

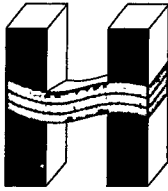


Control Number: 44816



Item Number: 42

Addendum StartPage: 0



HAYES ENGINEERING, INC.

Texas Registered Engineering Firm F-1465 www.hayesengineering.net
2126 ALPINE ST. LONGVIEW, TX 75601-3401
V 903.758.2010 F 903.758.2099

January 19, 2017

Public Utility Commission of Texas
Attention: Filing Clerk
William B. Travis Bldg.
1701 N. Congress Avenue
7th Floor
Austin, TX 78701-3326

RECEIVED
2017 JAN 20 AM 11:38
PUBLIC UTILITY COMMISSION
FILING CLERK

RE: Sharon W.S.C.
Application to Amend Water CCN (10476)
PWS ID# 2500020
Upshur County, Texas.
Docket #44816 – Staff 21 Through 2-2

Dear Sirs:

Please find enclosed the RFI #2 that was received January 2, 2016 by email from Debbie Tamayo. Attached is Sharon WSC audited financial statements for year 2015. Also attached is a capital improvements plan that entails a budget and a plan for the proposed service area. A map is attached to show where the proposed facility lines are planned.

Please advise if you need more information.

Sincerely,
HAYES ENGINEERING, INC.



Joey Scott
Project Designer

Docket No. 44816

Sharon Water Supply Corporation CCN Application

Staff Question 2-1 - Please provide Sharon WSC's audited financial statements for calendar year 2015.

Response: Sharon WSC's audited financial statements for calendar year 2015 is attached.

Staff Question 2-2 - Pursuant to 16 Tex. Admin. Code § 24.105(a)(6) provide a capital improvements plan (CIP plan), including a budget and estimated time line for construction of all facilities necessary to provide full service to the entire proposed service area (23,500+ acres). The CIP plan should be keyed to maps showing where such facilities will be located to provide service to the requested area at a cost of \$16.67 per linear foot (Applicant's response to Staff's 1st request for information, item 14 of this docket).

Response: A capital improvements plan has been prepared along with a keyed map showing where the improvements for the proposed service area will be located at. The CIP and the map are attached.

I provide these answers under Oath and signature.

Sharon W.S.C. (Print Name): Vanessa Stone

Title: General Manager

Signature: Vanessa Stone

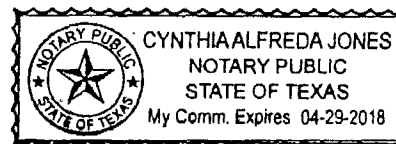
Date: 1-19-17

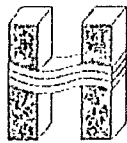
Subscribed and Sworn to before me by the said Vanessa Stone on this 19th day of JANUARY, 2018.

My commission expires on the 29th day of April, 2018.

Notary Public Signature: Cynthia Jones

[SEAL]





HAYES ENGINEERING, INC.

Texas Registered Engineering Firm F-1465
2126 Alpine St Longview, Tx 75601-3401

Sharon WSC CCN Amendment Improvements (Phase I & II) Opinion of Probable Construction Cost

Description	Qty.	U/M	Unit Cost	Total Cost
Phase I (FM 2869, CR 3597, & 4000 LF of CR 3588)				
1. Furnish and install 4" water main (materials only, labor by WSC)	13000	LF	\$6	\$78,000
2. Furnish and install 6" water main (materials only, labor by WSC)	20700	LF	\$9	\$186,300
			Subtotal =	\$264,300
Phase II (CR 3588, CR 4586/Statu Rd, CR 3990)				
1. Furnish and install 2" water main (materials only, labor by WSC)	10700	LF	\$3	\$32,100
2. Furnish and install 4" water main (materials only, labor by WSC)	35000	LF	\$6	\$210,000
			Subtotal =	\$242,100

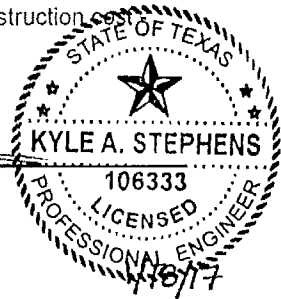
Schedule and Funding Mechanism

Phase I - 2017 Texas Department of Agriculture CDBG STEP - Up to \$265,000 construction cost - complete by July 2019

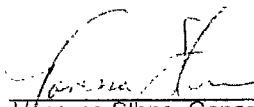
Phase II - 2019 Texas Department of Agriculture CDBG STEP - Up to \$265,000 construction cost - complete by July 2021

Engineer Certification:


Kyle A. Stephens, P.E.
Hayes Engineering, Inc.



Owner Certification:


Vanessa Stone, General Manager
Sharon WSC

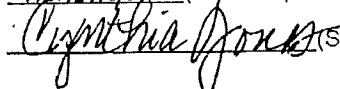
Notary:

State of Texas

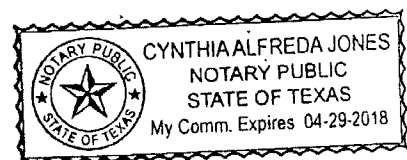
County of Wood

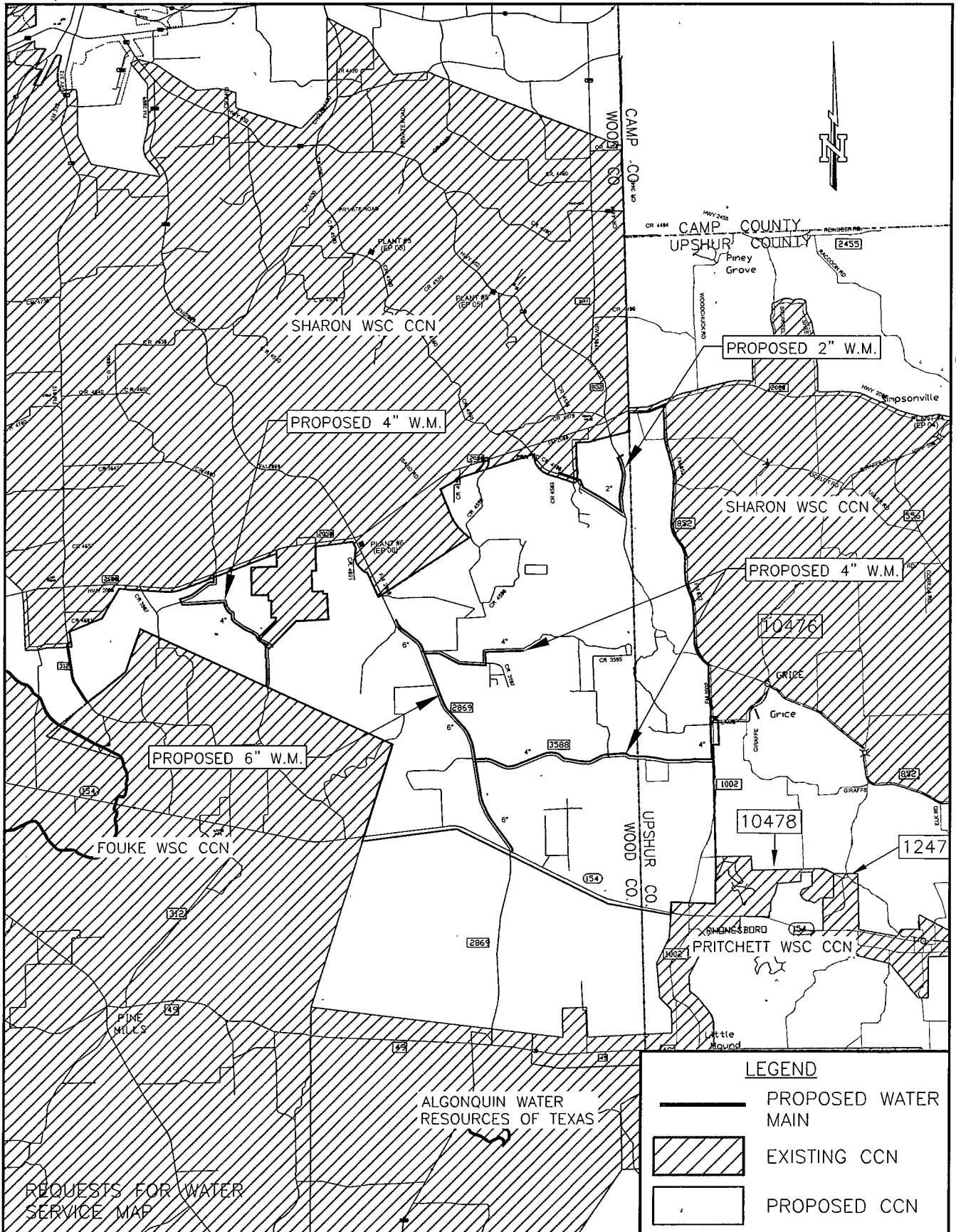
This instrument was acknowledged before me on 19th (date) by Vanessa Stone (name of representative),

GENERAL MANAGER (title of representative) of Sharon Waters (name of entity)


(Signature of Notary)

(Seal of Notary)





HAYES ENGINEERING, INC.
 TEXAS REGISTERED ENGINEERING FIRM F-1465
 2126 Alpine St. Longview, TX 75601-3401
 Tel.: (903) 758-2010 • Fax: (903) 758-2099

SHARON W.S.C.,
CCN AMENDMENT APPLICATION
WOOD COUNTY, TEXAS

DATE : JAN. 2017
 SCALE : 1"=10,000'
 JOB NO. : SHARON



February 22, 2016

Sharon Water Supply Corporation
6175 N. State Hwy. 37
Winnsboro, TX 75494

We are pleased to confirm our understanding of the services we are to provide for Sharon Water Supply Corporation for the year ended December 31, 2015.

We will audit the financial statements of Sharon Water Supply Corporation, which comprise the balance sheet as of December 31, 2015, and the related statements of operations, members' equity, and cash flows for the year then ended, and the related notes to the financial statements (the financial statements).

Audit Objective

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. We will issue a written report upon completion of our audit of Sharon Water Supply Corporation's financial statements. Our report will be addressed to the Board of Directors of Sharon Water Supply Corporation. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If our opinion is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or withdraw from this engagement.

Audit Procedures

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories (if necessary), and direct confirmation of certain assets and liabilities by correspondence with selected customers, creditors, and financial institutions. We may also request written representations from your attorneys as part of the engagement. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. 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 will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Company or to acts by management or employees acting on behalf of the Company.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our audit will include obtaining an understanding of the Company and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to you and those charged with governance internal control related matters that are required to be communicated under professional standards.

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

Other Services

We will assist in preparing the financial statements of Sharon Water Supply Corporation in conformity with U.S. generally accepted accounting principles based on information provided by you.

We will perform the services in accordance with applicable professional standards, including the Statements on Standards for Tax Services issued by the American Institute of Certified Public Accountants. The other services are limited to the financial statement and tax services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities. We will advise management with regard to tax positions taken in the preparation of the tax return, but management must make all decisions with regard to those matters.

Management Responsibilities

You are responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles, and for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles. You are also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the company from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Company involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Company received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the Company complies with applicable laws and regulations. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon.

You agree to assume all management responsibilities for the tax services, financial statement preparation services, and any other nonattest services we provide, oversee the services by designating an individual,



SYSTEM REVIEW REPORT

November 26, 2013

To the Shareholders of
Curtis Blakely & Co., P.C.
and the Peer Review Committee of the Texas Society of CPA's

We have reviewed the system of quality control for the accounting and auditing practice of Curtis Blakely & Co., P.C. (the firm) in effect for the year ended August 31, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, and examinations of service organizations [Service Organization Control (SOC) 1 engagements].

In our opinion, the system of quality control for the accounting and auditing practice of Curtis Blakely & Co., P.C. in effect for the year ended August 31, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Curtis Blakely & Co., P.C. has received a peer review rating of *pass*.

Olsen Thielen & Co., Ltd.

Olsen Thielen & Co., Ltd.

preferably from senior management, with suitable skill, knowledge, or experience, evaluate the adequacy and results of the services, and accept responsibility for them.

Engagement Administration, Fees, and Other

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing.

Charles A. Albert, CPA, CFE is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it. We expect to begin our audit in January 2015.

We estimate that our fees for the audit will be \$7,500. You will also be billed for travel and other out-of-pocket costs such as report production, word processing, postage, etc. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will keep you informed of any problems we encounter and our fees will be adjusted accordingly. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

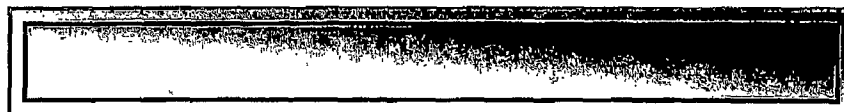
Curtis Blakely & Co., P.C.
CURTIS BLAKELY & CO., P.C.

RESPONSE

This letter correctly sets forth the understanding of Sharon Water Supply Corporation.

Management signature: *Teresa J. H.*
Title: General Manager
Date: 3-8-16

Governance signature: *Alan Bullock*
Title: President
Date: 3-8-16



**SHARON WATER SUPPLY CORPORATION
WINNSBORO, TEXAS**

FINANCIAL STATEMENTS

**As of December 31, 2015 and 2014
With Independent Auditor's Report**

**SHARON WATER SUPPLY CORPORATION
WINNSBORO, TEXAS**

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Independent Auditor's Report

The Board of Directors
Sharon Water Supply Corporation
Winnsboro, Texas 75494

Report on the Financial Statements

We have audited the accompanying financial statements of Sharon Water Supply Corporation (a Texas corporation), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 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 qualified audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sharon Water Supply Corporation as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Errors

As discussed in Note 5 to the financial statements, certain errors resulting in understatement of unbilled revenue, accounts payable and aid-to-construction as of December 31, 2013 were discovered by management of the Company during the current year. Accordingly, amounts reported for unbilled revenue receivable, accounts payable, and aid-to-construction equity have been restated in the 2014 financial statements now presented and an adjustment has been made to retained earnings as of December 31, 2013, to correct the error. Our opinion is not modified with respect to that matter.

Curtis Blakely & Co., P.C.

Longview, Texas

March 14, 2016

SHARON WATER SUPPLY CORPORATION
BALANCE SHEETS
December 31

Assets	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash and cash equivalents	\$ 355,670	\$ 272,753
Certificates of deposit	209,345	207,739
Accounts receivable		
(net of allowance for doubtful accounts		
of \$802 for 2015 and 2014)	194,969	184,369
Inventory	180,992	208,228
Prepays	<u>25,779</u>	<u>17,630</u>
Total Current Assets	<u>966,755</u>	<u>890,719</u>
Property, Plant, and Equipment:		
Building and improvements	194,750	194,750
Furniture and equipment	672,620	622,022
Water distribution system	7,577,114	7,402,618
Construction in progress	1,153,398	1,012,565
Land	<u>98,097</u>	<u>62,409</u>
Total Property, Plant, and Equipment	9,695,979	9,294,364
Less: Accumulated depreciation	<u>(4,914,297)</u>	<u>(4,555,877)</u>
Net Property, Plant, and Equipment	<u>4,781,682</u>	<u>4,738,487</u>
Total Assets	<u>\$ 5,748,437</u>	<u>\$ 5,629,206</u>

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

SHARON WATER SUPPLY CORPORATION
BALANCE SHEETS
December 31

	Liabilities and Members' Equity	
	2015	2014
Current Liabilities:		
Current portion of long-term debt	\$ 83,783	\$ 86,264
Accounts payable	22,797	15,301
Accrued expenses	70,810	47,421
Deferred revenue	1,500	-0-
Total Current Liabilities	178,890	148,986
Long-Term Debt, Less Current Portion	1,404,869	1,414,667
Members' Equity:		
Membership investment	325,500	318,600
Contributions in aid of construction	478,125	475,601
Retained earnings	3,361,053	3,271,352
Total Members' Equity	4,164,678	4,065,553
Total Liabilities and Members' Equity	\$ 5,748,437	\$ 5,629,206

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

SHARON WATER SUPPLY CORPORATION
STATEMENTS OF OPERATIONS
For the Years Ended December 31

	<u>2015</u>	<u>2014</u>
Revenue:		
Water revenue	\$ 1,512,891	\$ 1,416,800
Penalties	32,417	32,087
Installation and other revenue	59,028	53,632
Miscellaneous	27,345	29,468
Total Revenue	<u>1,631,681</u>	<u>1,531,987</u>
Operating Expenses:		
Advertising	4,607	2,415
Bad debts	2,260	1,912
Chemicals	19,773	27,783
Contract labor	116,994	99,462
Depreciation	348,366	335,499
Dues and fees	10,495	12,479
Engineering expense	4,602	-
Insurance expense	168,089	152,974
Interest expense	54,065	48,615
Miscellaneous expense	17,616	14,700
Office expense	47,398	44,028
Professional fees	8,900	11,852
Repairs and maintenance	108,978	216,201
Retirement expense	30,170	28,693
Salaries and wages	458,713	446,665
Seminars and training	2,288	8,492
Supplies and tools	18,000	4,274
Utilities	127,504	124,837
Total Operating Expenses	<u>1,548,818</u>	<u>1,580,881</u>
Income (Loss) from Operations	<u>82,863</u>	<u>(48,894)</u>
Other Income and Expense:		
Gain on sale of assets	5,000	21,000
Interest income	1,838	1,393
Total Other Income	<u>6,838</u>	<u>22,393</u>
Net Income (Loss)	<u>\$ 89,701</u>	<u>\$ (26,501)</u>

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

SHARON WATER SUPPLY CORPORATION
STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31

	<u>Membership Investment</u>	<u>Contributions in Aid of Construction</u>	<u>Retained Earnings</u>	<u>Total Members' Equity</u>
Balance, January 1, 2014	\$ 314,175	\$ -0-	\$ 3,720,281	\$ 4,034,456
Restatement		485,670	(422,428)	63,242
Balance, January 1, 2014 Restated	314,175	485,670	3,297,853	4,097,698
Contributed Capital		19,079		19,079
Amortization of Contributed Capital		(29,148)		(29,148)
Memberships (Net)	4,425			4,425
Net Income			(26,501)	(26,501)
Balance, December 31, 2014	318,600	475,601	3,271,352	4,065,553
Contributed Capital		32,708		32,708
Amortization of Contributed Capital		(30,184)		(30,184)
Memberships (Net)	6,900			6,900
Net Income			89,701	89,701
Balance, December 31, 2015	<u>\$ 325,500</u>	<u>\$ 478,125</u>	<u>\$ 3,361,053</u>	<u>\$ 4,164,678</u>

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

SHARON WATER SUPPLY CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Net income (loss)	\$ 89,701	\$ (26,501)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	348,366	335,500
Gain on sale of assets	(5,000)	(21,000)
Interest reinvested in certificates of deposit	(1,606)	(1,132)
Change in assets and liabilities:		
Accounts receivable	(10,600)	7,172
Inventory	27,236	(62,076)
Prepaid expenses	(8,149)	(5,323)
Accounts payable	7,496	(8,237)
Accrued expenses	23,389	8,374
Deferred revenue	1,500	-0-
Net Cash Provided by Operating Activities	<u>472,333</u>	<u>226,777</u>
Cash Flows from Investing Activities:		
Capital expenditures	(421,745)	(1,216,645)
Proceeds from sale of assets	5,000	21,000
Net Cash Used in Investing Activities	<u>(416,745)</u>	<u>(1,195,645)</u>
Cash Flows from Financing Activities:		
Long-term debt borrowings	73,985	1,085,994
Long-term debt repayments	(86,264)	(98,113)
Change in membership deposits	6,900	4,425
Contributions in aid to construction	32,708	19,079
Net Cash Provided by Financing Activities	<u>27,329</u>	<u>1,023,385</u>
Net Increase in Cash and Cash Equivalents	<u>82,917</u>	<u>54,517</u>
Cash and Cash Equivalents at Beginning of Year	<u>272,753</u>	<u>218,236</u>
Cash and Cash Equivalents at End of Year	<u>\$ 355,670</u>	<u>\$ 272,753</u>

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

SHARON WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note 1 – Summary of Significant Accounting Policies:

Basis of Presentation

The Corporation's principal activity is the sale of water in rural communities of Northeast Texas.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Among other things, estimates are used in accounting for depreciation and bad debts.

Certain reclassifications of prior year's data have been made to conform with the current year's classifications.

Revenue Recognition

Revenues and expenses are recorded when services are rendered and expenses are incurred. Customers are billed monthly as water usage is measured.

We collect taxes for various taxing authorities on certain types of revenue producing transactions. It is our position that it is acting strictly as an agent for the taxing authority, whereby, the tax is collected and remitted to the taxing entity. Using the net method to account for these taxes, we do not record the taxes as a revenue or expense.

Property, Plant, and Equipment

Fixed assets are recorded at historical cost. Depreciation of fixed assets is computed under the straight-line method. By this method the original cost for each fixed asset or group of fixed assets is expensed over the estimated useful life of the assets which are as follows:

Buildings	10 – 20	Years
Distribution System and Wells	15 – 50	Years
Furniture and Equipment	5 – 10	Years

Depreciation for 2015 was \$348,366, net of \$30,184 amortization of aid to construction and for 2014 was \$335,499, net of \$29,148 amortization.

Property, plant, and equipment are reviewed for impairment whenever events or circumstances indicate their carrying value may not be recoverable. When such events or circumstances arise, an estimate of the future undiscounted cash flows produced by the asset, or the appropriate grouping of assets, is compared to the asset's carrying value to determine if any impairment exists pursuant to the requirements of FASC Topic 360 – Property, Plant & Equipment. If the asset is determined to be impaired, the impairment loss is measured based on the excess of its carrying value over its fair value.

Asset Retirement Obligations

FASC Topic 420 - Asset Retirement and Environmental Obligations requires that companies having a legal obligation to remove and dispose of assets, recognize the fair value of a liability for asset retirement obligations in the period in which the obligations are incurred and capitalize that amount as part of the book value of the long-lived asset. We have no legal obligation to remove any assets.

SHARON WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note 1 – Summary of Significant Accounting Policies: (continued)

Fair Value Measurements

In accordance with FASC Topic 820 – Fair Value Measurements and Disclosures, we measure fair value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. We apply a hierarchy that prioritizes the information used to develop assumptions used in determining fair value. The hierarchy contains three levels of inputs: Level 1 – quoted prices in active markets for identical assets or liabilities; Level 2 – observable inputs, such as, quoted market prices of similar assets or liabilities in active markets or for identical assets or liabilities in markets that are not active; and Level 3 – unobservable inputs obtained from our own data. FASC Topic 820 applies whenever other standards require or permit assets or liabilities to be measured at fair value; however, it does not expand the use of fair value in any new circumstances. FASC Topic 820 does not apply to lower of cost or market determinations for inventory and does not eliminate the practicability exceptions to fair value measurements.

We have not chosen to use fair value measurements unless required to do so by applicable accounting standards.

Income Taxes

The Corporation is exempt from federal income tax under I.R.C. Section 501(c)(12). This exemption applies only to years in which receipts from members, for the purpose of meeting losses and expenses, are at least 85 percent of total income. For the years ended December 31, 2015 and 2014, members furnished more than 85 percent of total receipts. The Corporation is required to file an Annual Information Return, Form 990. We are not taxable at the state level.

"Accounting for Uncertainty in Income Taxes" contained in FASC Topic 740 – Income Taxes, requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. The first step is recognition: we determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in one or more of the following: an increase in a liability for income taxes payable, a reduction of an income tax refund receivable, a reduction in a deferred tax asset, or an increase in a deferred tax liability. We have not identified any uncertain tax positions requiring recognition in our financial statements and we believe that the positions taken would not require settlement at an amount less than full recognition. We file information returns in the U.S. federal jurisdiction. We are generally no longer subject to U.S. federal income tax examinations by tax authorities for years before 2012.

Patronage Capital Assignable

Our By-laws provide that all profits arising from the operations shall be annually paid out to the persons who have, during the past year, transacted business with such Corporation, in direct proportion to the amount of business transacted, provided that no such dividend shall ever be paid while any indebtedness of ours remains unpaid.

SHARON WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note 1 – Summary of Significant Accounting Policies: (continued)

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Corporation considers all demand deposits and certificates of deposit with original maturities of three months or less to be cash equivalents.

Contributions in Aid of Construction

Amounts received to partially or fully cover the cost of line extensions or other plant additions are recorded as equity. These amounts are amortized over the life of the plant constructed.

Contributions for 2015 and 2014 were \$32,708 and \$19,079, respectively.

Accounts Receivable

Water and other trade receivables are reported in the balance sheet at outstanding principal less any allowances for doubtful accounts. These receivables are short-term and interest is not accrued. Water receivables are written off after the customer has been disconnected. Other trade receivables are written off at the time they are deemed uncollectible. An allowance for water and other trade receivables is recorded when deemed appropriate based on a review of aged receivables and expected recoveries. Accrued unbilled revenues are included in accounts receivable.

The concentrated geographical area in which the Corporation operates potentially subjects its trade receivables to credit risk.

Inventory

Inventory is stated at the lower of average cost or net realizable value.

Note 2 – Pension Plan:

The Corporation has a defined contribution pension plan for all employees that are at least 21 years of age, have a minimum of 1 year of service and work at least 1000 hours per year. The Corporation contributes 7 percent of eligible salaries and employees can contribute between zero and 15 percent. The Corporation's cost for the plan was \$30,170 and \$28,693 for 2015 and 2014, respectively.

Note 3 – Long-Term Debt:

	<u>2015</u>	<u>2014</u>
City National Bank promissory note due \$6,852.34 monthly, including 5% interest through February 3, 2020; secured by Corporation's distribution system, wells and improvements	\$ 289,447	\$ 381,563
City National Bank promissory note due \$737.69 monthly, including 4.25% interest through August 26, 2021; secured by purchased land of .438 acre tract	44,493	51,294
City National Bank promissory note due \$846.48 monthly, including 5.5% interest through January 7, 2019; secured by Bobcat Excavator	28,746	36,396

SHARON WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note 3 – Long-Term Debt: (continued)

	<u>2015</u>	<u>2014</u>
City National Bank line-of-credit, payment-interest only including variable interest rate through May 14, 2016; secured by Corporation's distribution system, wells and improvements. See note below for additional information.	<u>1,125,966</u>	<u>1,051,678</u>
Sub-Total	1,488,652	1,500,931
Less: Current Maturities	<u>83,783</u>	<u>86,264</u>
Total Long-Term Debt	<u>\$ 1,404,869</u>	<u>\$ 1,414,667</u>

The maturities of long-term debt (excluding the line-of-credit) for each of the five years succeeding the balance sheet date are as follows:

December 31, 2016	\$ 83,783
2017	93,337
2018	96,513
2019	74,553
2020	8,411

During the year ended December 31, 2015 and 2014, \$54,065 and \$48,615, respectively, was disbursed for interest.

We have entered into a loan and security agreement with City National Bank on November 14, 2013 for a line-of-credit up to \$2,200,000. City National Bank has agreed to renew the agreement annually, or until we complete our improvements. In accordance with ASC 470-10, the information available demonstrated the intent and ability to refinance certain short-term obligations on a long-term basis. Therefore, we have reclassified the current portion of the related debt to long-term at December 31, 2015 and 2014, respectively.

Note 4 – Concentration of Credit Risk:

Financial instruments that subject us to concentrations of credit risk consist primarily of temporary cash investments and trade receivables. Our policy is to place temporary cash investments with major federally insured financial institutions, to limit the amount of credit exposure to any one financial institution, and to monitor counter parties' credit ratings.

We maintain investment accounts with major financial institutions. The accounts contain cash and certificates of deposit. Cash and certificates of deposit balances with financial institutions are insured up to \$250,000 by the Federal Deposit Insurance Corporation. At December 31, 2015, we had no deposits in checking accounts which exceeded federally insured limits.

Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers. Management believes the risk of nonpayment of other accounts receivable to be low based on the nature of the receivables.

Note 5 – Restatement – Correction of Errors:

During 2015, management discovered financial statement errors that caused an understatement of unbilled revenue receivable, accounts payable, and aid-to-construction. Accordingly, amounts were adjusted to restate January 1, 2014 retained earnings and the 2014 financial statements. The effects on the 2014 financial statements were as follows:

SHARON WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note 5 – Restatement – Correction of Errors: (continued)

Decrease January 1, 2014 retained earnings	\$ 422,428
Increase January 1, 2014 aid-to-construction	485,670
Decrease 2014 net loss	10,068
Increase December 31, 2014 assets	76,227
Increase December 31, 2014 liabilities	13,048

Note 6 – Subsequent Events:

Management has elected subsequent events through March 14, 2016, the date which the financial statements were available to be issued.

SHARON WATER SUPPLY CORPORATION

6175 N. State Hwy. 37
Winnsboro, TX 75494
903-342-3535

February 22, 2016

Curtis Blakely & Co., P.C.
Certified Public Accountants
P O Box 5486
Longview, TX 75608

This representation letter is provided in connection with your audit of the financial statements of Sharon Water Supply Corporation, which comprise the balance sheet as of December 31, 2015, and the related statements of income, retained earnings, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP)

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of February 22, 2016, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 22, 2016, including our responsibility for the preparation and fair presentation of the financial statements.
 - 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
 - 3) We acknowledge our responsibility for 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.
 - 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
 - 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
 - 6) Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
 - 7) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
 - 8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
 - 9) Material concentrations have been properly disclosed in accordance with U.S. GAAP.
 - 10) Guarantees, whether written or oral, under which the Company is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.
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Information Provided

11) We have provided you with:

- a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
- b) Additional information that you have requested from us for the purpose of the audit.
- c) Unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence.

12) All material transactions have been recorded in the accounting records and are reflected in the financial statements

13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14) We have no knowledge of any fraud or suspected fraud that affects the Company and involves.

- a) Management.
- b) Employees who have significant roles in internal control, or
- c) Others where the fraud could have a material effect on the financial statements.

15) We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's financial statements communicated by employees, former employees, analysts, regulators, or others

16) We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

17) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

18) We have disclosed to you the identity of the Company's related parties and all the related party relationships and transactions of which we are aware.

19) The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the notes to the financial statements.

Signed: Vanessa Stone
Vanessa Stone
Title: General Manager
Date: 3-14-16

Signed: Alan Bullock
Board Member
Title: President
Date: 3 14 16