

**COMORE LOMA WATER CORPORATION
IDAHO FALLS, IDAHO
FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT
Year Ended December 31, 2013**

COMORE LOMA WATER CORPORATION
FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Comore Loma Water Corporation
Idaho Falls, Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of the Comore Loma Water Corporation, which comprise the balance sheet as of December 31, 2013, and the related Statement of Revenues, Expenses and Changes in Fund Balance and the Statement of 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 upon 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 from material misstatements.

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 opinion.

Basis for Qualified Opinion

The Corporation does not have adequate documentation to verify the reasonableness of the "arm's length" transactions and the associated dollar amounts paid for the services provided by the related parties. Invoices for the services totaled \$38,769 for the construction of a pump house and \$7,981 for general maintenance and repairs. We were unable to obtain sufficient appropriate audit evidence to substantiate the substance of these transactions because of the subjective nature of testing whether something truly is at "arm's length".

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Comore Loma Water Corporation as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Management has omitted the information about future major repairs and replacements of elements of the water system, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Searle Hart & Associates PLLC

Searle Hart & Associates, PLLC
Idaho Falls, Idaho
April 7, 2014

FINANCIAL SECTION

COMORE LOMA WATER CORPORATION
BALANCE SHEET
December 31, 2013

ASSETS	Operating Fund	Replacement Fund	Total
Current assets:			
Cash	\$ 187,411	\$ -	\$ 187,411
Assessments receivable	29,364	-	29,364
Prepaid expenses	<u>2,039</u>	<u>-</u>	<u>2,039</u>
Total current assets	<u>218,814</u>	<u>-</u>	<u>218,814</u>
Noncurrent assets:			
Capital assets			
Land	-	-	-
Construction in progress	38,352	-	38,352
Building and grounds	38,359	-	38,359
Equipment	47,439	-	47,439
Infrastructure	3,335,244	-	3,335,244
Accumulated depreciation	<u>(2,891,603)</u>	<u>-</u>	<u>(2,891,603)</u>
Total noncurrent assets	<u>567,791</u>	<u>-</u>	<u>567,791</u>
TOTAL ASSETS	\$ <u>786,605</u>	\$ <u>-</u>	\$ <u>786,605</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 9,375	\$ -	\$ 9,375
Assessments received in advance	4,379	-	4,379
Deposits	-	-	-
Income taxes payable	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>13,754</u>	<u>-</u>	<u>13,754</u>
Noncurrent liabilities:			
Note payable	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	13,754	-	13,754
FUND BALANCE	<u>772,851</u>	<u>-</u>	<u>772,851</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>786,605</u>	\$ <u>-</u>	\$ <u>786,605</u>

COMORE LOMA WATER CORPORATION
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2013

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
REVENUES			
Assessment charges	\$ 500,437	\$ -	\$ 500,437
Interest income	3	-	3
Other revenue	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUE	500,440	-	500,440
	<hr/>	<hr/>	<hr/>
EXPENSES			
Accounting expense	10,400	-	10,400
Bad debt expense	-	-	-
Depreciation expense	38,898	-	38,898
Insurance expenses	4,043	-	4,043
Interest expense	-	-	-
Landscaping expense	3,802	-	3,802
Miscellaneous expense	724	-	724
Office expense	12,814	-	12,814
Operations and maintenance expense	32,090	-	32,090
Payroll expense	-	-	-
Professional fees	8,683	-	8,683
Pump and line expense	31,642	-	31,642
Rent expense	-	-	-
Tax expense	233	-	233
Utility expense	156,273	-	156,273
Water testing	3,420	-	3,420
	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	303,022	-	303,022
	<hr/>	<hr/>	<hr/>
EXCESS REVENUE OVER EXPENSES	197,418	-	197,418
	<hr/>	<hr/>	<hr/>
RESTATED FUND BALANCE, Beginning of Year	575,433	-	575,433
	<hr/>	<hr/>	<hr/>
FUND BALANCE, End of Year	\$ 772,851	\$ -	\$ 772,851
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COMORE LOMA WATER CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses	\$ 197,418	\$ -	\$ 197,418
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	38,898	-	38,898
Bad debt expense	-	-	-
(Increase) decrease in:			
Assessments receivable	(18,439)	-	(18,439)
Prepaid expenditures	57	-	57
Increase (decrease) in:			
Accounts payable	5,328	-	5,328
Assessments received in advance	(712)	-	(712)
Deposits	-	-	-
Income taxes payable	(64)	-	(64)
Net cash provided (used) by operating activities	<u>222,486</u>	<u>-</u>	<u>222,486</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment	(85,798)	-	(85,798)
Construction in progress	<u>(26,952)</u>	<u>-</u>	<u>(26,952)</u>
Net cash provided (used) by investing activities	<u>(112,750)</u>	<u>-</u>	<u>(112,750)</u>
NET INCREASE (DECREASE) IN CASH	109,736	-	109,736
CASH AT BEGINNING OF YEAR	<u>77,675</u>	<u>-</u>	<u>77,675</u>
CASH AT END OF YEAR	<u>\$ 187,411</u>	<u>\$ -</u>	<u>\$ 187,411</u>
SUPPLEMENTAL DISCLOSURE			
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO THE FINANCIAL STATEMENTS

COMORE LOMA WATER CORPORATION
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For the Year Ended December 31, 2013

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**COMORE LOMA WATER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2013**

1. NATURE OF ORGANIZATION

Comore Loma Water Corporation is a nonprofit Idaho corporation established in 1974. The Corporation qualifies as a tax-exempt homeowners' association under Internal Revenue Code 528 and is responsible for the ownership, operation and maintenance of the Comore Loma subdivision water system located in Idaho Falls, Idaho. The Comore Loma water system currently services 318 residential units and waters approximately 249 acres. Membership in the Corporation is on the basis of one membership per lot to the owner or owners of the lot. Each member owning a lot to which a water line has been laid to the water system owned by the Corporation is entitled to one vote for each lot owned. All rights and interests of all members of the Corporation are in proportion to the number of lots owned by the member to the total number of lots.

2. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through April 7, 2014, the date that the financial statements were available to be issued.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Corporation's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Corporation maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund: This fund is used to account for financial resources available for the general operations of the Corporation.

Replacement Fund: This fund is used to accumulate financial resources designated for future major repairs and replacements as well as for loan and contingency reserves.

Member Assessments

Members are subject to quarterly assessments to provide funds for the Corporation's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent charges and assessments due from the members.

Assessments are considered delinquent if not paid within 90 days of the assessment. The Corporation may suspend services and use of the water and facilities for non-payment 30 days after notice of delinquency is given for non-payment, provided the delinquency remains unpaid. Liens, at the discretion of the Corporation, may also be filed for non-payment of charges and assessments due and owing the Corporation.

Revenue Recognition

Regular assessments to members are recognized as revenue during the period for which they are assessed. Assessments received in advance of this period are reported as assessments received in advance on the balance sheet and represent assessments that are retained by the Corporation for use in the succeeding year.

COMORE LOMA WATER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment includes Corporation owned buildings, improvements, equipment, and infrastructure used in the operation and maintenance of the water system. Depreciation is recognized by the Corporation on assets using a straight-line basis with useful lives ranging from 5 to 40 years. Assets falling within the following classifications are capitalized: equipment over \$4,000, buildings over \$10,000 and infrastructure over \$20,000.

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.

4. CASH IN BANK

The Corporation's cash and investments as of December 31, 2013 totaled \$187,411, of which \$187,411 represented demand deposits. All deposits were covered by FDIC insurance.

5. ASSESSMENTS RECEIVABLE

At December 31, 2013, assessments receivable totaled \$29,364. The amount of the assessments that were more than 90 days past due totaled \$29,281.

The Corporation's policy for writing-off assessments receivable to bad debt is to use the allowance method whereby the uncollectible receivables are written-off through the allowance for doubtful accounts. No receivables were written off during the 2013 fiscal year.

6. INCOME TAXES

The Corporation qualified as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2013. Under that Section, the Corporation is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of the Comore Loma water system. Net nonexempt function income, which includes earned interest and revenues received from other sources, is taxed at 30% by the federal government and at 7.4% (minimum of \$20 plus \$10 for the permanent building fund) in the State of Idaho.

For the fiscal year 2013, there were no federal or State of Idaho income taxes due and payable.

7. UNCERTAIN TAX POSITION

The Corporation's tax filings are subject to audit by various taxing authorities. The Corporation's federal and state income tax returns remain open to examination by the Internal Revenue Service and the State of Idaho, respectively, for three years. In evaluating the Corporation's tax provisions and accruals, the Corporation believes that its estimates are appropriate based on current facts and circumstances.

COMORE LOMA WATER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

8. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 is as follows:

	Restated Balance 01-01-2013	Additions	Deletions	Balance 12-31-2013
<u>Business Activities:</u>				
Capital assets, not being depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	38,352	-	38,352
Total capital assets, not being depreciated	-	38,352	-	38,352
Capital assets, being depreciated				
Equipment	-	47,439	-	47,439
Buildings and improvements	-	38,359	-	38,359
Infrastructure	3,335,244	-	-	3,335,244
Total capital assets, being depreciated	3,335,244	85,798	-	3,421,042
Less accumulated depreciation for				
Equipment	-	(3,163)	-	(3,163)
Buildings and improvements	-	(959)	-	(959)
Infrastructure	(2,852,705)	(34,776)	-	(2,887,481)
Total accumulated depreciation	(2,852,705)	(38,898)	-	(2,891,603)
Total capital assets, being depreciated, net	482,539	46,900	-	529,439
Total capital assets, net	\$ 482,539	\$ 85,252	\$ -	\$ 567,791

Depreciation expense for the year ended December 31, 2013 was \$38,898.

9. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Corporation's governing documents allows, at the discretion of the Board, for the expenditure of funds for items such as depreciation and maintenance of the water system.

As of the balance sheet date, the Corporation has completed a study to determine the useful lives of the existing components of the water system and estimates of current and future replacement costs. Currently, sufficient funds have not been accumulated for future major repairs and replacements and a separate account has not yet been established for these funds.

**COMORE LOMA WATER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2013**

10. RELATED PARTY TRANSACTIONS

The Corporation has not been directly involved in related party transactions that would violate the Idaho Code or Federal Regulations. However, the Corporation has entered into related party transactions that do not fall outside the normal course of business.

Mr. Randy Skidmore is an owner of Skidmore, Inc. and a voting member of the Board of Directors. He has been acting as the general contractor for the Corporation and has performed general repairs and maintenance in the amount of \$7,981. Mr. Skidmore was also contracted to build a well house for the Corporation for the total amount of \$38,769.

Mr. Bird Hoskins was a subcontractor for Mr. Skidmore on the well house project and he is also a voting member of the Board of Directors. Mr. Hoskins had to submit a bid for the work and he was the lowest bidder. His costs are included in the total cost for the well house.

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of this report. On January 30, 2014, the general membership of the Corporation voted on and approved an upgrade to the water system. This upgrade will cost approximately \$3 million and involve the following: two new water tanks, one new booster station, one new well and the appropriate infrastructure required for water delivery. The financing for this project is expected to be provided through a loan from the Idaho Department of Environmental Quality.

12. RESTATED FUND BALANCE

Because of the implementation of the system improvement project, engineering fees that were expensed in the 2012 fiscal year have been re-classified out of fund balance to construction in progress. Accumulated depreciation was also overstated and infrastructure was slightly understated for a net increase in beginning fund balance of \$19,160.