response 2-5(b) and (c) of Levi Water Supply Corporation's Response to PUC Staff's 2nd Request for Information, filed July 12, 2018 incorporated by reference and made a part hereof for all purposes.

Prepared/sponsored by: **Jim Sheffield, Levi Water Supply Corporation**
Title: **General Manager**

Exhibit "A"

LEVI WATER SUPPLY CORPORATION

FINANCIAL STATEMENTS

For the Year Ended
December 31, 2015

WITH INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

John W. McAnally, P.C.
Certified Public Accountant

8301 Bosque Blvd.
Waco, TX 76712

A Professional Corporation
(254) 772-5690

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors of
Levi Water Supply Corporation

Management is responsible for the accompanying financial statements of Levi 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 in accordance with accounting principles generally accepted in the United States of America. I have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I did not audit or review the financial statements nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.



John W. McAnally, P.C.
Certified Public Accountant
Waco, TX
April 7, 2016

LEVI WATER SUPPLY CORP.
Statement of Financial Position
As of December 31, 2015

	<u>Dec 31, 15</u>
ASSETS	
Current Assets	
Checking/Savings	
Unrestricted cash	\$ 399,129.54
Temporary cash investments	53,632.50
Temporarily restricted cash	50,874.16
Total Checking/Savings	<u>503,636.20</u>
Accounts Receivable	
Accounts receivable	50,940.45
Allowance for doubtful accounts	(5,088.54)
Total Accounts Receivable	<u>45,851.91</u>
Other Current Assets	
Payroll Taxes Receivable	2,308.97
Total Other Current Assets	<u>2,308.97</u>
Total Current Assets	<u>551,797.08</u>
Fixed Assets	
New construction	822,987.75
Water well & plant	1,512,288.75
2003 Dodge pickup	8,600.58
Equipment purchases	46,244.29
Property, plant & equipment	1,223,909.40
Software update	2,399.36
Office equipment	4,252.65
Accumulated depreciation	(1,340,241.00)
Total Fixed Assets	<u>2,280,441.78</u>
TOTAL ASSETS	<u><u>\$ 2,832,238.86</u></u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
Customer prepayments	\$ 13,934.18
Payroll liabilities	1,712.24
Current portion of notes	57,221.42
Total Other Current Liabilities	<u>72,867.84</u>
Total Current Liabilities	<u>72,867.84</u>
Long Term Liabilities	
Notes payable	1,599,020.22
Less current portion of notes	(57,221.42)
Total Long Term Liabilities	<u>1,541,798.80</u>
Total Liabilities	<u>1,614,666.64</u>
Equity	
Unrestricted net assets	1,166,698.52
Temporarily restricted net assets	50,873.70
Total Equity	<u>1,217,572.22</u>
TOTAL LIABILITIES & EQUITY	<u><u>\$ 2,832,238.86</u></u>

See accompanying notes and accountant's compilation report.

LEVI WATER SUPPLY CORP.**Statement of Activities**

January through December 2015

	<u>Jan - Dec 15</u>
Revenue	
Water service	<u>\$ 602,106.02</u>
Operating Expenses	
Scholarship	1,000.00
Alarm	324.12
Automobile expense	4,683.19
Bank & Credit Card Fees	2,466.14
Contract labor	1,831.25
Contract management	57,276.25
Depreciation expense	124,129.00
Dues and subscriptions	2,187.54
Fees & assessments	6,578.36
Fuel	569.94
Insurance	11,649.00
Internet	560.79
Janitorial services	607.35
Lab expense	3,306.02
Miscellaneous	2,248.16
Office expense	4,951.67
Parts	9,049.18
Payroll expenses	81,229.66
Pipeline repairs	56,796.62
Postage and delivery	4,100.05
Professional fees	16,420.50
Repairs and maintenance	828.54
Supplies	6,836.68
Telephone	4,433.85
Tools	866.51
Training and education	4,265.59
Utilities	68,819.15
Water plant repairs	35,363.88
Website	567.51
Total Expense	<u>513,946.50</u>
Net Revenue	88,159.52
Other Income/Expense	
Other Income/(Expense)	
Interest income	468.32
Refunds	230.72
Sale of scrap metal	4,013.75
Miscellaneous income	665.79
Interest expense	(53,450.59)
Net Other Income	<u>(48,072.01)</u>
Net Income	<u><u>\$ 40,087.51</u></u>

See accompanying notes and accountant's compilation report.

LEVI WATER SUPPLY CORP.
Statement of Cash Flows
January through December 2015

	<u>Jan - Dec 15</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 40,087.51
Adjustments to reconcile Net Income to net cash provided by operations:	
Depreciation expense	124,129.00
Accounts Receivable	(11,008.90)
Payroll Taxes Receivable	(2,308.97)
Customer Prepayments	9,876.49
Payroll Liabilities	120.22
Net cash provided by Operating Activities	<u>160,895.35</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Pipeline Engineer Fees	(32,164.10)
Water Well & Plant	(9,058.75)
Office Equipment	(820.54)
Net cash provided by Investing Activities	<u>(42,043.39)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
American Bank Loan #7901	(59,134.70)
Note Pay New Water Plant #7903	(17,843.24)
Net cash provided by Financing Activities	<u>(76,977.94)</u>
 Net cash increase for period	 41,874.02
 Cash at beginning of period	 <u>461,762.18</u>
Cash at end of period	<u><u>\$ 503,636.20</u></u>
 Reconciliation to Statement of Financial Position:	
Unrestricted cash	\$ 452,762.04
Temporarily restricted cash	50,874.16
Cash at end of period	<u><u>\$ 503,636.20</u></u>
 Supplemental Disclosure:	
Interest paid	<u><u>\$ 53,450.59</u></u>

See accompanying notes and accountant's compilation report.

LEVI WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Levi Water Supply Corporation ("the Corporation") furnishes a potable water utility service for rural parts of McLennan and Falls Counties.

Basis of Accounting

The accompanying financial statements of the Corporation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Corporation follows Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under ASC 958, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There are no permanently restricted net assets as of December 31, 2015. In addition, the Corporation is required to present a statement of cash flows.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of these financial instruments.

Accounts Receivable

Accounts are past due after 30 days of non-payment. Doubtful accounts are management's estimate of the total amount rather than an identification of specific accounts or a percentage of accounts or billings.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Maintenance and minor repairs are charged to operations when incurred. When assets are retired or sold, the related costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in current operations.

Concentrations of Credit Risk

The Corporation maintains its cash balances in local financial institutions. All accounts, interest bearing and noninterest bearing, are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per each depositor at each separately chartered FDIC insured institution.

Additionally, the Corporation has pledged securities owned by one of the local financial institutions valued at \$820,596 as of December 31, 2015. These pledged securities serve as collateral to any uninsured cash balances held at the institution.

As of December 31, 2015, all of the Corporation's cash balances were fully insured.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. NONPROFIT ORGANIZATION

The Corporation is organized to conduct its business on a nonprofit basis and no dividends are ever to be paid on the shares of the membership of the Corporation. All profits arising from the operations of the Corporation are to be paid annually in direct proportion to the amount of business transacted to the persons who have, during the year, transacted business, provided that no such payment are ever to be made while any indebtedness of the Corporation remains unpaid. The Corporation has been granted an exemption from federal income tax under Section 501(c)(12) of the Internal Revenue Code. The previous three tax years remain subject to examination by tax jurisdictions.

3. PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classifications as follows:

	<u>2015</u>
Land	\$ 27,748
Water System	3,577,682
Vehicles	8,601
Office and computer equipment	<u>6,652</u>
	3,620,683
Accumulated depreciation	<u>(1,340,241)</u>
	\$ 2,280,442

Depreciation expense was \$124,129 in 2015.

4. RESTRICTED ASSETS

The Corporation is required by its bylaws (Article VII) to deposit funds each month from revenues into a reserve fund until those deposits equal \$51,295. Withdrawals from the fund are to be used only

for "emergency repairs, obsolescence of equipment, and for making up any deficiencies in revenues for loan payments". If withdrawals reduce the reserve below \$51,295, deposits are to be reserved until the fund again totals \$51,295. The reserve fund is in the form of a separate checking account and is shown as a temporarily restricted asset on the statement of financial position. As of December 31, 2015 the reserve amount was \$50,874.

5. LONG-TERM DEBT

Long term liabilities at December 31, 2015, consist of the following:

6.5%, subsequently reduced to 4.5%, American Bank note, originated January 24, 2007, in the amount of \$1,500,000, secured by real estate, equipment and assets; scheduled to mature on November 24, 2018.	\$1,126,086
4.25% American Bank note, originated November 25, 2013, in the amount of \$500,000, secured by real estate, equipment and assets; scheduled to mature on November 25, 2018.	<u>472,934</u>
Total long-term debt	1,599,020
Less current portion	<u>(57,221)</u>
Total long-term debt, net of current portion	\$ 1,541,799

Maturities of long-term debt are as follows:

<u>Years ending December 31,</u>	
2016	\$ 58,594
2017	61,483
2018	1,478,943
Thereafter	<u>-</u>
	\$ 1,599,020

The Corporation paid \$53,451 in interest expense for the year ended December 31, 2015.

6. SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 7, 2016, the issuance date of this report. No events have occurred that require additional disclosure.

LEVI WATER SUPPLY CORPORATION
AUDITED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
Year Ended DECEMBER 31, 2016

JOHN W. McANALLY, P.C.
CERTIFIED PUBLIC ACCOUNTANT
WACO, TEXAS

LEVI WATER SUPPLY CORPORATION

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John W. McAnally, P.C.

Certified Public Accountant

8301 Bosque Boulevard
Waco, TX 76712

A Professional Corporation
(254) 772-5690

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
LEVI WATER SUPPLY CORPORATION

I have audited the accompanying financial statements of LEVI WATER SUPPLY CORPORATION (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, 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.

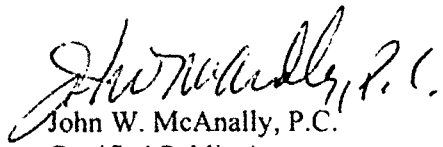
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 LEVI WATER SUPPLY CORPORATION as of December 31, 2016,

and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "John W. McAnally, P.C.", written in a cursive style.

John W. McAnally, P.C.
Certified Public Accountant
Waco, TX
August 28, 2017

LEVI WATER SUPPLY CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

	<u>2016</u>
ASSETS	
CURRENT ASSETS	
Cash in bank and on hand	\$ 350,958
Temporary cash investments	53,956
Trade accounts receivable, net of allowance	44,039
Prepaid Insurance	4,625
Total Current Assets	<u>453,578</u>
PROPERTY AND EQUIPMENT (NET)	2,247,817
OTHER ASSETS	
Cash-Temporarily Restricted	1,085,053
TOTAL ASSETS	<u><u>\$ 3,786,448</u></u>
LIABILITIES & EQUITY	
CURRENT LIABILITIES	
Trade accounts payable	\$ 22,832
Accrued wages	1,133
Payroll taxes payable	2,534
Customer prepayments	9,450
Current portion of notes	84,074
Total Current Liabilities	<u>120,023</u>
LONG TERM DEBT	
Note Payable - CoBank	950,000
Note Payable - CoBank	1,579,264
Less current portion of notes	<u>(84,074)</u>
Total Long Term Liabilities	2,445,190
NET ASSETS	
Temporarily restricted net assets	135,052
Unrestricted net assets	1,086,183
	<u>1,221,235</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,786,448</u></u>

LEVI WATER SUPPLY CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2016</u>
OPERATING REVENUE			
Metered water sales	\$ 570,508	-	570,508
Other operating revenue	43,495	-	43,495
Refunds	(29)	-	(29)
Total Operating Revenue	<u>613,974</u>	<u>-</u>	<u>613,974</u>
OTHER REVENUE			
Insurance Claim Proceeds	2,019	-	2,019
Interest income	363	679	1,042
Refund of insurance overpayment	1,188	-	1,188
Sale of scrap metal	1,379	-	1,379
Miscellaneous income	1,654	-	1,654
Total Other Revenue	<u>6,603</u>	<u>679</u>	<u>7,282</u>
 TOTAL OPERATING AND OTHER REVENUE	 620,577	 679	 621,256
COSTS OF WATER DELIVERY			
Program	\$ 222,629	\$ -	\$ 222,629
Administration	-	-	-
Fundraising	-	-	-
Total Costs of Water Delivery	<u>222,629</u>	<u>-</u>	<u>222,629</u>
OPERATING EXPENSES			
Program	217,031	-	217,031
Administration	239,388	-	239,388
Fundraising	-	-	-
Total Operating Expenses	<u>456,419</u>	<u>-</u>	<u>456,419</u>
 TOTAL EXPENSES	 679,048	 -	 679,048
 CHANGE IN NET ASSETS	 (58,471)	 679	 (57,792)
 Reallocation of Net Assets	 (83,500)	 83,500	 -
 Net Assets, beginning of year	 1,228,154	 50,873	 1,279,027
 Net Assets, end of year	 <u>\$ 1,086,183</u>	 <u>\$ 135,052</u>	 <u>\$ 1,221,235</u>

LEVI WATER SUPPLY CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total 2016</u>
Cost of Water Delivery Expenses				
Service vehicle expense	\$ 8,224	\$ -	\$ -	\$ 8,224
System repairs and maintenance	164,661	-	-	164,661
Power purchased for pumping	49,744	-	-	49,744
Total Cost of Water Delivery Expenses	<u>\$ 222,629</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 222,629</u>
Operating Expenses				
Salaries, wages, taxes and benefits	\$ -	\$ 85,935	\$ -	\$ 85,935
Professional services	32,146	15,487	-	47,633
Insurance	6,211	4,904	-	11,115
Office supplies and postage expense	4,301	4,484	-	8,785
Telephone	-	5,203	-	5,203
Depreciation	-	106,093	-	106,093
Dues, fees, and subscriptions	7,132	5,180	-	12,312
Repairs and maintenance	-	4,052	-	4,052
Utilities	-	4,461	-	4,461
Compliance, meetings, and training	5,911	-	-	5,911
Interest expense	97,480	-	-	97,480
Miscellaneous	-	583	-	583
Contract labor and management	63,093	-	-	63,093
Fuel	-	279	-	279
Internet	-	1,389	-	1,389
Tools	757	-	-	757
Advertising	-	1,000	-	1,000
Alarm	-	338	-	338
Total Operating Expenses	<u>\$ 217,031</u>	<u>\$ 239,388</u>	<u>\$ -</u>	<u>\$ 456,419</u>

LEVI WATER SUPPLY CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (Decrease) in unrestricted net assets	\$ (58,471)
Adjustments to reconcile net assets to net cash flows provided by operating activities:	
Depreciation	106,093
(Increase) decrease in accounts receivable	1,813
(Increase) decrease in prepaid items	(4,625)
(Increase) decrease in other receivables	2,309
(Increase) decrease in accounts payable	22,832
(Increase) decrease in customer prepayments	(4,484)
(Increase) decrease in payroll liabilities	1,955
Total Adjustments	<u>125,893</u>
Net Cash Provided by (Used In) Operating Activities	67,422
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash payments for the purchase of capital assets	(12,013)
Increase in Restricted Cash	<u>679</u>
Net Cash Provided by (Used In) Investing Activities	(11,334.00)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from borrowing	2,529,264
Principal payments on long term debt	<u>(1,599,021)</u>
Net Cash Provided by (Used In) Financing Activities	<u>930,243</u>
NET INCREASE (DECREASE) IN CASH	986,331
CASH, JANUARY 1, 2016	<u>503,636</u>
CASH, DECEMBER 31, 2016	<u><u>\$ 1,489,967</u></u>
 Supplemental disclosures of cash flow information:	
Cash paid during the year for -	
Interest expense	<u><u>\$ 97,480</u></u>

**LEVI WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Levi Water Supply Corporation is a member owned, tax-exempt organization, incorporated pursuant to Chapter 67 of the Texas Water Code and the Texas Business Organizations Code, for the purpose of providing a potable water utility service to rural members in McLennan and Falls Counties, Texas. Operating policies, rates, tariffs, and regulations are formulated by a Board of Directors, duly elected by the members of Levi Water Supply Corporation.

Basis of Accounting

The accrual method of accounting is used to maintain the books of the Corporation. Such method recognizes income when billed and expenses when incurred and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Corporation follows Accounting Standards Codification (ASC) 958, Not-for-Profit Entities. Under ASC 958, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There are no permanently restricted net assets as of December 31, 2016. In addition, the Corporation is required to present a statement of cash flows.

Cash and Cash Equivalents

The Corporation considers all liquid investments purchased with an initial maturity of one year or less, and not designated as a component of an in-house reserve fund or lender covenant required reserve fund, to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of these financial instruments.

Revenue Recognition

The Corporation generally sells water utility services under short-term, monthly billing cycles, using a tariff schedule approved by the Board of Directors. Revenues are recognized monthly, based on metered readings located at each member's place of residence or business.

Accounts Receivable

Account balances with charges over thirty days old are considered delinquent and collection efforts begin at that time. Doubtful accounts are management's estimate of the total amount rather than an identification of specific accounts or a percentage of accounts or billings. Receivables are shown, net of a \$5,089 allowance for uncollectible accounts reserve.

**LEVI WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE A (Continued)

Concentration of Risk

The Corporation maintains its cash balances in local financial institutions. All accounts, interest bearing and noninterest bearing, are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per each depositor at each separately chartered FDIC insured institution.

Additionally, a local financial institution has pledged securities owned by the institution on behalf of the Corporation. The pledged securities serve as collateral to any uninsured cash balances held at the institution. The pledged amount at December 31, 2016 was \$1,376,364.

As of December 31, 2016 all of the Organization's cash balances were fully insured.

Inventory

Inventory consists of meters, valves, pipe and other supplies needed to maintain the distribution system efficiently. The inventory maintained is of no material amount.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Maintenance and minor repairs are charged to operations when incurred. When assets are retired or sold, the related costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in current operations.

Compensated Absences

The Corporation accrues employee vacation time. Upon termination, the employee is compensated for any accrued, but unused, vacation time, based on years of service.

Exempt Status

Exempt status has been granted by the Internal Revenue Service under IRC Section 501(c)(12). A required information return (Form 990), sections of which are open to public inspection, is filed annually on or before the due date. The Corporation qualifies under state franchise tax regulations as an exempt organization. The previous three tax years, 2014-2016, remain subject to examination by any major tax jurisdictions.

Use of 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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**LEVI WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE B – NONPROFIT ORGANIZATION

The Corporation is organized to conduct its business on a nonprofit basis and no dividends are ever to be paid on the shares of the membership of the Corporation. All profits arising from the operations of the Corporation are to be paid annually in direct proportion to the amount of business transacted to the persons who have, during the year, transacted business, provided that no such payments are ever to be made while any indebtedness of the Corporation remains unpaid.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment is summarized by major classifications as follows:

	2016
Water system & improvements	\$ 3,544,606
Land	27,748
Equipment and vehicles	56,198
Office equipment and furniture	7,812
	<hr/> 3,636,364
Accumulated depreciation	(1,388,547)
Property and equipment (NET)	<hr/> \$ 2,247,817 <hr/>

Depreciation expense was \$106,093 in 2016.

NOTE D – RESTRICTED ASSETS

The Corporation is required by its bylaws (Article IX) to deposit an amount into a reserve fund each month until the fund totals the amount of all loans. Withdrawals from the fund are to be used only for "emergency repairs, obsolescence of equipment, and for making up any deficiencies in revenues for loan payments". If withdrawals reduce the reserve below the loan amounts, deposits are to be resumed until the fund again reaches the loan amounts. The reserve fund is in the form of a separate checking account and is shown as a temporarily restricted asset on the statement of financial position. As of December 31, 2016 the reserve amount was \$1,085,053, and is identified as "Cash-Temporarily Restricted". Of this \$1,085,053.00, \$950,000.00 is specifically temporarily restricted for new infrastructure and improvements and is funded by the borrowing of \$950,000 from CoBank ACB note payable.

LEVI WATER SUPPLY CORPORATION
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NOTE E - LONG-TERM DEBT

Long-term liabilities at December 31, 2016 consist of the following:

	<u>2016</u>
4.35%, CoBank ACB note, originated January 28, 2016, in the amount of \$1,626,648.71; scheduled to mature January 20, 2036.	\$1,579,264
4.42%, CoBank ACB note, originated November 29, 2016, in the amount of \$950,000.00; scheduled to mature December 20, 2036.	<u>950,000</u>
Total long-term debt	2,529,264
Less current portion	<u>(84,074)</u>
Total long-term debt, net of current portion	<u><u>\$2,445,190</u></u>

NOTE E – (Continued)

Maturities of long-term debt are as follows:

<u>Years ending December 31,</u>	
2017	\$ 84,074
2018	87,880
2019	91,858
2020	95,734
2021	100,351
Thereafter	<u>2,069,367</u>
	<u><u>\$ 2,529,264</u></u>

The Corporation paid \$97,480 in interest expense for the year ended December 31, 2016.

The Corporation's collateral for the loans includes real estate, water rights, equipment, right-of-way easements and the assignment of income.

NOTE F – CONTINGENT LIABILITY

A claim has been asserted by an engineering firm, in the amount of \$63,384.00, for fees allegedly due for engineering services. This claim is disputed by Levi Water Supply Corporation. Nothing further developed regarding this claim during 2016. The engineering firm made an additional request for information during 2017. The position of legal representation is that insufficient information exists to enable the evaluation of an unfavorable outcome or to make an estimate of the amount or range of potential loss, if any. Consequently, the effect of this contingency on these financial statements cannot be determined.

NOTE G – SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 28, 2017, the issuance date of this report. No events have occurred that require additional disclosure.