

PART C

(Revised 8/05)

individual holding the office of Secretary-Treasurer be running for re-election, the President shall appoint an officer not currently running for re-election to serve as chairperson of this committee.

Section 4. After fixing a date for the notice of a meeting, the Board of Directors shall prepare an alphabetical list of the names of all voting members who are entitled to vote as of the record date of the meeting. The list must show the address of each voting member. No later than two (2) business days after the date notice is given of the meeting, and continuing through the meeting, the list of voting members must be available for inspection by any member entitled to vote at the meeting for the purpose of communication with other members concerning the meeting at the Corporation's principal office or at a reasonable place identified in the meeting notice in the city where the meeting will be held. Any voting Member, or voting Member's agent or attorney, shall be allowed, on written demand, to inspect and, at a reasonable time and at their expense, copy the list. Further, the Board shall make the list of voting Members available at the meeting, and shall allow inspection of such list by any voting Member or voting Member's agent or attorney at any time during the meeting, including any adjournments thereof.

ARTICLE VII

A special meeting of the Members or Directors may be called by the President, or by demand by a majority of the board members or one-third (1/3) of the Members. Such special meetings shall be held upon giving notice as required by the Texas Open Meetings Act.

Prior to convening any special meeting of the Members, the President shall request in writing that the Secretary-Treasurer give at least ten (10) days prior notice to the Members, and that such special meeting is otherwise noticed, as required under Article 1396-2.11, Texas Revised Civil Statute, and as provided under Article V of these Bylaws. Such notice shall specify the time, place and purpose of the meeting, and shall be addressed and mailed to each of the Members at their address last known to the Corporation, personally delivered to each Member, or sent by facsimile to each Member.

Emergency meetings of the Directors may be held on rare occasions and only when clearly authorized by the Texas Open Meetings Act. Notice of such emergency meeting shall be provided under Article V of the Bylaws and the Texas Open Meetings Act, at least two hours before the meeting is convened. It shall be the responsibility of the President, or a designee of that office, to ensure that proper notice is posted and Directors are properly notified. In no event shall

PART C

(Revised 8/05)

any emergency meeting of the Directors be convened where the business of such meeting could be considered at a regular or special meeting of the Directors receiving at least seventy-two (72) hours notice as provided under Article V of these Bylaws.

ARTICLE VIII

The Corporation shall conduct its business on a non-profit basis, and no dividends shall ever be paid upon the Memberships of such Corporation. All profits arising from the operation of such business shall be annually paid out to the persons who have, during the past year, transacted business with the Corporation, in direct proportion to the amount of business transacted, provided that no such dividends shall ever be paid while any indebtedness of the Corporation remains unpaid and, provided also, that the Directors of the Corporation may allocate to sinking fund(s) and reserve accounts such amount of profits as they deem necessary for maintenance, operation, capital improvements, expansions and replacements of all facility components, as provided by Section 67.008 (d) of the Texas Water code. Funds allocated by the Board to a sinking fund for replacement, amortization of debts, and the payment of interest that are not required to be spent in the year in which deposited shall be invested in accordance with the provisions of Section 67.0 14 (b) of the Texas Water Code.

ARTICLE IX

The Directors of the Corporation shall establish and maintain, so long as the Corporation is indebted to the Government, in an institution insured by the State or Federal Government, or invested in readily marketable securities backed by the full faith and credit of the United States of America, a reserve account separate and apart from other fund accounts of the Corporation. Securities so purchased shall be deemed at all times to be part of the reserve fund account. There shall be deposited in such fund the sum as required by a total of all loan resolutions executed by the Corporation. Such deposits shall be made monthly and shall continue until the total amount deposited equals the sum as required by the executed loan resolutions provided, however, that after any withdrawals, such deposits shall be resumed until the amount accumulated in the fund is restored to the sum as required by the executed loan resolutions.

Withdrawals may be made from this fund only upon prior written approval from USDA Rural Development, RUS. Approval shall be made only for emergency repairs. obsolescence of

PART C

(Revised 8/05)

equipment, improvements to facility, and for making up any deficiencies in revenue for loan payments.

ARTICLE X

Section 1. The Corporation shall have Members as defined by the Texas Water Code. All customers of the Corporation must hold a Membership or obtain their service through a Membership. A person or entity that holds an interest in property solely as security for the performance of an obligation or that only builds on or develops the property for sale to others is not required to hold a Membership as a condition to receive service on a limited basis. Every person (which includes any legal entity) owning or having a legal right to the control, possession or occupancy of property served, or which may reasonably be served by the Corporation, shall have the right to become a Member of the Corporation upon payment of the Membership fee hereinafter provided and upon compliance with the Corporation's conditions of water and/or sewer service as provided for in its published charges, rates and conditions of service. Membership shall not be denied because of the applicant's race, color, religion, sex, age, marital status, familial status, handicap, income from Public Assistance, disability or national origin. It is the intent of the Corporation to provide service on a nondiscriminatory basis.

Section 2. The Membership fee shall be as determined by the Board of Directors. Payment of Membership fee or transfer of Membership shall entitle an applicant to further qualify for one (1) connection to the system or shall entitle a transferee of Membership to continue to qualify for service to an existing connection to the system by meeting the conditions for water and/or sewer as provided in the Corporation's published rates, charges, and conditions of service. A person may own more than one Membership, but each Member shall be entitled to only one vote regardless of the number of Memberships owned. Membership certificates shall be in such form as shall be determined by the Board of Directors.

Section 3. The Membership fee may be revised by the Board of Directors as the Board may determine to be appropriate. In determining the amount of the Membership fee, however, the Board shall ensure that the fee is sufficient to establish the potential Member as being legitimately interested in securing water and/or sewer service from the Corporation for such potential Members' own needs. Furthermore, the Board shall determine and administer such fee in a manner or in an amount which does not unreasonably deny service to financially deprived potential Members. In no event however, shall the Membership fee exceed an amount equal to the

PART C

(Revised 8/05)

sum of twelve (12) charges of the Corporation's minimum monthly water and/or sewer rate unless previously approved by USDA Rural Development, RUS. Membership fees will be refundable.

ARTICLE XI

Where necessary for determining those Members entitled to notice of, or those Members entitled to vote at any meeting or any adjournment thereof, or where necessary to make a determination of Members for any other proper purpose, ownership of Memberships shall be deemed to be vested in those persons who are the record owners of Memberships as evidenced by the Membership transfer book on the 15th day of the month preceding the month of the date upon which the action requiring such determination is to be taken. Nothing herein shall preclude the holder of a Membership from mortgaging such Membership or, upon notification of the Corporation, preclude the holder of such mortgages from exercising legal rights pursuant to such mortgages upon proper notice to the Corporation.

ARTICLE XII

Section 1. In order to ensure that business done by the Corporation shall continue within the capacity of its facilities and to prevent undue financial burden on the Members of the Corporation, Membership in the Corporation shall be transferred in accordance with the following:

(a) Except as herein provided, Membership in the Corporation shall be deemed personal estate and a person or entity that owns any stock of, is a Member of, or has some other right of participation in the Corporation may not sell or transfer that stock, Membership, or other right of participation to another person or entity except: (1) by will to a transferee who is a person related to the testator within the second degree by consanguinity; (2) by transfer without compensation to a transferee who is a person related to the owner of the stock or other interest within the second degree by consanguinity; or (3) by transfer without compensation or by sale to the Corporation.

PART C

(Revised 8/05)

(b) Subsection (a) of this section does not apply to a person or entity that transfers the Membership or other right of participation to another person or entity as part of the conveyance of real estate from which the Membership or other right of participation arose.

(c) The transfer of stock, Membership, or another right of participation under this section does not entitle the transferee to water service unless each condition for water service is met as provided in the Corporation's published rates, charges, and conditions of service. Water service provided by the Corporation as a result of stock, Membership, or other right of participation may be conditioned on ownership of the real estate designated to receive service and from which the Membership or other right of participation arose.

(d) The Corporation may cancel a persons or other entity's stock, Membership, or other right of participation if the person or other entity fails to meet the conditions for water and/or sewer service prescribed by the Corporation's published rates, charges, and conditions of service, or fails to comply with any other condition placed on the receipt of water and/or sewer service under the stock, Membership, or other right of participation authorized under Subsection (c) of this section. The Corporation may, consistent with the limitations prescribed by Subsection (a) of this section and as provided in the Corporation's tariff, reassign canceled stock, or a cancelled Membership, or other right of participation to any person or entity that has legal title to the real estate from which the canceled Membership or other right of participation arose and for which water and/or sewer service is requested, subject to compliance with the conditions for water and/or sewer service prescribed by the Corporation's published rates, charges, and conditions of service.

Section 2. Notwithstanding anything to the contrary here-in-above provided, the consideration for the transfer of any Membership in the Corporation from the original Members, their transferees, pledges, administrators or executors, or other persons, shall never exceed the amount of the original costs of such Membership. No gain or profit shall ever be realized from the sale or transfer of a Membership.

ARTICLE XIII

The Board may employ a manager to handle the business of the Corporation under the direction of the Board. The Board shall set the salary for the manager.

PART C

(Revised 8/05)

ARTICLE XIV

Notwithstanding the ownership of a Membership certificate, all Members shall be billed, disconnected, or reconnected, and otherwise shall receive service in accordance with the written policies of the Corporation, including the tariff of the Corporation. In the event a member should surrender the Membership certificate properly endorsed to the Secretary-Treasurer of the Corporation, the water and/or sewer service shall be discontinued and the obligation to pay for water and/or sewer service shall terminate except as for the minimum charge for the current month and the charge for water and/or sewer used during the current month, and except as for any prior unpaid amounts due the Corporation. Any remaining balance from the membership fee will be refunded to the former member. In the event Membership is terminated, cancelled, withdrawn, or surrendered, whether voluntarily or involuntarily, the former Member's rights and interest in the assets of the Corporation will not be forfeited.

ARTICLE XV

Upon the discontinuance of the Corporation by dissolution or otherwise, all assets of the Corporation shall be distributed among the Members and former Members in direct proportion to the amount of their patronage with the Corporation insofar as practicable. Any indebtedness due the Corporation by a Member for water and/or sewer service or otherwise shall be deducted from such Member's share prior to final distribution. By application for and acceptance of Membership in the Corporation, each Member agrees that upon the discontinuance of the Corporation by dissolution or otherwise, all assets of the Corporation transferred to that Member shall be in turn immediately transferred by the individual Member to an entity that provides a water supply or wastewater service, or both, that is exempt from ad valorem taxation. By application for and acceptance of membership in the Corporation, each Member grants the Corporation's Board of Directors that Member's permission to execute all instruments and documents necessary to effectuate such transfers in order to preserve the Corporation's statutory rights to exemption from income and ad valorem taxation.

PART C

(Revised 8/05)

ARTICLE XVI

The fiscal year of the Corporation shall be November 1 to October 31.

ARTICLE XVII

For so long as the Corporation is indebted for a loan or loans made to it by the United States of America through the USDA Rural Development, RUS, the Corporation shall insure with a reputable insurance company such of its properties and in such amounts as is required by the State Director of the USDA Rural Development, RUS, for the State of Texas.

ARTICLE XVIII

Section 1. *If at the end of the fiscal year, or in the event of emergency repairs, the Board of Directors determines the total amount derived from the collection of water and/or sewer charges to be insufficient for the payment of all costs incident to the operation of the Corporation's system during the year in which such charges are collected, the Board shall make and levy an assessment against each Member of the Corporation as the Board may determine or as may be required by USDA Rural Development, RUS, so that the sum of such assessments and the amount collected from water and/or sewer and other charges is sufficient to fully pay all costs of operation, maintenance, replacement and repayment on indebtedness for the year's operations, but this provision shall not operate for the benefit of any third party creditor other than USDA Rural Development, RUS, without a favorable vote of the majority of the Members. Any assessments levied to make up operations deficits in any year shall be levied against Members in proportion to their patronage with the Corporation.*

Section 2. In the event a Member should surrender their Membership certificate properly endorsed by the Secretary-Treasurer of the Corporation, the obligation to pay such assessments shall be limited to assessments made and levied prior to the date of surrender of the Membership certificate provided, however, that this paragraph and the second sentence of Article XIV shall not apply to relieve a Member of their obligation under special arrangements covering Multiple Membership certificates held by one Member which may have been required or approved by the USDA Rural Development, RUS.

PART C

(Revised 8/05)

ARTICLE XIX

The Corporation shall keep correct and complete books and records of account and shall keep minutes of the proceedings of its Members, Board of Directors, and committees, and shall keep a record of the name and addresses of its Members entitled to vote at its registered office or principle office in Texas.

Annually, the Board of Directors shall prepare or cause to be prepared a report of the financial activity of the Corporation for the preceding year including a statement of support, revenue, and expenses and changes in fluid balances, a statement of functional expenses, and balance sheets for all funds or such financial reports as required by USDA Rural Development, RUS. Such report shall be approved by the Board of Directors.

With prior written request, corporate records, books, and annual reports, subject to exceptions provided by the Public Information Act, Chapter 552, Texas Government Code, including any amendments thereto, shall be available for public inspection and copying by the public or their duly authorized representatives during normal business hours subject to a reasonable charge for the preparation of copies.

In the event of any conflict between the provisions of the Public Information Act and the provisions of the Bylaws, the provisions of the Public Information Act shall prevail.

ARTICLE XX

These Bylaws may be altered, amended, or repealed by a vote of a majority of the Members present, whether in person or by proxy, at any regular meeting of the Members, or at any special meeting of the Members called for that purpose, except that the Members shall not have the power to change the purpose of the Corporation so as to decrease its rights and powers under the laws of the State, or to waive any requirements of bond or other provisions for the safety and security of the property and funds of the Corporation or its Members, or to deprive any Member of rights and privileges then existing, or so to amend the Bylaws as to effect a fundamental change in the intents and purposes of the Corporation. Notice of any amendment to be made at a special meeting of the Members must be given at least ten (10) days before such meeting and must set forth the amendments to be considered. For so long as the Corporation is

PART C

(Revised 8/05)

indebted for a loan or loans made to it by the United States of America through the USDA Rural Development, RUS, or its successor agencies and assigns, or through the Texas Water Development Board these Bylaws shall not be altered, amended, or repealed without the prior written consent of the State Director of the USDA Rural Development, RUS, for the State of Texas and the Development Fund Manager of the TWDB.

ARTICLE XXI

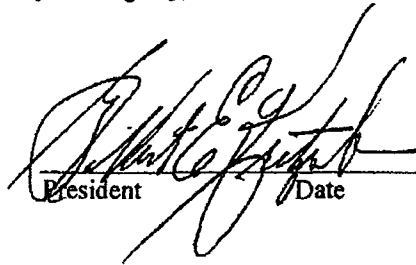
The seal of the Corporation shall consist of a circle within which shall be inscribed "JARRELL-SCHWERTNER WATER SUPPLY CORPORATION."

ARTICLE XXII

The Corporation pledges its assets for use in performing the functions of the corporation as provided by law and the Corporation's Articles of Incorporation.

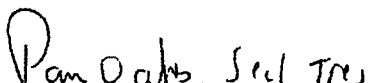
ARTICLE XXIII

The above Bylaws and regulations were unanimously adopted by the Board of Directors and Stockholders of the JARRELL-SCHWERTNER WATER SUPPLY CORPORATION, at a meeting in the Jarrell Community Center on the 17th day of August, 2005



President Date 11/12/08

Attest:



Secretary-Treasurer Date 11/12/08

These amended By-Laws were approved by vote at a Special Stockholders meeting on 8/17/05 By clerical error, the By-Laws were not executed at that time by the then current office holders.

PART C

December 18, 2020

Jarrell Schwertner Water Supply Corporation

Committed to Providing Clean, Safe Water for All Our Residents

Board Members

The following is a list of the current Directors and their positions on the Board. The Directors hold their positions for three years. The current terms are listed by each Director. Elections are held for three of the Directors every year.

President (2020-2023)	Mark Harbin	512-746-2114
Director (2019-2022)	Mike Dunnam	512-746-2114
Secretary/Treasurer (2019-2022)	Pam Oakes	512-746-2114
Vice- President (2018-2021)	Mike Cowie	512-746-2114
Director (2020-2023)	Louis Danek	512-746-2114
Director (2020-2023)	Ed Krause	512-746-2114
Director (2018-2021)	Tom Madden	512-746-2114
Director (2019-2022)	John Valenta	512-746-2114
Director (2018-2021)	Donnie Tschoerner	512-746-2114

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Audited Financial Statements

For the Years Ended October 31, 2019 and 2018

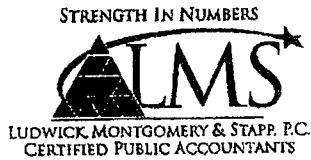
and Independent Auditors' Report

PART D

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance Sheets	3
Statements of Income	4
Statements of Membership Investment	5
Statements of Cash Flows	6
Notes to Financial Statements	7

PART D



1949 SCOTT BOULEVARD
TEMPLE, TEXAS 76504
254.771.0061 - VOICE
254.771.1445 - FAX
WWW.LMS-CPA.COM

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Jarrell-Schwertner Water Supply Corporation
Jarrell, Texas

We have audited the accompanying financial statements of Jarrell-Schwertner Water Supply Corporation (a non-profit organization), which comprise the balance sheets as of October 31, 2019 and 2018, and the related statements of income, membership investment, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PART D

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jarrell-Schwertner Water Supply Corporation as of October 31, 2019 and 2018, 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.

Ludwick, Montgomery, & Starn, PC

Temple, Texas
February 7, 2020

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Balance Sheets

October 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	\$ 150,327	\$ 506,305
Invested funds	2,178,904	1,525,939
Trade accounts receivable, net of allowance \$7,000 and \$7,000, repectively	178,515	142,626
Inventory	43,645	38,370
Prepaid expenses	5,972	7,993
Total Current Assets	<u>2,557,363</u>	<u>2,221,233</u>
Fixed Assets		
Fixed assets - Note 6	8,692,095	8,812,795
Less accumulated depreciation	<u>(5,059,482)</u>	<u>(4,880,513)</u>
Total Fixed Assets	<u>3,632,613</u>	<u>3,932,282</u>
Other Assets		
Invested funds - restricted	1,427,272	375,647
Invested funds - restricted - construction	<u>500,359</u>	<u>518,366</u>
Total Other Assets	<u>1,927,631</u>	<u>894,013</u>
Total Assets	<u>\$ 8,117,607</u>	<u>\$ 7,047,528</u>

PART D

	2019	2018
Liabilities & Membership Investment		
Current Liabilities		
Accounts payable - trade	\$ 55,795	\$ 60,477
Payroll taxes payable	12,214	10,628
Accrued liabilities	26,369	15,656
TCEQ assessment payable	7,272	6,856
Current portion of long-term debt	115,369	123,653
Total Current Liabilities	<u>217,019</u>	<u>217,270</u>
Long Term Liabilities		
Notes payable	4,777,466	5,044,408
Less current portion - Note 5	<u>(115,369)</u>	<u>(123,653)</u>
Total Long Term Liabilities	<u>4,662,097</u>	<u>4,920,755</u>
Total Liabilities	<u>4,879,116</u>	<u>5,138,025</u>
Membership Investment		
Membership investment	311,006	297,631
Retained earnings		
Appropriated	1,927,631	894,013
Unappropriated	999,854	717,859
Total Membership Investment	<u>3,238,491</u>	<u>1,909,503</u>
Total Liabilities & Membership Investment	<u>\$ 8,117,607</u>	<u>\$ 7,047,528</u>

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

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Statements of Income

For the Years Ended October 31, 2019 and 2018

	2019	2018
Revenue		
Water sales	\$ 1,696,988	\$ 1,591,240
Meter tap and equity fees	17,295	25,775
Late fees	23,553	23,373
Reconnects and other fees	232,439	261,438
Total Revenue	<u>1,970,275</u>	<u>1,901,826</u>
Operating Expenses		
Water purchases	158,324	155,170
Advertising	1,653	-
Bank and credit card fees	1,109	-
Depreciation	318,887	319,836
Dues and subscriptions	8,924	8,853
Extensions/Road bores	74,069	2,566
Insurance	32,686	30,369
Miscellaneous	2,635	6,405
Office expense	19,858	7,895
Professional fees	106,627	87,223
Salaries, taxes, and benefits	504,958	482,759
System repairs and maintenance	141,779	112,641
Telephone	7,694	7,256
Utilities	95,715	86,638
Vehicle	53,691	45,348
Total Operating Expenses	<u>1,528,609</u>	<u>1,352,959</u>
Operating Income	<u>441,666</u>	<u>548,867</u>
Other Income and Expense		
Interest expense	(213,085)	(241,168)
Lake granger project	(68,323)	(63,996)
Gain on sale of fixed assets	1,090,596	-
Interest income and dividends	64,759	37,335
Total Other Income and Expense	<u>873,947</u>	<u>(267,829)</u>
Net Income	<u>\$ 1,315,613</u>	<u>\$ 281,038</u>

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

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Statements of Membership Investment

For the Years Ended October 31, 2019 and 2018

	<u>Total Members</u>	<u>Membership Investment</u>	<u>Retained Earnings Appropriated</u>	<u>Retained Earnings Unappropriated</u>	<u>Total</u>
Balance					
10/31/2017	1,547	\$ 280,481	\$ 1,011,999	\$ 318,835	\$ 1,611,315
Additions					
2018	100	31,200	-	-	31,200
Reductions					
2018	(60)	(14,050)	-	-	(14,050)
Net Income 2018	<u>-</u>	<u>-</u>	<u>(117,986)</u>	<u>399,024</u>	<u>281,038</u>
Balance					
10/31/2018	1,587	297,631	894,013	717,859	1,909,503
Additions					
2019	86	28,025	-	-	28,025
Reductions					
2019	(72)	(14,650)	-	-	(14,650)
Net Income 2019	<u>-</u>	<u>-</u>	<u>1,033,618</u>	<u>281,995</u>	<u>1,315,613</u>
Balance					
10/31/2019	<u>1,601</u>	<u>\$ 311,006</u>	<u>\$ 1,927,631</u>	<u>\$ 999,854</u>	<u>\$ 3,238,491</u>

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

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Statements of Cash Flows

For the Years Ended October 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Net income	\$ 1,315,613	\$ 281,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	318,887	319,836
Realized (gain) loss on fixed assets	(1,090,596)	-
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable	(35,890)	(13,244)
Decrease (increase) in inventory	(5,275)	6,762
Decrease (increase) in prepaid expenses	2,021	(1,984)
(Decrease) increase in accounts payable	(4,682)	23,842
(Decrease) increase in payroll taxes	1,586	916
(Decrease) increase in accrued liabilities	10,713	367
(Decrease) increase in TCEQ assessment payable	416	602
Net cash provided (used) by operating activities	<u>512,793</u>	<u>618,135</u>
Cash Flows from Investing Activities		
Purchase of invested funds and reinvestment of income	(1,686,865)	(137,602)
Purchase of plant, building, and improvements	(143,339)	(284,192)
Proceeds from sale of fixed assets	1,215,000	-
Net cash provided (used) by investing activities	<u>(615,204)</u>	<u>(421,794)</u>
Cash Flows from Financing Activities		
New borrowings	3,441,379	-
Repayment of long-term debt	(3,708,321)	(132,765)
Increase (decrease) in membership investment	13,375	17,150
Net cash provided (used) by financing activities	<u>(253,567)</u>	<u>(115,615)</u>
Net increase (decrease) in cash	(355,978)	80,726
Cash, November 1, 2018 and 2017	<u>506,305</u>	<u>425,579</u>
Cash, October 31, 2019 and 2018	<u>\$ 150,327</u>	<u>\$ 506,305</u>
Supplemental information: Interest paid	<u>\$ 213,085</u>	<u>\$ 241,168</u>

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

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Jarrell-Schwertner Water Supply Corporation is a member-owned tax exempt organization, which incorporated pursuant to Chapter 67 of the Texas Water Code for the purpose of providing potable water to its' members in Bell and Williamson counties in Texas. Operating policies, rates, tariffs and regulations are formulated by a Board of Directors, duly elected by the members of Jarrell-Schwertner Water Supply Corporation.

Basis of Accounting

The accrual basis of accounting is used to maintain the books of the Corporation. Revenues are recognized as billed on a cycle basis.

Cash Equivalents

For purposes of the statement of cash flow, cash deposits and all liquid investments purchased with an initial maturity of three months or less, and not designated as a component of the reserve fund, are considered to be cash equivalents.

Accounts Receivable

Accounts receivable is recorded at the amount the Corporation expects to collect on balances outstanding at year-end. Uncollectible amounts are periodically reviewed, based on historical performance the Corporation decides whether or not to write-off. Past due balances (over 60 days) as of October 31, 2019 and 2018 was \$3,026 and \$501, respectively.

Fixed Assets

Property and equipment are carried at cost. If an asset is donated, it is recorded at its fair market value at the time of donation. Depreciation on assets is computed by the straight-line method based on expected service life.

Investments

Certain marketable securities are held at fair market value. Investment income and gains and losses on the investments increase or decrease unappropriated retained earnings unless there is a restriction on its use.

Tax Exempt Status

The Corporation qualifies as an exempt organization under state franchise tax regulations. Exempt status has been granted by the Internal Revenue Service under IRC Section 501(c)(12). A required information return is filed annually. The federal income tax returns for the Corporation for 2018, 2017, and 2016 are subject to examination by the IRS, generally for three years after they were filed.

Accrued Compensated Absences

As of October 31, 2019 and 2018, accrued compensated absences liability was of 26,369 and 15,655, respectively.

Use of Estimates

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

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are charged to operations when occurred.

NOTE 2 – MEMBERSHIP INVESTMENT

Members are required to purchase one share of stock per meter in order to use the system. The membership fee is \$300 per meter. The membership is refundable and transferable, as of October 31, 2019 and 2018 there were 1,601 and 1,587 members, respectively.

NOTE 3 – INVESTED FUNDS

The Corporation has invested funds with various institutions as follows:

	<u>2019</u>	<u>2018</u>
Invested Funds		
Texstar accounts, 1.7552% and 2.1989%, respectively	\$ 4,019,102	\$ 2,379,888
Eagle accounts, .10% and .10%, respectively	74,425	31,589
Co Bank accounts, .2% and .2%, respectively	13,008	8,475
Total Invested Funds	<u>4,106,535</u>	<u>2,419,952</u>
Less: Restricted Invested Funds		
TWDB	-	245,857
Co Bank	225,000	118,321
USDA	-	11,469
COJ South Plant Sell	1,202,272	-
Total Restricted- Invested Funds	<u>1,427,272</u>	<u>375,647</u>
Less: Restricted Construction Funds		
Co Bank- A stock	13,008	8,475
Co Bank- Construction	487,351	509,891
Total Restricted- Construction Funds	<u>500,359</u>	<u>518,366</u>
Total Unrestricted Invested Funds	<u>\$ 2,178,904</u>	<u>\$ 1,525,939</u>

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2019 and 2018

NOTE 3 – INVESTED FUNDS (Continued)

As of October 31, 2019 and 2018, the Organization has an investment in Class A common stock of CoBank, ACB. Investments are reported at fair market value. As of October 31, 2019 and 2018, the fair market value is.

Stock	2019		2018	
	Cost	Fair Market Value	Cost	Fair Market Value
CoBank, ACB	\$ 13,008	\$ 13,008	\$ 8,475	\$ 8,475
	\$ 13,008	\$ 13,008	\$ 8,475	\$ 8,475

A hierarchy of different levels is used in determining fair market value. The various levels are as follows:

Level 1 - valuations based on quoted prices in an active market for identical assets or liabilities.

Level 2 - valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – valuations based on inputs that are not observable and significant to the overall fair value measurement.

As of October 31, 2019 and 2018, all investments were classified as level one.

NOTE 4 – APPROPRIATED RETAINED EARNINGS

In March 2016, a loan agreement was entered into with CoBank for \$1,500,000 at an interest rate of 4.07%. An amount of \$115,000 is required to be held in a reserve account for this loan. In addition to the reserve requirement, the remaining CoBank funds as of October 31, 2019 in the amount of \$500,359, are to be restricted for future construction projects.

In August 2019, a loan agreement was entered into with CoBank for \$3,500,000 at an interest rate of 1.75%. An amount of \$110,000 is required to be held in a reserve account for this loan.

In August 2019, the Corporation sold one of their water plants to the City of Jarrell in the amount of \$1,200,000. The proceeds from the sell are currently restricted until the review of the sell has been completed by the Public Utility Commission.

As of October 31, 2019 and 2018, the total balance of the reserve accounts are \$1,427,272 and \$375,647, respectively. Reserved funds are held at a financial institution and a brokerage account. Funds held at the financial institution are insured by the FDIC up to \$250,000. Also see Note 3 and Note 9. As of October 31, 2019 and 2018, the overall required reserve for the CoBank loans have been met.

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2019 and 2018

NOTE 5 - NOTES PAYABLE

Long-term debt at October 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Note payable to USDA, interest at 7.125%, monthly payments including interest of \$2,175, secured by water system assets and revenues.	\$ -	\$ 174,422
Note payable to TWDB, interest at 5.09%, monthly payments including interest of \$7,430, secured by water system assets and revenues.	-	1,351,677
Note payable to TWDB, interest at 5.09%, monthly payments including interest of \$8,203, secured by water system assets and revenues.	-	1,513,385
Note payable to TWDB, interest at 5.09%, monthly payments including interest of \$1,317, secured by water system assets and revenues.	-	232,521
Note payable to TWDB, interest at 5.212%, monthly payments including interest of \$2,750, secured by water system assets and revenues.	-	373,140
Note payable to CoBank, interest at 4.07%, monthly payments including interest of \$9,200, secured by water system assets and revenues.	1,345,695	1,399,263
Note payable to CoBank, interest at 4.125%, monthly payments including interest of \$16,696, secured by water system assets and revenues.	<u>3,431,771</u>	<u>-</u>
Total notes payable	<u>\$ 4,777,466</u>	<u>\$ 5,044,408</u>
Less: current portion	<u>(115,369)</u>	<u>(123,653)</u>
Total long-term debt	<u><u>\$ 4,662,097</u></u>	<u><u>\$ 4,920,755</u></u>

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2019 and 2018

NOTE 5 - NOTES PAYABLE (Continued)

Aggregate maturities required on long-term debt at October 31, 2019 are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 115,369
2021	120,250
2022	125,335
2023	130,638
2024	136,165
Thereafter	4,149,709
	<u><u>\$ 4,777,466</u></u>

NOTE 6 – FIXED ASSETS

Fixed assets, together with estimated useful lives, consisted of the following:

	<u>October 31</u>		<u>Useful lives</u>
	<u>2019</u>	<u>2018</u>	<u>in Years</u>
Land	\$ 234,221	\$ 234,221	
CIP	34,373	17,000	
Building	313,763	313,763	7-30
Equipment and furniture	373,941	396,857	3-10
Distribution system	7,735,797	7,850,954	3-30
	<u>8,692,095</u>	<u>8,812,795</u>	
Less accumulated depreciation	<u>(5,059,482)</u>	<u>(4,880,513)</u>	
Total fixed assets	<u><u>\$ 3,632,613</u></u>	<u><u>\$ 3,932,282</u></u>	

Depreciation expense for the years ended October 31, 2019 and 2018 was \$318,887 and \$319,836 respectively.

NOTE 7 – EMPLOYEE RETIREMENT PLAN

The Corporation provides a defined contribution (Simple IRA) retirement plan covering all employees. Employees are eligible for the plan after two years of service. The employer matches 100% of employee contributions up to a maximum of 3% of an employee's salary. The Corporation contributed \$5,115 and \$3,955, respectively, for the years ended October 31, 2019 and 2018.

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2019 and 2018

NOTE 8 – WATER PURCHASE CONTRACT

Jarrell-Schwertner WSC made an agreement with Brazos River Authority (BRA) in March 2004. The agreement allows the Corporation to purchase up to 1,000 acre feet (AF) of water. As of October 31, 2019 and 2018 the rate is \$79.00 and \$76.50, respectively, per AF. Payments are due quarterly, annual payments may be adjusted as permitted by the contract by the Board of Directors of the Brazos River Authority.

The Corporation has entered into a contract with Central Texas Water Supply Corporation for treated lake water. As of October 31, 2019 and 2018, rates were \$3.47 and \$3.39 per thousand gallons based on a monthly maximum of 50,000 gallons, respectively.

The Corporation has entered into a contract with Salado Water Supply Corporation for treated ground water. As of October 31, 2019 and 2018, rates were \$1.55 per thousand gallons based on a monthly minimum of 1,500,000 gallons, respectively.

The Corporation does have an Emergency Interconnect Agreement with Sonterra Municipal Utility District (MUD). This is not a constant use water supply as stated in the agreement and flow of water may be in either direction. The rate is \$3.75 per 1,000 gallons.

For the years ended October 31, 2019 and 2018, water purchases were \$158,324 and \$155,170, respectively.

NOTE 9 – LAKE GRANGER PROJECT

The Corporation entered into a water facilities contract with Lone Star Regional Water Authority as of August 2015. The agreement involves three participants, City of Jarrell, Sonterra MUD and Jarrell-Schwertner WSC. The Water Supply Agreement currently provides for delivery of up to 8.9 million gallons per day (MGD) of treated water the participants. The Corporation under the contract is approved for 1.5 MGD, City of Jarrell 2.5 MGD, and Sonterra MUD 4.9 MGD. The Corporation is responsible for all expense up to its current usage percentage of 16.85%. The surface water is from Lake Granger and will be treated by the Brazos River Authority and sold to Lone Star Regional Water Authority. The Corporation under the agreement will not be able to retain any ownership of any capital projects involved with the agreement. For the years ended October 31, 2019 and 2018, the Corporation has expenses of \$68,323 and \$63,996, respectively. The project is still in progress and is expected to finish in the next year. The Corporation will use this treated surface water for future growth instead of relying on groundwater sources.

NOTE 10 – DEPOSITS IN EXCESS OF FDIC LIMIT

As of October 31, 2019 and 2018, the Corporation has \$138,723 and \$326,641, respectively, of cash deposits in excess of the FDIC insured limit of \$250,000.

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2019 and 2018

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation calculates the fair value of its assets and liabilities which qualify as financial instruments and includes this additional information in the notes to financial statements when the fair value is different than the carrying value of these financial instruments. The estimated fair value of accounts receivable, accounts payable, and accrued liabilities approximate the carrying amounts due to the relatively short maturity of these instruments. The carrying value of notes payable also approximate fair value since these instruments bear market rates of interest. None of these instruments are held for trading purposes.

NOTE 12 – RECLASSIFICATION

Certain amounts in 2018 have been reclassified to conform with the 2019 presentation.

NOTE 13 – EVALUATION OF SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through February 7, 2020, the date which the financial statements were available to be issued.

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Audited Financial Statements

For the Years Ended October 31, 2018 and 2017

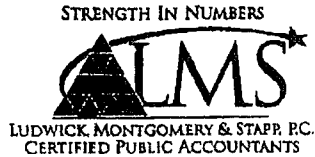
and Independent Auditors' Report

PART D

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance Sheets	3
Statements of Income	4
Statements of Membership Investment	5
Statements of Cash Flows	6
Notes to Financial Statements	7

PART D



1949 SCOTT BOULEVARD
TEMPLE, TEXAS 76504
254.771.0061 - VOICE
254.771.1445 - FAX
WWW.LMS-CPA.COM

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Jarrell-Schwertner Water Supply Corporation
Jarrell, Texas

We have audited the accompanying financial statements of Jarrell-Schwertner Water Supply Corporation (a non-profit organization), which comprise the balance sheet as of October 31, 2018, and the related statements of income, membership investment, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PART D

Opinion

In our opinion, the 2018 financial statements referred to above present fairly, in all material respects, the financial position of Jarrell-Schwertner Water Supply Corporation as of October 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statement

The financial statements of Jarrell-Schwertner as of October 31, 2017, were audited by other auditors whose report dated January 25, 2018, expressed an unmodified opinion on those financial statements.



Temple, Texas
February 2, 2019

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Balance Sheets

October 31, 2018 and 2017

	2018	2017
	<u>Assets</u>	
Current Assets		
Cash	\$ 506,305	\$ 425,579
Invested funds	1,525,939	630,291
Trade accounts receivable, net of allowance \$7,000 and \$7,000, respectively	142,626	129,382
Inventory	38,370	45,132
Prepaid expenses	7,993	6,009
Total Current Assets	<u>2,221,233</u>	<u>1,236,393</u>
Fixed Assets		
Fixed assets - Note 6	8,812,795	8,528,603
Less accumulated depreciation	<u>(4,880,513)</u>	<u>(4,560,677)</u>
Total Fixed Assets	<u>3,932,282</u>	<u>3,967,926</u>
Other Assets		
Invested funds - restricted	375,647	1,011,999
Invested funds - restricted - construction	518,366	640,060
Total Other Assets	<u>894,013</u>	<u>1,652,059</u>
Total Assets	<u>\$ 7,047,528</u>	<u>\$ 6,856,378</u>

PART D

	2018	2017
Liabilities & Membership Investment		
Current Liabilities		
Accounts payable - trade	\$ 60,477	\$ 36,635
Payroll taxes payable	10,628	9,712
Accrued liabilities	15,656	15,289
TCEQ assessment payable	6,856	6,254
Current portion of long-term debt	123,653	77,857
Total Current Liabilities	<u>217,270</u>	<u>145,747</u>
Long Term Liabilities		
Notes payable	5,044,408	5,177,173
Less current portion - Note 5	(123,653)	(77,857)
Total Long Term Liabilities	<u>4,920,755</u>	<u>5,099,316</u>
Total Liabilities	<u>5,138,025</u>	<u>5,245,063</u>
Membership Investment		
Membership investment	297,631	280,481
Retained earnings		
Appropriated	375,647	1,011,999
Unappropriated	1,236,225	318,835
Total Membership Investment	<u>1,909,503</u>	<u>1,611,315</u>
Total Liabilities & Membership Investment	<u>\$ 7,047,528</u>	<u>\$ 6,856,378</u>

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

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Statements of Income

For the Years Ended October 31, 2018 and 2017

	2018	2017
Revenue		
Water sales	\$ 1,591,240	\$ 1,470,363
Meter tap and equity fees	25,775	31,610
Late fees	23,373	21,696
Reconnects and other fees	103,738	41,994
Total Revenue	<u>1,744,126</u>	<u>1,565,663</u>
Operating Expenses		
Water purchases	155,170	148,957
Depreciation	319,836	331,719
Dues and subscriptions	8,853	8,543
Extensions/Road bores	2,566	13,105
Insurance	30,369	30,900
Miscellaneous	6,405	4,431
Office expense	7,895	17,109
Professional fees	87,223	53,052
Salaries, taxes, and benefits	482,759	465,262
System repairs and maintenance	112,641	124,146
Telephone	7,256	7,061
Utilities	86,638	95,461
Vehicle	45,348	38,690
Total Operating Expenses	<u>1,352,959</u>	<u>1,338,436</u>
Operating Income	<u>391,167</u>	<u>227,227</u>
Other Income and Expense		
Interest expense	(241,168)	(250,571)
Lake granger project	(63,996)	(25,041)
Interest income and dividends	37,335	16,619
Contribution in aid of construction	157,700	194,250
Total Other Income and Expense	<u>(110,129)</u>	<u>(64,743)</u>
Net Income	<u>\$ 281,038</u>	<u>\$ 162,484</u>

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

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Statements of Membership Investment

For the Years Ended October 31, 2018 and 2017

	<u>Total Members</u>	<u>Membership Investment</u>	<u>Retained Earnings</u>		<u>Total</u>
			<u>Appropriated</u>	<u>Unappropriated</u>	
Balance					
10/31/2016	1,511	\$ 260,175	\$ 873,626	\$ 315,030	\$ 1,448,831
Additions					
2017	114	35,606	-	-	35,606
Reductions					
2017	(78)	(15,300)	-	-	(15,300)
Net Income 2017		-	138,373	3,805	142,178
Balance					
10/31/2017	1,547	280,481	1,011,999	318,835	1,611,315
Additions					
2018	100	31,200	-	663,880	695,080
Reductions					
2018	(60)	(14,050)	(663,880)	-	(677,930)
Net Income 2018	-	-	27,528	253,510	281,038
Balance					
10/31/2018	<u>1,587</u>	<u>\$ 297,631</u>	<u>\$ 375,647</u>	<u>\$ 1,236,225</u>	<u>\$ 1,909,503</u>

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

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Statements of Cash Flows

For the Years Ended October 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 281,038	\$ 162,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	319,836	331,719
Realized (gain) loss on invested funds	-	1,286,748
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable	(13,244)	2,300
Decrease (increase) in prepaid expenses	(1,984)	(1,068)
(Decrease) increase in accounts payable	23,842	(89,589)
(Decrease) increase in inventory	6,762	15,330
(Decrease) increase in payroll taxes	916	-
(Decrease) increase in accrued liabilities	367	8,452
(Decrease) increase in TCEQ assessment payable	602	-
Net cash provided (used) by operating activities	<u>618,135</u>	<u>1,716,376</u>
Cash Flows from Investing Activities		
Purchase of invested funds and reinvestment of income	(137,602)	(1,425,173)
Purchase of plant, building, and improvements	(284,192)	(240,725)
Net cash (provided) by investing activities	<u>(421,794)</u>	<u>(1,665,898)</u>
Cash Flows from Financing Activities		
Repayment of long-term debt	(132,765)	(74,570)
Increase (decrease) in membership investment	17,150	(20,306)
Net cash provided (used) by financing activities	<u>(115,615)</u>	<u>(94,876)</u>
Net increase (decrease) in cash	80,726	(44,398)
Cash, November 1, 2017 and 2016	<u>425,579</u>	<u>469,977</u>
Cash, October 31, 2018 and 2017	<u>\$ 506,305</u>	<u>\$ 425,579</u>
Supplemental information: Interest paid	<u>\$ 241,168</u>	<u>\$ 250,571</u>

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

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Jarrell-Schwertner Water Supply Corporation is a member-owned tax exempt organization, which incorporated pursuant to Chapter 67 of the Texas Water Code for the purpose of providing potable water to its' members in Bell and Williamson counties in Texas. Operating policies, rates, tariffs and regulations are formulated by a Board of Directors, duly elected by the members of Jarrell-Schwertner Water Supply Corporation.

Basis of Accounting

The accrual basis of accounting is used to maintain the books of the Corporation. Revenues are recognized as billed on a cycle basis.

Cash Equivalents

For purposes of the statement of cash flow, cash deposits and all liquid investments purchased with an initial maturity of three months or less, and not designated as a component of the reserve fund, are considered to be cash equivalents.

Accounts Receivable

Accounts receivable is recorded at the amount the Corporation expects to collect on balances outstanding at year-end. Uncollectible amounts are periodically reviewed, based on historical performance the Corporation decides whether or not to write-off. Past due balances (over 60 days) as of October 31, 2018 and 2017 was \$501 and \$1,597, respectively.

Fixed Assets

Property and equipment are carried at cost. If an asset is donated, it is recorded at its fair market value at the time of donation. Depreciation on assets is computed by the straight-line method based on expected service life.

Investments

Certain marketable securities are held at fair market value. Investment income and gains and losses on the investments increase or decrease unrestricted net assets unless there is a restriction on its use.

Tax Exempt Status

The Corporation qualifies as an exempt organization under state franchise tax regulations. Exempt status has been granted by the Internal Revenue Service under IRC Section 501(c)(12). A required information return is filed annually. The federal income tax returns for the Corporation for 2017, 2016, and 2015 are subject to examination by the IRS, generally for three years after they were filed.

Use of Estimates

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

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2018 and 2017

NOTE 2 - MEMBERSHIP INVESTMENT

Members are required to purchase one share of stock per meter in order to use the system. The membership fee is \$300 per meter. The membership is refundable and transferable, as of October 31, 2018 and 2017 there were 1,587 and 1,547 members, respectively.

NOTE 3 – INVESTED FUNDS

The Corporation has invested funds with various institutions as follows:

	<u>2018</u>	<u>2017</u>
Invested Funds		
Texstar accounts, 2.1989%, respectively	\$ 2,379,888	\$ 2,192,031
Co Bank accounts, .2%, respectively	<u>40,064</u>	<u>90,319</u>
Total Invested Funds	2,419,952	2,282,350
Less: Restricted Invested Funds		
TWDB	245,857	241,881
Co Bank	118,321	116,408
USDA	11,469	11,469
Repair & Emergency	<u>-</u>	<u>642,241</u>
Total Restricted- Invested Funds	375,647	1,011,999
Less: Restricted Construction Funds		
Co Bank- A stock	8,475	6,604
Co Bank- Construction	<u>509,891</u>	<u>633,456</u>
Total Restricted- Construction Funds	<u>518,366</u>	<u>640,060</u>
Total Unrestricted Invested Funds	<u>\$ 1,525,939</u>	<u>\$ 630,291</u>

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2018 and 2017

NOTE 3 – INVESTED FUNDS (Continued)

As of October 31, 2018 and 2017, the Organization has an investment in Class A common stock of CoBank, ACB. Investments are reported at fair market value. As of October 31, 2018 and 2017, the fair market value is.

Stock	2018		2017	
	Cost	Fair Market Value	Cost	Fair Market Value
CoBank, ACB	\$ 8,475	\$ 8,475	\$ 6,604	\$ 6,604
	\$ 8,475	\$ 8,475	\$ 6,604	\$ 6,604

A hierarchy of different levels is used in determining fair market value. The various levels are as follows:

Level 1 - valuations based on quoted prices in an active market for identical assets or liabilities.

Level 2 - valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – valuations based on inputs that are not observable and significant to the overall fair value measurement.

As of October 31, 2018 and 2017, all investments were classified as level one.

NOTE 4– APPROPRIATED RETAINED EARNINGS

In November 1989, a loan agreement was entered into with the United States Department of Agriculture (USDA) for \$360,000 at an interest rate of 7.125%. An amount of \$27,648 is required to be held in reserve account for this loan.

In January 2005, December 2007, March 2009, and March 2009, the Texas Water Development Board approved a loan in the amount of \$500,000, \$1,530,000, \$256,000, and \$1,714,000, respectively. The Corporation received the loans from the Rural Water Assistance Fund, with an annual interest rate of 5.21%, 5.09%, 5.09%, and 5.09%, respectively. The Corporation is to use the loans proceeds for acquisition, construction, improvements and/or extensions to the water system. The loans is secured by all gross revenue of the waterworks system and the distribution system assets. The loans is to mature on June 2036, March 2048, June 2049, and June 2049.

In March 2016, a loan agreement was entered into with CoBank for \$1,500,000 at an interest rate of 5.000%. An amount of \$115,000 is required to be held in a reserve account for this loan. In addition to the reserve requirement, the remaining CoBank funds as of October 31, 2018 in the amount of \$518,366, are to be restricted for future construction projects.

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2018 and 2017

NOTE 4 – APPROPRIATED RETAINED EARNINGS (Continued)

As of October 31, 2018 and 2017, the total balance of the reserve accounts is \$375,647 and \$1,011,999, respectively. Reserved funds are held at a financial institution and a brokerage account. Funds held at the financial institution are insured by the FDIC up to \$250,000. Also see Note 3 and Note 9. As of October 31, 2018 and 2017, the overall required reserve for the USDA, TWDB, and CoBank loans have been met.

NOTE 5 - NOTES PAYABLE

Long-term debt at October 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Note payable to USDA, interest at 7.125%, monthly payments including interest of \$2,175, secured by water system assets and revenues.	174,422	186,574
Note payable to TWDB, interest at 5.09%, monthly payments including interest of \$7,430, secured by water system assets and revenues.	1,351,677	1,373,752
Note payable to TWDB, interest at 5.09%, monthly payments including interest of \$8,203, secured by water system assets and revenues.	1,513,385	1,537,507
Note payable to TWDB, interest at 5.09%, monthly payments including interest of \$1,317, secured by water system assets and revenues.	232,521	236,183
Note payable to TWDB, interest at 5.212%, monthly payments including interest of \$2,750, secured by water system assets and revenues.	373,140	387,593

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2018 and 2017

NOTE 5 - NOTES PAYABLE (Continued)

Note payable to CoBank, interest at 4.07%, monthly payments including interest of \$9,200, secured by water system assets and revenues.

	1,399,263	1,450,669
--	-----------	-----------

Note payable to Ally Bank, interest at 4.94%, monthly payments including interest of \$627, secured by water system assets and revenues.

	-	4,895
--	---	-------

Total notes payable

	5,044,408	5,177,173
--	-----------	-----------

Less: current portion

	(123,653)	(77,857)
--	-----------	----------

Total long-term debt

	\$ 4,920,755	\$ 5,099,316
--	--------------	--------------

Aggregate maturities required on long-term debt at October 31, 2018 are as follows:

Year	Amount
2019	\$ 123,653
2020	108,723
2021	114,535
2022	120,700
2023	127,245
Thereafter	4,449,552
	\$ 5,044,408

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2018 and 2017

NOTE 6 – FIXED ASSETS

Fixed assets, together with estimated useful lives, consisted of the following:

	October 31		Useful lives in Years
	2018	2017	
Land	\$ 234,221	\$ 234,221	
CIP	17,000	820,000	
Building	313,763	51,764	7-30
Equipment and furniture	396,857	592,554	3-10
Distribution system	7,850,954	6,830,064	3-30
	<u>8,812,795</u>	<u>8,528,603</u>	
Less accumulated depreciation	<u>(4,880,513)</u>	<u>(4,560,677)</u>	
Total fixed assets	<u>\$ 3,932,282</u>	<u>\$ 3,967,926</u>	

Depreciation expense for the years ended October 31, 2018 and 2017 was \$319,836 and \$331,719 respectively.

NOTE 7 – EMPLOYEE RETIREMENT PLAN

The Corporation provides a defined contribution (Simple IRA) retirement plan covering all employees. Employees are eligible for the plan after two years of service. The employer matches 100% of employee contributions up to a maximum of 3% of an employee's salary. The Corporation contributed \$3,955 and \$4,221, respectively, for the years ended October 31, 2018 and 2017.

NOTE 8 – WATER PURCHASE CONTRACT

Jarrell-Schwertner WSC made an agreement with Brazos River Authority (BRA) in March 2004. The agreement allows the corporation to purchase up to 1,000 acre feet (AF) of water. As of October 31, 2018 the rate is \$76.50 per AF. Payments are due quarterly, annual payments may be adjusted as permitted by the contract by the Board of Directors of the Brazos River Authority.

The Corporation has entered into a contract with Central Texas Water Supply Corporation for treated lake water. As of October 31, 2018 and 2017, rates were \$3.39 and \$3.225 per thousand gallons based on a monthly maximum of 50,000 gallons, respectively.

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2018 and 2017

NOTE 8 – WATER PURCHASE CONTRACT (Continued)

The Corporation has entered into a contract with Salado Water Supply Corporation for treated ground water. As of October 31, 2018 and 2017, rates were \$1.55 per thousand gallons based on a monthly minimum of 1,500,000 gallons, respectively.

The Corporation does have an Emergency Interconnect Agreement with Sonterra Municipal Utility District (MUD). This is not a constant use water supply as stated in the agreement and flow of water may be in either direction. The rate is \$3.75 per 1,000 gallons.

For the years ended October 31, 2018 and 2017, water purchases were \$155,170 and \$148,957, respectively.

NOTE 9 – LAKE GRANGER PROJECT

The Corporation entered into a water facilities contract with Lone Star Regional Water Authority as of August 2015. The agreement involves three participants, City of Jarrell, Sonterra MUD and Jarrell-Schwertner WSC. The Water Supply Agreement currently provides for delivery of up to 8.9 million gallons per day (MGD) of treated water the participants. The Corporation under the contract is approved for 1.5 MGD, City of Jarrell 2.5 MGD, and Sonterra MUD 4.9 MGD. The Corporation is responsible for all expense up to its current usage percentage of 16.85%. The surface water is from Lake Granger and will be treated by the Brazos River Authority and sold to Lone Star Regional Water Authority. The Corporation under the agreement will not be able to retain any ownership of any capital projects involved with the agreement. For the years ended October 31, 2018 and 2017, the Corporation has expenses \$63,996 and \$25,041, respectively, of expenses. The project is still in progress and is expected to finish in the next year. The Corporation will use this treated surface water for future growth instead of relying on groundwater sources.

NOTE 10 – DEPOSITS IN EXCESS OF FDIC LIMIT

As of October 31, 2018 and 2017, the Corporation has \$326,641 and \$176,885, respectively, of cash deposits in excess of the FDIC insured limit of \$250,000.

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation calculates the fair value of its assets and liabilities which qualify as financial instruments and includes this additional information in the notes to financial statements when the fair value is different than the carrying value of these financial instruments. The estimated fair value of accounts receivable, accounts payable, and accrued liabilities approximate the carrying amounts due to the relatively short maturity of these instruments. The carrying value of notes payable also approximate fair value since these instruments bear market rates of interest. None of these instruments are held for trading purposes.

NOTE 12 – RECLASSIFICATION

Certain amounts in 2017 have been reclassified to conform with the 2018 presentation.

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

Notes to Financial Statements

For the Years Ended October 31, 2018 and 2017

NOTE 13 – EVALUATION OF SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through February 2, 2019, the date which the financial statements were available to be issued.

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

**AUDITED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED OCTOBER 31, 2016
WITH PRIOR YEAR SUMMARIZED INFORMATION**

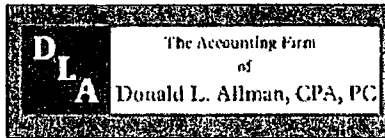
PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION

TABLE OF CONTENTS

Independent Auditors' Report.	1-2
Statement of Financial Position, with Prior Year Summarized Information	3
Statement of Activities, with Prior Year Summarized Information	4
Statement of Functional Expenses, with Prior Year Summarized Information.. . . .	5
Statement of Net Assets, with Prior Year Summarized Information.. . . .	6
Statement of Cash Flows, with Prior Year Summarized Information	7
Notes to the Financial Statements.	8-14

PART D



Donald L. Allman, CPA, PC
205 East University Ave., Ste. 165
Georgetown, Texas 78626

CERTIFIED PUBLIC ACCOUNTANT

To the Board of Directors
JARRELL-SCHWERTNER WATER SUPPLY CORPORATION
Jarrell, Texas

We have audited the accompanying financial statements of JARRELL-SCHWERTNER WATER SUPPLY CORPORATION (a nonprofit organization), which comprise the statement of financial position as of October 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluation the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JARRELL-SCHWERTNER WATER SUPPLY CORPORATION as of October 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

-1-

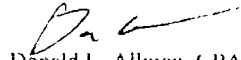
MEMBER TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

205 East University, Ste. 165, GEORGETOWN, TEXAS 78626 512-422-3700 FAX 512-240-5460 WEBSITE www.donallmancpa.com

PART D

Other Matters – Comparative Prior Year Summarized Information

We previously audited JARRELL-SCHWERTNER WATER SUPPLY CORPORATION's financial statements for the year ended October 31, 2015



Donald L. Allman, C P A, P C

Georgetown, Texas

January 30, 2017

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION STATEMENT OF FINANCIAL POSITION, WITH PRIOR YEAR SUMMARIZED INFORMATION OCTOBER 31, 2016

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash in bank and on hand	\$ 469,977	\$ 347,488
Invested funds	1,286,748	275,820
Trade accounts receivable, net of allowance	131,682	138,791
Deferred charges	4,941	5,506
Inventory	60,462	48,198
Total Current Assets	1,953,810	815,803
PROPERTY AND EQUIPMENT (NET)	4,069,690	4,109,547
OTHER ASSETS		
Invested funds - Restricted	873,626	1,107,070
	<u>873,626</u>	<u>1,107,070</u>
TOTAL ASSETS	<u>6,897,126</u>	<u>6,032,420</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Trade accounts payable	\$ 110,191	\$ 18,740
Payroll taxes payable	9,490	8,080
Accrued liabilities	14,056	12,726
Accrued compensated absences and wages	15,289	15,745
Grant reimbursement	-	-
Current portion long term debt	74,570	70,007
Total Current Liabilities	223,596	125,298
LONG TERM DEBT		
Notes Payable-Co Bank	1,500,000	680,000
Notes payable - USDA Rural Development	198,725	210,684
Notes payable - Texas Water Development Board	3,588,560	3,639,416
Notes payable - Vendors	11,984	18,735
Less current portion	(74,570)	(70,007)
	<u>5,224,699</u>	<u>4,478,828</u>
NET ASSETS		
Member investment	260,175	244,300
Net Assets		
Restricted	873,626	1,107,070
Unrestricted	315,030	76,924
	<u>1,448,831</u>	<u>1,428,294</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,897,126</u>	<u>\$ 6,032,420</u>

See accompanying notes to financial statements and independent auditors' report

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION STATEMENT OF ACTIVITIES, WITH PRIOR YEAR SUMMARIZED INFORMATION FOR THE YEAR ENDED OCTOBER 31, 2016

	Unrestricted	Temporarily Restricted	Total 2016	(Comparative Totals Only) 2015
OPERATING REVENUE:				
Metered Water Sales	1,343,724		1,343,724	1,251,709
Other operating revenue	83,668		83,668	69,775
Developer Contributions	102,800		102,800	90,500
Miscellaneous income	4,802		4,802	3,775
Total Operating Revenue	1,534,994	-	1,534,994	1,415,759
OTHER REVENUE:				
Interest and other income	4,424	-	4,424	901
Total Revenue	4,424	-	4,424	901
TOTAL OPERATING & OTHER REVENUE	1,539,418	-	1,539,418	1,416,660
COSTS OF WATER DELIVERY				
Program	983,357	-	983,357	929,287
Administration	-	-	-	-
Fundraising	-	-	-	-
TOTAL COSTS OF WATER DELIVERY	983,357	-	983,357	929,287
OPERATING EXPENSES:				
Program	504,021	-	504,021	466,253
Administration	31,503	-	31,503	29,893
Fundraising	-	-	-	-
TOTAL OPERATING EXPENSES	535,524	-	535,524	496,146
TOTAL EXPENSES	1,518,881	-	1,518,881	1,425,433
Change in Net Assets	20,537	-	20,537	(8,773)
Net Assets, beginning of year	1,428,294	-	1,428,294	1,437,067
Net Assets, end of year	\$ 1,448,831	\$ -	\$ 1,448,831	\$ 1,428,294

See accompanying notes to financial statements and independent auditors' report

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION STATEMENT OF FUNCTIONAL EXPENSES, WITH PRIOR YEAR SUMMARIZED INFORMATION FOR THE YEAR ENDED OCTOBER 31, 2016

				Total	(Comparative Totals Only)
	Program	Administration	Fundraising	2016	2015 year
Cost of Water Delivery expenses					
Water purchases & reserve payment	142,977			142,977	143,186
Wages, salaries, taxes & benefits	250,903			250,903	219,455
System Repairs & Maintenance	176,841			176,841	128,133
Service vehicles expenses	37,852			37,852	36,512
Power purchased for pumping	77,274			77,274	85,426
Depreciation	297,510			297,510	316,575
Total Cost of Water Delivery exp	983,357	-		983,357	929,287
Operating Expenses					
Salaries, taxes & benefits	147,880	16,431	-	164,311	162,776
Professional services	41,232	4,581	-	45,813	42,805
Insurance	25,789	2,865	-	28,654	26,142
Lake Granger Project Fixed	28,930	-	-	28,930	-
Office supplies & postage expenses	11,392	1,266	-	12,658	14,481
Telephone	9,386	1,043	-	10,429	9,947
Depreciation	-	3,020	-	3,020	2,481
Dues, fees, subscriptions	8,775	975	-	9,750	8,409
Repairs & maintenance	4,713	524	-	5,237	3,494
Utilities	2,736	304	-	3,040	2,485
Compliance, meetings & training	2,535	282	-	2,817	2,181
Interest	217,560	-	-	217,560	216,702
Miscellaneous	1,905	212	0	2,117	1,404
Bad debt expense	1,188	-	-	1,188	2,839
Total Operating Expenses	\$ 504,021	\$ 31,503	\$ -	\$ 535,524	\$ 496,146

See accompanying notes to financial statements and independent auditors' report

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION
STATEMENT OF UNRESTRICTED NET ASSETS, WITH PRIOR YEAR SUMMARIZED
INFORMATION
FOR THE YEAR ENDED OCTOBER 31, 2016

	<u>2016</u>	<u>2015</u>
MEMBERSHIPS		
Balance, November 1,	\$ 244,300	\$ 228,916
Member Investment - Current Year	27,250	16,100
Memberships Forfeited - Current Year	<u>(11,375)</u>	<u>(716)</u>
Balance, October 31	<u>\$ 260,175</u>	<u>\$ 244,300</u>
NET ASSETS		
RESTRICTED		
Balance, November 1,	1,107,070	948,020
Additions during the year	-	159,050
Withdrawals during the year	<u>(233,444)</u>	<u>-</u>
Balance, October 31,	<u>873,626</u>	<u>1,107,070</u>
UNRESTRICTED		
Balance, November 1,	76,924	260,131
Allocations during the year (net) - appropriated	-	-
Increase (Decrease) in unrestricted net assets	<u>238,106</u>	<u>(183,207)</u>
Balance, October 31,	<u>315,030</u>	<u>76,924</u>
TOTAL NET ASSETS	<u>\$ 1,448,831</u>	<u>\$ 1,428,294</u>

See accompanying notes to financial statements and independent auditors' report

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION STATEMENT OF CASH FLOWS, WITH PRIOR YEAR SUMMARIZED INFORMATION FOR THE YEAR ENDED OCTOBER 31, 2016

	2016	2015
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Increase (Decrease) in Unrestricted Net Assets	\$ 20,537	\$ (8,773)
Adjustments to reconcile net assets to net cash flows provided by operating activities:		
Depreciation and amortization	300,530	319,056
(Increase) decrease in accounts receivable	7,109	(39,513)
(Increase) decrease in invested funds	(1,015,383)	500
(Increase) decrease in deferred charges	565	(1,069)
(Increase) decrease in inventory	(12,264)	(1,658)
Increase (decrease) in accounts payable	91,451	4,708
Increase (decrease) in accrued liabilities	(6,294)	971
	-	-
Total Adjustments	(634,286)	282,995
Net Cash Provided by (Used In) Operating Activities	(613,749)	274,222
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Cash payments for the purchase of capital assets	(252,095)	(367,147)
Decrease in Restricted Cash	237,899	(159,050)
Cash proceeds from (payments to) redemption or purchase invested funds	-	-
Net Cash Provided By (Used In) Investing Activities	(14,196)	(526,197)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from the issue of memberships	-	-
Proceeds from borrowing	820,000	420,000
Principal payments on long term debt	(69,566)	(113,977)
Net Cash Provided By (Used In) Financing Activities	750,434	306,023
NET INCREASE (DECREASE) IN CASH	122,489	54,048
CASH, NOVEMBER 1,	347,488	293,440
CASH, OCTOBER 31,	\$ 469,977	\$ 347,488
Supplemental disclosures of cash flow information:		
Cash paid during the year for -		
Interest expense	\$ 217,560	\$ 216,702

See accompanying notes to financial statements and independent auditors' report

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Line of business: Jarrell-Schwertner 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 Bell and Williamson Counties, Texas. Operating policies, rates tariffs and regulations are formulated by a Board of Directors, duly elected by the members of Jarrell-Schwertner 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.

Cash flows: The Corporation considers all liquid investments purchased with an initial maturity of three months or less, and not designated as a component of an in-house reserve fund or lender covenant required reserve fund, to be cash equivalents.

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. Account balances with charges over thirty days old are considered delinquent and collection efforts begin at this time. Receivables are shown, net of a \$7,000 allowance for uncollectible accounts reserve.

Concentration of investment risk: The Corporation invests its excess and Reserve Funds in FDIC/FSLIC coverage. Guidelines are established by the Board of Directors relative to diversification and maturities that maintain safety and liquidity. Guidelines are reviewed periodically and modified to take advantage of trends in yields and interest rates.

Invested funds: The Corporation carries Texpool, TexStar and Certificates of Deposit more fully described in NOTE E, at fair market value (FMV) in accordance with FASB 115. All increases or decreases in the FMV of the investments are recognized in the Statement of Activities as an unrealized holding gain/loss.

Inventory: Inventory consists of meters, valves, pipe and other supplies needed to maintain the distribution system efficiently and are carried at historical cost.

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION NOTES TO THE FINANCIAL STATEMENTS

NOTE A (Continued)

Property and equipment: Property and equipment is recorded at cost. Depreciation is provided using the straight-line method in amounts sufficient to amortize the cost over their estimated useful lives of 3-30 years, as follows:

Description	Life (Years)	Cost	Depreciation		
			Current	Accumulated	Basis
Land	N/A	\$ 234,221	N/A	N/A	\$ 234,221
Buildings	7-30	51,764	\$ 1,294	\$ 35,119	\$ 16,645
Distribution system and improvements	3-30	6,636,130	269,900	3,803,358	2,832,772
Furniture & fixtures	3-7	29,694	695	19,332	10,362
Equipment & vehicles	5-10	516,069	28,641	360,379	155,690
Construction projects	N/A	820,000	-	-	820,000
		<u>\$ 8,287,878</u>	<u>\$ 300,530</u>	<u>\$ 4,218,188</u>	<u>\$ 4,069,690</u>

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: The Corporation qualifies under state franchise tax regulations as an exempt organization. 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 March 15 due date. The Corporation has not been examined by any major tax jurisdictions for the open fiscal years 2009-2013.

Use of estimates in preparation of the financial statements: 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.

NOTE B – RESERVE FOR EMERGENCY REPAIRS AND DEBT RETIREMENT

The Corporation is required, as long as indebted to USDA-RDS, to deposit from its revenues, one-tenth of its total mortgage payments (including interest) in a Reserve Fund in an insured Texas Bank, or in U.S. Government-backed securities. Such deposits continue until the account balance equals one year's mortgage payments (including interest). Withdrawals may be made only for emergency repairs, equipment obsolescence and revenue deficiencies during periods when water is not available.

PART D

NOTE B – RESERVE FOR EMERGENCY REPAIRS AND DEBT RETIREMENT (continued)

The corporation is required, as long as indebted to the Texas Water Development Board (TWDB), to deposit from its revenues, one-fifth of its total mortgage payments (including interest) in a Reserve Fund in an insured Texas Bank, or in U.S. Government-backed securities. Such deposits continue until the account balance equals one year's mortgage payments (including interest). Withdrawals may be made only for emergency repairs, equipment obsolescence and revenue deficiencies during periods when water is not available, with the approval of TWDB.

The corporation is required, as long as indebted to CoBank, to retain \$115,000 in a Reserve Fund in an insured Texas Bank or in U.S. Government-backed securities.

At October 31, the Reserve Accounts consisted of the following:

	2016	2015
Invested funds	\$ 1,286,748	\$ 1,107,070
Required fund balances - Co Bank	115,000	115,000
USDA	11,469	26,100
TWDB-Loan	238,913	232,888
TWDB-Budget	240,059	239,262
	<u>605,441</u>	<u>613,250</u>
Funds in excess (deficit) of loan agreement	\$ 681,307	\$ 493,820

NOTE C – MEMBER INVESTMENT

Membership in the Corporation is currently sold for \$300. Prior to November, 2006 memberships were sold for \$275 to \$100 per member. One membership must be purchased to use system facilities. The membership cost is refundable, as well as transferable. At October 31, 2015 and 2016 there were 1,501 and 1,514 active memberships, respectively.

NOTE D – NOTES PAYABLE

The Corporation is indebted to USDA-RDS (formerly FmHA) to fund major water system infrastructure and improvements. Deeds of trust on water system assets and security interests in revenues are used as collateral.

The Corporation is indebted to the Texas Water Development Board (TWDB) to fund major water system infrastructure and improvements. Deeds of trust on water system assets and security interests in revenues are used as collateral.

The indebtedness to the Vendor is secured with security interests in the vehicles. Note details are on the following page.

CoBank has disbursed to the Corporation \$820,000 during FYE 10/31/16. The Corporation is indebted to CoBank to fund major water system infrastructure and improvements. At this time \$1,500,000 has been received from CoBank however no principle payments on the loan have been paid.

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION NOTES TO THE FINANCIAL STATEMENTS

NOTE D – NOTES PAYABLE (continued)

Notes payable at October 31, 2016, consisted of the following.

Note payable to USDA-RDS in monthly installments of \$2,175, including interest at 6.75% due September 2031, secured by property	\$ 198,725
Note payable to TWDB in monthly installments of \$7,430, including interest at 5.09% due March 2048, secured by property	\$ 1,392,467
Note payable to TWDB in monthly installments of \$8,203, including interest at 5.09% due June 2049, secured by property	\$ 1,557,138
Note payable to TWDB in monthly installments of \$1,317, including interest at 5.09% due June 2049, secured by property	\$ 238,913
Note payable to TWDB in monthly installments of \$2,750, including interest at 5.212% due February 2038, secured by property	\$ 400,042
Note payable to Co Bank in monthly installments of \$9200 including interest at 4.07%, due October 2036 secured by property	\$ 1,500,000
 Note payable to a Ally bank in monthly installments of \$627, including interest at 4.94% due July 2018, secured by property	 11,984
Total notes payable	5,299,269
Less current portion	(74,570)
Notes payable, less current portion	<u>\$ 5,224,699</u>

Year Ending October 31

2017	74,570
2018	77,857
2019	81,952
2020	86,197
2021	90,538
2022-2048	4,888,155
Total	<u>\$ 5,299,269</u>

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION NOTES TO THE FINANCIAL STATEMENTS

NOTE E – INVESTED FUNDS

The Corporation has invested funds, stated at market value (which approximates cost), with various financial institutions as follows:

<u>2016</u>	Interest	Maturity	Amount
<u>Invested Funds</u>	Rate		
TexStar	0.2257%	Demand	<u>\$ 813,025</u>
Round Top State Bank	0.1500%	Demand	\$ 133,542
Co Bank	0.2000%	Demand	735,629
USDA and TWIDB Reserve	0.2570%	Demand	<u>478,178</u>
			<u>2,160,374</u>
Less: UnRestricted Funds			<u>(1,291,203)</u>
Restricted Funds			<u>\$ 869,171</u>
<u>2015</u>			
<u>Invested Funds</u>			
TexStar	0.2257%	Demand	<u>\$ 623,450</u>
Co Bank			<u>\$ 118,472</u>
Round Top State Bank	0.1500%	Demand	\$ 157,348
USDA and TWIDB Reserve	0.2570%	Demand	<u>483,620</u>
			<u>1,382,890</u>
Less Unrestricted Funds			<u>(275,820)</u>
Restricted Funds			<u>\$ 1,107,070</u>

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION NOTES TO THE FINANCIAL STATEMENTS

NOTE F – EMPLOYEE RETIREMENT PLAN

The Corporation sponsors a defined contribution (SIMPLE IRA) retirement plan covering substantially all employees, after attaining two years of service. Participants may elect to contribute to the plan through payroll deductions. The employer matches 100% of employee contributions up to a maximum of 3% of an employee's salary. The Corporation contributed \$2,762 and \$3,883 for the years ending October 31, 2015 and 2016.

NOTE G – ADDITIONAL WATER SOURCES

The Corporation has established a business relationship with the Brazos River Authority and contracted to purchase up to 1,000 acre feet (AF) of water at an initial rate of \$62.50 per AF within the Stillhouse Hollow Reservoir. Payments are due quarterly. The current rate is \$72 per AF as of August 2016. The annual payments for this water may be adjusted as permitted by the contract by the Board of Directors of the Brazos River Authority.

The Corporation has contracted for potable water supplies from two regional water supply corporations. Central Texas and Salado Water Supply Corporations (WSC) treat and deliver water to points located within the Corporations' distribution system. The source of water from Central Texas WSC is surface water and the source from Salado is ground water. These waters are used to supplement the Corporations' current supply of ground water.

The Central Texas WSC supplies 600,000 gallons per month under a take or pay clause at a rate of \$3.13 per 1,000 gallons plus a Capital Investment rate of \$.095281 per 1,000 gallons for a total of \$3.225281 per 1,000 gallons. The rate per 1,000 gallons may be adjusted as approved by the Board of Directors of Central Texas WSC

The Salado WSC supplies 1,500,000 gallons per month under a take or pay clause at a rate of \$2,325.00 per month or \$1.55 per 1,000 gallons. The Corporation may draft more potable water per month however there is an escalating rate after exceeding the initial 1,500,000 gallons. Rates may be adjusted as the term of the contract is reached. The rate will be the current rate in affect by Salado WSC to their other wholesale customers.

The Corporation does have an Emergency Interconnect Agreement with Sonterra Municipal Utility District. This is not a constant use water supply as stated in the Agreement and flow of water may be in either direction. The rate is \$3.75 per 1,000 gallons.

Water withdrawn for the years ending in October 31, 2015 and 2016 are noted below.

	<u>2016</u>	<u>2015</u>
Gallons pumped from wells	243,246,000	256,261,900
Gallons sold to members	118,117,000	117,406,900

PART D

JARRELL-SCHWERTNER WATER SUPPLY CORPORATION NOTES TO THE FINANCIAL STATEMENTS

NOTE H – FUTURE WATER SOURCE

The Corporation has entered into a Water Facilities Contract with Lone Star Regional Water Authority as of August 27, 2015. The Contract has three participants which include the City of Jarrell, Sonterra MUD and the Corporation. The Corporation will receive 1.5 MGD of treated surface water which is 16.85% of the project. The surface water is from Lake Granger and will be treated by the Brazos River Authority and sold to Lone Star Regional Water Authority. This project was approved by the Texas Water Development Board for the use of SWIFT in December of 2015. Funding began in January of 2016. The project is under design and acquisition of easements and land for facilities. The project completion date is in 2.5 to 3 years.

The Corporation will use this treated surface water for future growth instead of relying on groundwater sources. At this time, \$23,805 in bond payments and \$5,125 in operating payments have been made to Lone Star Regional Water Authority.

Capital Improvement Projects							
	2019 Budget	FY' 2020 Budget	FY' 2021 Budget	FY' 2022 Budget	FY' 2023 Budget	FY' 2024 Budget	Future Consideration
REVENUES							
Contributions							
Bond Proceeds							
Interest and Other							
Grants							
Total Revenues:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
EXPENDITURES							
Roads:							
Proposed 314/310 Bridge							
487-305 Rd	\$ 40,000.00	\$ 40,000.00					
Ronald Regan							
Monument(Welcome to Jarrell)							\$ 80,000.00
New Roads							\$ 16,000,000.00
Water:							
Water A				\$ 636,800.00			
Water B					\$ 1,160,000.00		
Water C						\$ 1,704,000.00	
J-S WSC Acquisition		\$ 1,200,000.00					
J-S Interconnect	\$ 15,000.00	\$ 15,000.00					
Lone Star Connect	\$ 250,000.00						
Paint Water Tower							
Change GST to Bleach	\$ 10,000.00	\$ 10,000.00					
Water Line Upgrades(J-S)			\$ 500,000.00	\$ 500,000.00	\$ 500,000.00		
Rancho Del Cielo							\$ 2,000,000.00
Wastewater:							
Donohue Creek WWTP Expansion	\$ 1,800,000.00	\$ 1,723,217.00					
WW Line A						\$ 1,037,500.00	
WW Line B					\$ 542,500.00		
WW Line C					\$ 745,500.00		
WW Line D						\$ 394,000.00	
WW Line E						\$ 298,000.00	
332 Lift Station						\$ 425,000.00	
WW Meadow Valley Loop	\$ 519,000.00						
FM-487 New Design(L.S.)		\$ 480,000.00					
WW Line F						\$ 690,500.00	
WW Line G			\$ 930,500.00				
South RR WW Improvements				\$ 2,599,500.00			
Lift Station 1 Upgrade	\$ 250,000.00	\$ 250,000.00					
CR-310 I-35 Bore					\$ 425,000.00		
South WWTP(New)			\$ 20,000,000.00				
							\$ -
Police:							
Cars		\$ 60,000.00		\$ 60,000.00			
Radios	\$ 50,000.00						
City Hall							
Land Acquisition		\$ 330,000.00					
Expansion							
Total Expenditures:	\$ 2,934,000.00	\$ 3,778,217.00	\$ 21,430,500.00	\$ 3,796,300.00	\$ 3,373,000.00	\$ 4,549,000.00	\$ 18,080,000.00

PART E

Neighboring Entities

Question 21 – Page 8

1. Williamson County Judge- Bill Gravell, Jr.
710 S. Main Street, Suite 101
Georgetown, TX 78626
2. Brazos River Authority- David Collinsworth- GM/CEO
P.O. Box 7555
Waco, TX 76714
3. City of Florence- Municipal Judge, David Scott
106 South Patterson
PO Box 430
Florence, Texas 76527
4. Bell County Judge- David Blackburn
101 E. Central Avenue
Belton, Texas 76513
5. West Bell County WSC- Bob Whitson- GM
4201 Chaparral Rd.
Killeen, TX 76542
6. City of Jarrell- Vanessa Shrauner- City Manager
161 Town Center Blvd.
Jarrell, TX 76537
7. Bluebonnet Groundwater Conservation District- Zach Holland- GM
P.O. Box 269
Navasota, Texas 77868

PART F

Jon Niemann, *Chairman*
Emily Lindley, *Commissioner*
Toby Baker, *Executive Director*

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

January 11, 2019

Mr. Mark Harbin, President
Jarrell Schwertner WSC
P.O. Box 40
Jarrell, TX 78537-0040

Re: Comprehensive Compliance Investigation at:
Jarrell Schwertner WSC Public Water System, 2393 CR 311, Jarrell (Williamson County),
Texas
TCEQ PWS ID No. 2460011, RN 101215333

Dear Mr. Harbin:

On December 18, 2018, Claudia A. Chaffin of the Texas Commission on Environmental Quality (TCEQ) Austin Region Office conducted an investigation of the above-referenced facility to evaluate compliance with applicable requirements for public water supply. No violations are being alleged as a result of the investigation.

The TCEQ appreciates your assistance in this matter and your compliance efforts to ensure protection of the State's environment. If you or members of your staff have any questions regarding these matters, please feel free to contact Ms. Claudia A. Chaffin in the Austin Region Office at (512)339-2929.

Sincerely,



Shawn Stewart
Water Section Manager
Austin Region Office

SS/cac

cc: Mr. David Yohe, General Manager, Jarrell Schwertner WSC, P.O. Box 40, Jarrell, TX 78537-0040