



Filing Receipt

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Application for Sale, Transfer, or Merger of a Retail Public Utility

Pursuant to Texas Water Code § 13.301 and 16 Texas Administrative Code § 24.239

Sale, Transfer, or Merger (STM) Application Instructions

- I. **COMPLETE:** In order for the Commission to find the application sufficient for filing, the Applicant should:
 - i. Provide an answer to every question and submit any required attachment applicable to the STM request (i.e., agreements or contracts).
 - ii. Use attachments or additional pages to answer questions as necessary. If you use attachments or additional pages, reference their inclusion in the form.
 - iii. Provide all mapping information as detailed in Part G: Mapping & Affidavits.
- II. **FILE:** Seven (7) copies of the completed application with numbered attachments. One copy should be filed with no permanent binding, staples, tabs, or separators; and 7 copies of the portable electronic storage medium containing the digital mapping data.
 - i. **SEND TO:** Public Utility Commission of Texas, Attention: Filing Clerk, 1701 N. Congress Avenue, P.O. Box 13326, Austin, Texas 78711-3326 (**NOTE: Electronic documents may be sent in advance of the paper copy, however they will not be processed and added to the Commission's on-line Interchange until the paper copy is received and file-stamped in Central Records.**)
- III. The application will be assigned a docket number, and an administrative law judge (ALJ) will issue an order requiring Commission Staff to file a recommendation on whether the application is sufficient. The ALJ will issue an order after Staff's recommendation has been filed:
 - i. **DEFICIENT (Administratively Incomplete):** Applicants will be ordered to provide information to cure the deficiencies by a certain date, usually 30 days from ALJ's order. *Application is not accepted for filing.*
 - ii. **SUFFICIENT (Administratively Complete):** Applicants will be ordered by the ALJ to give appropriate notice of the application using the notice prepared by Commission Staff. *Application is accepted for filing.*
- IV. Once the Applicants issue notice, a copy of the actual notice sent and an affidavit attesting to notice should be filed in the docket assigned to the application. Recipients of notice may request a hearing on the merits.
HEARING ON THE MERITS: An affected party may request a hearing within 30 days of notice. In this event, the application may be referred to the State Office of Administrative Hearings (SOAH) to complete this request.
- V. **TRANSACTION TO PROCEED:** at any time following the provision of notice, or prior to 120 days from the last date that proper notice was given, Commission Staff will file a recommendation for the transaction to proceed as proposed or recommend that the STM be referred to SOAH for further investigation. The Applicants will be required to file an update in the docket to the ALJ every 30 days following the approval of the transaction. The transaction must be completed within six (6) months from the ALJ's order (Note: The Applicants may request an extension to the 6 month provision for good cause).
- VI. **FILE:** Seven (7) copies of completed transaction documents and documentation addressing the transfer or disposition of any outstanding deposits. After receiving all required documents from the Applicants, the application will be granted a procedural schedule for final processing. The Applicants are requested to consent in writing to the proposed maps and certificates, or tariff if applicable.
- VII. **FINAL ORDER:** The ALJ will issue a final order issuing or amending the applicable CCNs.

FAQ:

Who can use this form?

Any retail public utility that provides water or wastewater service in Texas.

Who is required to use this form?

A retail public utility that is an investor owned utility (IOU) or a water supply corporation (WSC) prior to any STM of a water or sewer system, or utility, or prior to the transfer of a portion of a certificated service area.

Terms

Transferor: Seller

Transferee: Purchaser

CCN: Certificate of Convenience and Necessity

STM: Sale, Transfer, or Merger

IOU: Investor Owned Utility

Application Summary

Transferor: IRON HILL WSC
(selling entity)

CCN No.s: 10784

☐ Sale ☒ Transfer ☐ Merger ☐ Consolidation ☐ Lease/Rental

Transferee: Rusk Rural WSC
(acquiring entity)

CCN No.s: 10785

☒ Water ☐ Sewer ☒ All CCN ☐ Portion CCN ☐ Facilities transfer

County(ies): Cherokee

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Please mark the items included in this filing

<input type="checkbox"/> Contract, Lease, Purchase, or Sale Agreement	Part A: Question 1
<input type="checkbox"/> Tariff including Rate Schedule	Part B: Question 4
<input type="checkbox"/> List of Customer Deposits	Part B: Question 5
<input type="checkbox"/> Partnership Agreement	Part C: Question 7
<input type="checkbox"/> Articles of Incorporation and By-Laws (WSC)	Part C: Question 7
<input type="checkbox"/> Certificate of Account Status	Part C: Question 7
<input type="checkbox"/> Financial Audit	Part C: Question 10
<input type="checkbox"/> Application Attachment A & B	Part C: Question 10
<input type="checkbox"/> Disclosure of Affiliated Interests	Part C: Question 10
<input type="checkbox"/> Capital Improvement Plan	Part C: Question 10
<input type="checkbox"/> List of Assets to be Transferred	Part D: 11.B
<input type="checkbox"/> Developer Contribution Contracts or Agreements	Part D: 11.D
<input type="checkbox"/> Enforcement Action Correspondence	Part E: Question 18 (Part D: Q12)
<input type="checkbox"/> TCEQ Compliance Correspondence	Part F: Question 22
<input type="checkbox"/> TCEQ Engineering Approvals	Part F: Question 24
<input type="checkbox"/> Purchased Water Supply or Treatment Agreement	Part F: Question 26
<input type="checkbox"/> Detailed (large scale) Map	Part G: Question 29
<input type="checkbox"/> General Location (small scale) Map	Part G: Question 29
<input type="checkbox"/> Digital Mapping Data	Part G: Question 29
<input type="checkbox"/> Signed & Notarized Oath	Page 13-14

Part A: General Information

1. Describe the proposed transaction, including the effect on all CCNs involved, and provide details on the existing or expected land use in the area affected by the proposed transaction. Attach all supporting documentation, such as a contract, a lease, or proposed purchase agreements:

THIS WILL BE A TRANSFER BETWEEN RUSK RURAL WSC + IRON HILL WSC
EVERYTHING WILL BE TRANSFERRED AS IS

2. The proposed transaction will require (check all applicable):

For Transferee (Purchaser) CCN:

For Transferor (Seller) CCN:

- ☐ Obtaining a NEW CCN for Purchaser
☒ Transfer all CCN into Purchaser's CCN (Merger)
☐ Transfer Portion of CCN into Purchaser's CCN
☐ Transfer all CCN to Purchaser and retain Seller CCN
☐ Uncertificated area added to Purchaser's CCN

- ☒ Cancellation of Seller's CCN
☐ Transfer of a Portion of Seller's CCN to Purchaser
☐ Only Transfer of Facilities, No CCN or Customers
☐ Only Transfer of Customers, No CCN or Facilities
☐ Only Transfer CCN Area, No Customers or Facilities

Part B: Transferor Information

Questions 3 through 5 apply only to the transferor (current service provider or seller)

3. A. Name: IRON HILL WSC
(individual, corporation, or other legal entity)
☐ Individual ☐ Corporation ☒ WSC ☐ Other: _____
- B. Mailing Address: P.O. BOX 405
RUSK, TX 75785
- Phone: 936-212-4321 Email: Shelly.KNOTT 421@gmail
- C. Contact Person. Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney, accountant, or other title.
- Name: Shelly KNOTT Title: OFFICE Manager
- Mailing Address: SAME AS ABOVE
- Phone: _____ Email: _____

4. If the utility to be transferred is an Investor Owned Utility (IOU), for the most recent rate change, attach a copy of the current tariff and complete A through B:

A. Effective date for most recent rates: _____

B. Was notice of this increase provided to the Public Utility Commission of Texas (Commission) or a predecessor regulatory authority?

☐ No ☐ Yes Application or Docket Number: _____

If the transferor is a Water Supply or Sewer Service Corporation, provide a copy of the current tariff.

5. For the customers that will be transferred following the approval of the proposed transaction, check all that apply:

☐ There are no customers that will be transferred

☒ # of customers without deposits held by the transferor

ALL

☐ # of customers with deposits held by the transferor*

*Attach a list of all customers affected by the proposed transaction that have deposits held, and include a customer indicator (name or account number), date of each deposit, amount of each deposit, and any unpaid interest on each deposit.

Part C: Transferee Information

Questions 6 through 10 apply only to the *transferee* (purchaser or proposed service provider)

6. A. Name: Rusk Rural WSC

(individual, corporation, or other legal entity)

☐ Individual

☐ Corporation

☒ WSC

☐ Other:

B. Mailing Address: P.O. Box 606

Rusk, TX 75766 75785

Phone: 903-683-6178

Email: jodyedwards26@yahoo.com

C. Contact Person. Provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney, accountant, or other title.

Name: Mike Hamilton

Title: General Manager

Address: 138 P.O. Box 606 Rusk, TX 75785

Phone: 903-683-6178

Email: jodyedwards26@yahoo.com

D. If the transferee is someone other than a municipality, is the transferee current on the Regulatory Assessment Fees (RAF) with the Texas Commission on Environmental Quality (TCEQ)?

☐ No

☒ Yes

☒ N/A

E. If the transferee is an IOU, is the transferee current on the Annual Report filings with the Commission?

☐ No

☐ Yes

☒ N/A

7. The legal status of the transferee is:

☐ Individual or sole proprietorship

☐ Partnership or limited partnership (attach Partnership agreement)

☐ Corporation

Charter number (as recorded with the Texas Secretary of State):

☒ Non-profit, member-owned, member controlled Cooperative Corporation [Article 1434(a) Water Supply or Sewer Service Corporation, incorporated under TWC Chapter 67]

Charter number (as recorded with the Texas Secretary of State): 219650

☒ Articles of Incorporation and By-Laws established (attach)

☐ Municipally-owned utility

☐ District (MUD, SUD, WCID, FWSD, etc.)

☐ County

☐ Affected County (a county to which Subchapter B, Chapter 232, Local Government Code, applies)

☐ Other (please explain): _____

8. If the transferee operates under any d/b/a, provide the name below:

Name: _____

9. If the transferee's legal status is anything other than an individual, provide the following information regarding the officers, members, or partners of the legal entity applying for the transfer:

Name: Glenn Cotten
Position: President Ownership % (if applicable): 0.00%
Address: 7109 FM 1248 S. Rusk, Tx 75785
Phone: 903-393-8357 Email: _____

Name: Ben Middlebrooks
Position: Vice President Ownership % (if applicable): 0.00%
Address: 315 S. Main Rusk, Tx 75785
Phone: 713-435-9335 Email: _____

Name: Roy Wilkinson
Position: Secy / Treasurer Ownership % (if applicable): 0.00%
Address: 423 CR 220L Rusk, Tx 75785
Phone: 903-721-1372 Email: _____

Name: George Corington
Position: Asst Secy / Treasurer Ownership % (if applicable): 0.00%
Address: 301 CR 11619 Rusk, Tx 75785
Phone: 903-520-5840 Email: _____

10. **Financial Information**

The transferee Applicant must provide accounting information typically included within a balance sheet, income statement, and statement of cash flows. If the Applicant is an existing retail public utility, this must include historical financial information and projected financial information. However, projected financial information is only required if the Applicant proposes new service connections and new investment in plant, or if requested by Staff. If the Applicant is a new market entrant and does not have its own historical balance sheet, income statement, and statement of cash flows information, then the Applicant should establish a five-year projection taking the historical information of the transferor Applicant into consideration when establishing the projections.

Historical Financial Information may be shown by providing any combination of the following that includes necessary information found in a balance sheet, income statement, and statement of cash flows:

1. Completed Appendix A;
2. Documentation that includes all of the information required in Appendix A in a concise format; or
3. Audited financial statements issued within 18 months of the application filing date. This may be provided electronically by providing a uniform resource locator (URL) or a link to a website portal.

Projected Financial Information may be shown by providing any of the following:

1. Completed Appendix B;
2. Documentation that includes all of the information required in Appendix B in a concise format;
3. A detailed budget or capital improvement plan, which indicates sources and uses of funds required, including improvements to the system being transferred; or
4. A recent budget and capital improvements plan that includes information needed for analysis of the operations test (16 Tex. Admin. Code § 24.11(e)(3)) for the system being transferred and any operations combined with the system. This may be provided electronically by providing a uniform resource locator (URL) or a link to a website portal.

Part D: Proposed Transaction Details

11. A. Proposed Purchase Price: \$ 0

If the transferee Applicant is an investor owned utility (IOU) provide answers to B through D.

B. Transferee has a copy of an inventory list of assets to be transferred (*attach*):

☐ No ☒ Yes ☒ N/A

Total Original Cost of Plant in Service: \$ _____

Accumulated Depreciation: \$ _____

Net Book Value: \$ _____

C. Customer contributions in aid of construction (CIAC): Have the customers been billed for any surcharges approved by the Commission or TCEQ to fund any assets currently used and useful in providing utility service? Identify which assets were funded, or are being funded, by surcharges on the list of assets.

☒ No ☐ Yes

Total Customer CIAC: \$ _____

Accumulated Amortization: \$ _____

D. Developer CIAC: Did the transferor receive any developer contributions to pay for the assets proposed to be transferred in this application? If so, identify which assets were funded by developer contributions on the list of assets and provide any applicable developer agreements.

☒ No ☐ Yes

Total developer CIAC: \$ _____

Accumulated Amortization: \$ _____

12. A. Are any improvements or construction required to meet the minimum requirements of the TCEQ or Commission and to ensure continuous and adequate service to the requested area to be transferred plus any area currently certificated to the transferee Applicant? Attach supporting documentation and any necessary TCEQ approvals, if applicable.

☒ No ☐ Yes

B. If yes, describe the source and availability of funds and provide an estimated timeline for the construction of any planned or required improvements:

13. Provide any other information concerning the nature of the transaction you believe should be given consideration:

N/A

14. Complete the following proposed entries (listed below) as shown in the books of the Transferee (purchaser) after the acquisition. Debits (positive numbers) should equal credits (negative numbers) so that all line items added together equal zero. Additional entries may be made; the following are suggested only, and not intended to pose descriptive limitations:

Utility Plant in Service: \$ _____

Accumulated Depreciation of Plant: \$ _____

Cash: \$ _____

Notes Payable: \$ _____

Mortgage Payable: \$ _____

(Proposed) Acquisition Adjustment*: \$ _____

* Acquisition Adjustments will be subject to review under 16 TAC § 24.41(d) and (e)

Other (NARUC account name & No.): _____

Other (NARUC account name & No.): _____

See
Financials

15. A. Explain any proposed billing change (NOTE: If the acquiring entity is an IOU, the IOU may not change the rates charged to the customers through this STM application. Rates can only be changed through the approval of a rate change application.)

IRON HILL CUSTOMERS WILL BE CHARGED THE SAME RATE
AS RUSK RURAL WSC CUSTOMERS

B. If transferee is an IOU, state whether or not the transferee intends to file with the Commission, or an applicable municipal regulatory authority, an application to change rates for some or all of its customers as a result of the transaction within the next twelve months. If so, provide details below:

N/A

Part E: CCN Obtain or Amend Criteria Considerations

16. Describe, in detail, the anticipated impact or changes in the quality of retail public utility service in the requested area as a result of the proposed transaction:

Rusk Rural WSC is Better equipped to handle Iron Hill's system due to Financial Stability, Equipment & Manpower

17. Describe the transferee's experience and qualifications in providing continuous and adequate service. This should include, but is not limited to: other CCN numbers, water and wastewater systems details, and any corresponding compliance history for all operations.

Rusk Rural WSC has 3 PWS numbers within its CCN. Rusk Rural also has 3 "C" water operators on staff. They are Mike Hamilton, Trenton Ball & Hunter Joyner. Iron Hill has to contract all leaks out while Rusk Rural has the equipment & inventory to handle all problems

18. Has the transferee been under an enforcement action by the Commission, TCEQ, Texas Department of Health (TDH), the Office of the Attorney General (OAG), or the Environmental Protection Agency (EPA) in the past five (5) years for non-compliance with rules, orders, or state statutes? Attach copies of any correspondence with the applicable regulatory agency(ies)

☒ No ☐ Yes

19. Explain how the environmental integrity or the land will be impacted or disrupted as a result of the proposed transaction:

None

20. How will the proposed transaction serve the public interest?

Rusk Rural WSC can provide a better service to the customers

21. List all neighboring water or sewer utilities, cities, districts (including ground water conservation districts), counties, or other political subdivisions (including river authorities) providing the same service within two (2) miles from the outer boundary of the requested area affected by the proposed transaction:

City of Rusk, Alto Rural WSC, City of Rockwall

Part F: TCEQ Public Water System or Sewer (Wastewater) Information

Complete Part F for EACH Public Water or Sewer system to be transferred subject to approval of the transaction.
Attach a separate sheet with this information if you need more space for additional systems being transferred.

22. A. For Public Water System (PWS):

TCEQ PWS Identification Number: TX0370022 (7 digit ID)

Name of PWS: IRON HILL WSC

Date of last TCEQ compliance inspection: _____ (attach TCEQ letter)

Subdivisions served: WIND

B. For Sewer service:

TCEQ Water Quality (WQ) Discharge Permit Number: WQ - _____ (8 digit ID)

Name of Wastewater Facility: _____

Name of Permittee: _____

Date of last TCEQ compliance inspection: _____ (attach TCEQ letter)

Subdivisions served: _____

Date of application to transfer permit submitted to TCEQ: _____

23. List the number of existing connections, by meter/connection type, to be affected by the proposed transaction:

Water				Sewer	
	Non-metered		2"		Residential
<u>155</u>	5/8" or 3/4"		3"		Commercial
	1"		4"		Industrial
	1 1/2"		Other		Other
Total Water Connections: <u>155</u>				Total Sewer Connections: _____	

24. A. Are any improvements required to meet TCEQ or Commission standards?

☒ No ☐ Yes

B. Provide details on each required major capital improvement necessary to correct deficiencies to meet the TCEQ or Commission standards (attach any engineering reports or TCEQ approval letters):

Description of the Capital Improvement:	Estimated Completion Date:	Estimated Cost:

C. Is there a moratorium on new connections?

☒ No ☐ Yes:

25. Does the system being transferred operate within the corporate boundaries of a municipality?

☐ No ☒ Yes: CITY OF RUSK (name of municipality)

If yes, indicate the number of customers within the municipal boundary.

Water: 3 Sewer: _____

26. A. Does the system being transferred purchase water or sewer treatment capacity from another source?

☐ No ☒ Yes: If yes, attach a copy of purchase agreement or contract.

Capacity is purchased from: CITY OF RUSK

Water: 100%

Sewer: _____

B. Is the PWS required to purchase water to meet capacity requirements or drinking water standards?

☐ No ☒ Yes

C. What is the amount of water supply or sewer treatment purchased, per the agreement or contract? What is the percent of overall demand supplied by purchased water or sewer treatment (if any)?

	Amount in Gallons	Percent of demand
Water:	30,000 gnl/day	0.00% 100%
Sewer:		0.00%

D. Will the purchase agreement or contract be transferred to the Transferee?

☐ No ☒ Yes:

27. Does the PWS or sewer treatment plant have adequate capacity to meet the current and projected demands in the requested area?

☐ No ☒ Yes:

28. List the name, class, and TCEQ license number of the operator that will be responsible for the operations of the water or sewer utility service:

Name (as it appears on license)	Class	License No.	Water or Sewer
Michael S Hamilton	C	WG0011758	WATER
Tranton D Ball	C	WG0017436	WATER
Hunter B Soyner	C	WG0017438	WATER

Part G: Mapping & Affidavits

ALL applications require mapping information to be filed in conjunction with the STM application.
Read question 29 A and B to determine what information is required for your application.

29. A. For applications requesting to transfer an entire CCN, without a CCN boundary adjustment, provide the following mapping information with each of the seven (7) copies of the application:

1. A general location (small scale) map identifying the requested area in reference to the nearest county boundary, city, or town. The following guidance should be adhered to:

- If the application requests to transfer certificated service areas for both water and sewer, separate maps must be provided for each.
- A hand drawn map, graphic, or diagram of the requested area is not considered an acceptable mapping document.

- iii. To maintain the integrity of the scale and quality of the map, copies must be exact duplicates of the original map. Therefore, copies of maps cannot be reduced or enlarged from the original map, or in black and white if the original map is in color.

- 2. A detailed (large scale) map identifying the requested area in reference to verifiable man-made and natural landmarks such as roads, rivers, and railroads. The Applicant should adhere to the following guidance:
 - i. The map must be clearly labeled and the outer boundary of the requested area should be marked in reference to the verifiable man-made or natural landmarks. These verifiable man-made or natural landmarks must be labeled and marked on the map as well.
 - ii. If the application requests an amendment for both water and sewer certificated service area, separate maps need to be provided for each.
 - iii. To maintain the integrity of the scale and quality of the map, copies must be exact duplicates of the original map. Therefore, copies of maps cannot be reduced or enlarged from the original map, or in black and white if the original map is in color.
 - iv. The outer boundary of the requested area should not be covered by any labels, roads, city limits or extraterritorial jurisdiction (ETJ) boundaries.

- B. For applications that are requesting to include area not currently within a CCN, or for applications that require a CCN amendment (any change in a CCN boundary), such as the transfer of only a portion of a certificated service area, provide the following mapping information with each of the seven (7) copies of the application:
 - 1. A general location (small scale) map identifying the requested area with enough detail to locate the requested area in reference to the nearest county boundary, city, or town. Please refer to the mapping guidance in part A 1 (above).
 - 2. A detailed (large scale) map identifying the requested area with enough detail to accurately locate the requested area in reference to verifiable man-made or natural landmarks such as roads, rivers, or railroads. Please refer to the mapping guidance in part A 2 (above).
 - 3. One of the following identifying the requested area:
 - i. A metes and bounds survey sealed or embossed by either a licensed state land surveyor or a registered professional land surveyor. Please refer to the mapping guidance in part A 2 (above);
 - ii. A recorded plat. If the plat does not provide sufficient detail, Staff may request additional mapping information. Please refer to the mapping guidance in part A 2 (above); or
 - iii. Digital mapping data in a shapefile (SHP) format georeferenced in either NAD 83 Texas State Plane Coordinate System (US Feet) or in NAD 83 Texas Statewide Mapping System (Meters). The digital mapping data shall include a single, continuous polygon record. The following guidance should be adhered to:
 - a. The digital mapping data must correspond to the same requested area as shown on the general location and detailed maps. The requested area must be clearly labeled as either the water or sewer requested area.
 - b. A shapefile should include six files (.dbf, .shp, .shx, .sbx, .sbn, and the projection (.prj) file).
 - c. The digital mapping data shall be filed on a data disk (CD or USB drive), clearly labeled, and filed with Central Records. Seven (7) copies of the digital mapping data is also required.

Part H: Notice Information

The following information will be used to generate the proposed notice for the application.
DO NOT provide notice of the application until it is found sufficient and the Applicants are ordered to provide notice.

30. Complete the following using verifiable man-made or natural landmarks such as roads, rivers, or railroads to describe the requested area (to be stated in the notice documents). Measurements should be approximated from the outermost boundary of the requested area:

The total acreage of the requested area is approximately: 2080 ACRES - 3.25 Sq. Miles

Number of customer connections in the requested area: 155

Affected subdivision :

The closest city or town: CITY OF RUSK

Approximate mileage to closest city or town center: 2 miles

Direction to closest city or town: West

The requested area is generally bounded on the North by: CR 1301

on the East by: US 84 + CR 2962

on the South by: CR 1201

on the West by: US 84 + CR 1201

31. A copy of the proposed map will be available at: See attached Files

32. What effect will the proposed transaction have on an average bill to be charged to the affected customers? Take into consideration the average consumption of the requested area, as well as any other factors that would increase or decrease a customer's monthly bill.

- ☐ All of the customers will be charged the same rates they were charged before the transaction.
☒ All of the customers will be charged different rates than they were charged before the transaction.

☒ higher monthly bill ☒ lower monthly bill

- ☐ Some customers will be charged different rates than they were charged before
 (i.e. inside city limit customers)

☐ higher monthly bill ☐ lower monthly bill

→ IRON HILL WSC CHARGES ON A TIER RATE WHERE AS
 RUSK RURAL WSC CHARGES A FLAT RATE SO SOME CUSTOMERS
 WILL SEE A SLIGHT INCREASE AND SOME WILL SEE A
 SLIGHT DECREASE

IRON HILL RATES ARE
 \$5.95/1000 UP TO 10,000
 6.95 10,000 TO 20,000
 7.45 20,000 + UP
 \$25.00 MINIMUM

RUSK RURAL WSC RATES ARE
 \$6.00 PER 1000 GALLONS
 \$20.10 MINIMUM

Oath for Transferee (Acquiring Entity)

STATE OF Texas

COUNTY OF Cherokee

I, Michael S Hamilton being duly sworn, file this application for sale, transfer, merger, consolidation, acquisition, lease, or rental, as Rusk Rural WSC General Manager
(owner, member of partnership, title as officer of corporation, or authorized representative)

I attest that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to Applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

I further state that I have been provided with a copy of the 16 TAC § 24.239 Commission rules. I am also authorized to agree and do agree to be bound by and comply with any outstanding enforcement orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas or the Attorney General which have been issued to the system or facilities being acquired and recognize that I will be subject to administrative penalties or other enforcement actions if I do not comply.



AFFIANT

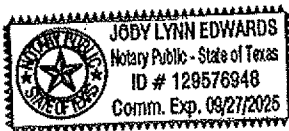
(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN BEFORE ME, a Notary Public in and for the State of Texas

this day the 27 of October, 2021

SEAL




NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS

Jody Lynn Edwards
PRINT OR TYPE NAME OF NOTARY

My commission expires: 9/27/2025

Oath for Transferor (Transferring Entity)

STATE OF Texas

COUNTY OF Cherokee

I, Jerry Knott being duly sworn, file this application for sale,
merger, consolidation, acquisition, lease, or transfer,
rental, as Iron Hill Water Supply
(owner, member of partnership, title as officer of corporation, or authorized representative)

I attest that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to Applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

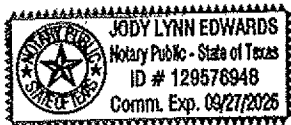
I further state that I have been provided with a copy of the 16 TAC § 24.239 Commission rules. I am also authorized to agree and do agree to be bound by and comply with any outstanding enforcement orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas or the Attorney General which have been issued to the system or facilities being acquired and recognize that I will be subject to administrative penalties or other enforcement actions if I do not comply.

[Signature]
AFFIANT
(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN BEFORE ME, a Notary Public in and for the State of Texas
this day the 21 of October, 2021

SEAL



Jody Lynn Edwards
NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS
Jody Lynn Edwards
PRINT OR TYPE NAME OF NOTARY

My commission expires: 9/27/2025

Appendix A: Historical Financial Information (Balance Sheet and Income Schedule)

(Audited financial statements may be substituted for this schedule – see Item 17 of the instructions)

HISTORICAL BALANCE SHEETS (ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
CURRENT ASSETS						
Cash						
Accounts Receivable						
Inventories						
Other						
A. Total Current Assets						
FIXED ASSETS						
Land						
Collection/Distribution System						
Buildings						
Equipment						
Other						
Less: Accum. Depreciation or Reserves						
B. Total Fixed Assets						
C. TOTAL Assets (A + B)						
CURRENT LIABILITIES						
Accounts Payable						
Notes Payable, Current						
Accrued Expenses						
Other						
D. Total Current Liabilities						
LONG TERM LIABILITIES						
Notes Payable, Long-term						
Other						
E. Total Long Term Liabilities						
F. TOTAL LIABILITIES (D + E)						
OWNER'S EQUITY						
Paid in Capital						
Retained Equity						
Other						
Current Period Profit or Loss						
G. TOTAL OWNER'S EQUITY						
TOTAL LIABILITIES+EQUITY (F + G) = C						
WORKING CAPITAL (A – D)						
CURRENT RATIO (A / D)						
DEBT TO EQUITY RATIO (E / G)						

DO NOT INCLUDE ATTACHMENTS A OR B IN FILED APPLICATION IF LEFT BLANK

HISTORICAL NET INCOME INFORMATION

(ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
METER NUMBER						
Existing Number of Taps						
New Taps Per Year						
Total Meters at Year End						
METER REVENUE						
Revenue per Meter (use for projections)						
Expense per Meter (use for projections)						
Operating Revenue Per Meter						
GROSS WATER REVENUE						
Revenues- Base Rate & Gallonage Fees						
Other (Tap, reconnect, transfer fees, etc)						
Gross Income						
EXPENSES						
General & Administrative (see schedule)						
Operating (see schedule)						
Interest						
Other (list)						
NET INCOME						

HISTORICAL EXPENSE INFORMATION (ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
GENERAL/ADMINISTRATIVE EXPENSES						
Salaries & Benefits—Office/Management						
Office (services, rentals, supplies, electricity)						
Contract Labor						
Transportation						
Insurance						
Telephone						
Utilities						
Property Taxes						
Professional Services/Fees (recurring)						
Regulatory- other						
Other (describe)						
Interest						
Other						
Total General Admin. Expenses (G&A)						
% Increase Per Year	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
OPERATIONS & MAINTENANCE EXPENSES						
Salaries & Benefits (Employee, Management)						
Materials & Supplies						
Utilities Expense-office						
Contract Labor						
Transportation Expense						
Depreciation Expense						
Other(describe)						
Total Operational Expenses (O&M)						
Total Expense (Total G&A + O&M)						
Historical % Increase Per Year	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
ASSUMPTIONS						
Interest Rate/Terms						
Depreciation Schedule (attach)						
Other assumptions/information (List all)						

Appendix B: Projected Information

HISTORICAL BALANCE SHEETS (ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
CURRENT ASSETS						
Cash						
Accounts Receivable						
Inventories						
Income Tax Receivable						
Other						
A. Total Current Assets						
FIXED ASSETS						
Land						
Collection/Distribution System						
Buildings						
Equipment						
Other						
Less: Accum. Depreciation or Reserves						
B. Total Fixed Assets						
C. TOTAL Assets (A + B)						
CURRENT LIABILITIES						
Accounts Payable						
Notes Payable, Current						
Accrued Expenses						
Other						
D. Total Current Liabilities						
LONG TERM LIABILITIES						
Notes Payable, Long-term						
Other						
E. Total Long Term Liabilities						
F. TOTAL LIABILITIES (D + E)						
OWNER'S EQUITY						
Paid in Capital						
Retained Equity						
Other						
Current Period Profit or Loss						
G. TOTAL OWNER'S EQUITY						
TOTAL LIABILITIES+EQUITY (F + G) = C						
WORKING CAPITAL (A - D)						
CURRENT RATIO (A / D)						
DEBT TO EQUITY RATIO (F / G)						

PROJECTED NET INCOME INFORMATION

(ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
METER NUMBER						
Existing Number of Taps						
New Taps Per Year						
Total Meters at Year End						
METER REVENUE						
Revenue per Meter (use for projections)						
Expense per Meter (use for projections)						
Operating Revenue Per Meter						
GROSS WATER REVENUE						
Revenues- Base Rate & Gallonage Fees						
Other (Tap, reconnect, transfer fees, etc)						
Gross Income						
EXPENSES						
General & Administrative (see schedule)						
Operating (see schedule)						
Interest						
Other (list)						
NET INCOME						

PROJECTED EXPENSE DETAIL	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
GENERAL/ADMINISTRATIVE EXPENSES						
Salaries						
Office						
Computer						
Auto						
Insurance						
Telephone						
Utilities						
Depreciation						
Property Taxes						
Professional Fees						
Interest						
Other						
Total						
% Increase Per projected Year	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
OPERATIONAL EXPENSES						
Salaries						
Auto						
Utilities						
Depreciation						
Repair & Maintenance						
Supplies						
Interest						
Other						
Total						

PROJECTED SOURCES AND USES OF CASH STATEMENTS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
SOURCES OF CASH						
Net Income						
Depreciation (If funded by revenues of system)						
Loan Proceeds						
Other						
Total Sources						
USES OF CASH						
Net Loss						
Principle Portion of Pmts.						
Fixed Asset Purchase						
Reserve						
Other						
Total Uses						
NET CASH FLOW						
DEBT SERVICE COVERAGE						
Cash Available for Debt Service (CADS)						
A: Net Income (Loss)						
B: Depreciation, or Reserve Interest						
C: Total CADS (A + B = C)						
D: DEBT SERVICE (DS)						
Principle Plus Interest						
E: DEBT SERVICE COVERAGE RATIO						
CADS Divided by DS (E = C / D)						

NON-PROFIT



OFFICE OF THE SECRETARY OF STATE

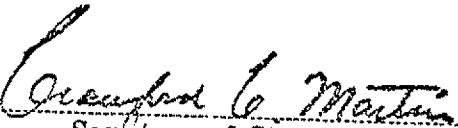
CERTIFICATE OF INCORPORATION
OF

RUSK RURAL WATER SUPPLY CORPORATION
Charter No. 219650

The undersigned, as Secretary of State of the State of Texas, hereby certifies that duplicate originals of Articles of Incorporation for the above corporation duly signed and verified pursuant to the provisions of the Texas Non-Profit Corporation under Article 1434a of the R. C. S. of Texas, Act/have been received in this office and are found to conform to law.

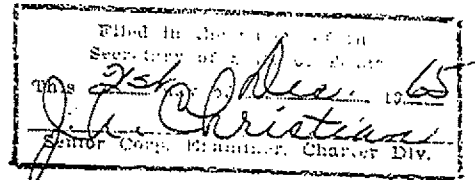
ACCORDINGLY the undersigned, as such Secretary of State, and by virtue of the authority vested in him by law, hereby issues this Certificate of Incorporation and attaches hereto a duplicate original of the Articles of Incorporation.

Dated December 21st, 1965.


Secretary of State



ARTICLES OF INCORPORATION
OF



RUSK RURAL WATER SUPPLY CORPORATION

THE STATE OF TEXAS

COUNTY OF CHEROKEE

KNOW ALL MEN BY THESE PRESENTS

We, the undersigned natural persons of the age of twenty-one (21) years or more, at least three of whom are citizens of the State of Texas, acting as incorporators of a Corporation, do hereby adopt the following Articles of Incorporation for such Corporation:

ARTICLE I.

The name of the Corporation is Rusk Rural Water Supply Corporation.

ARTICLE II.

The Corporation is a non-profit Corporation organized under Article 1434a of the Revised Civil Statutes of Texas of 1925, as amended, supplemented by the Texas Non-Profit Corporation Act, Article 1.01 et seq., as amended, and is authorized to exercise all powers, privileges and rights conferred on a Corporation by these Acts, and all powers and rights incidental in carrying out the purposes for which the Corporation is formed, except such as are inconsistent with the express provisions of these Acts.

ARTICLE III.

The period of its duration is perpetual.

ARTICLE IV.

The Corporation is formed for the purpose of furnishing a water supply for general farm use and domestic purposes to individuals residing in the rural communities adjacent to the City of Rusk, Texas and the surrounding rural areas. The places where the business of the Corporation is to be transacted shall be the rural communities adjacent to the City of Rusk in Cherokee County, Texas and the surrounding rural areas.

ARTICLE V.

The address of the initial registered office of the Corporation is Rural Route 1, Rusk, Texas and the name of its initial registered agent at such address is Winston C. Power.

ARTICLE VI.

The number of directors constituting the initial Board of Directors of the Corporation is five (5), and the names and addresses of the persons who are to serve as the initial directors are:

Winston C. Power	Route 1, Rusk, Texas
Margaret Ross	Route 1, Rusk, Texas
H. F. Holcomb	Route 1, Rusk, Texas
J. L. Hassell	Route 1, Rusk, Texas
Thomas Wallace	Route 4, Rusk, Texas

ARTICLE VII.

The name and address of each incorporator is:

Winston C. Power	Route 1, Rusk, Texas
Margaret Ross	Route 1, Rusk, Texas
H. F. Holcomb	Route 1, Rusk, Texas
J. L. Hassell	Route 1, Rusk, Texas
Thomas Wallace	Route 1, Rusk, Texas

Each incorporator shall be a member of the Board of Directors who are to serve as directors until the first annual meeting of the members, or until their successors are elected and qualified.

ARTICLE VIII.

The Corporation is and shall continue to be a Corporation without capital stock, and membership in the Corporation shall be deemed personal estate and shall be transferable only on the books of the Corporation in such manner as the By-Laws may prescribe.

IN WITNESS WHEREOF, we have hereunto set our hands, this the 14th day of December, 1965.

Winston C. Power
Winston C. Power

Margaret Ross
Margaret Ross

H. F. Holcomb
H. F. Holcomb

J. L. Hassell
J. L. Hassell

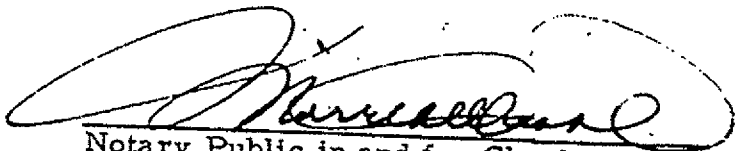
Thomas Wallace
Thomas Wallace

THE STATE OF TEXAS

COUNTY OF CHEROKEE

I, Morris W. Hassell, a Notary Public, do hereby certify that on this 15th day of December, 1965, personally appeared before me, Winston C. Power, Margaret Ross, H. F. Holcomb, J. L. Hassell and Thomas Wallace, who each being by me first duly sworn, severally declared that they are the persons who signed the foregoing document as incorporators, and that the statements therein contained are true.

IN WITNESS WHEREOF, I have hereunto set my hand and seal the day and year above written.


Notary Public in and for Cherokee
County, Texas.

My commission expires June 1, 19 67.

BYLAWS
of
RUSK RURAL WATER SUPPLY CORPORATION

Bylaws of Rusk Rural Water Supply Corporation, having been presented to the Board of Directors of said Corporation and duly adopted as follows:

ARTICLE I

The President shall preside and vote at all Members' and Directors' meetings. The President shall perform all other duties that usually pertain to the office or are delegated by the Board of Directors.

ARTICLE II

The Vice-President shall, in case of the absence or disability of the President, perform the duties of the President.

ARTICLE III

The Secretary-Treasurer shall have custody of all monies, records and securities of the Corporation. The Secretary-Treasurer shall keep minutes of all meetings of the Corporation. All monies of the Corporation shall be deposited by the Secretary-Treasurer in such depository as shall be selected by the Directors. Checks must be signed by the Secretary-Treasurer or assistant or deputy secretary, and the President or a designee of that office. The Secretary-Treasurer shall have custody of the seal of the Corporation and affix it as directed by resolution passed by the Board of Directors or Members. The Board of Directors may appoint an employee as assistant or deputy secretary to assist the Secretary-Treasurer in all official duties pertaining to that office.

The position of the Secretary-Treasurer, and other Board positions and/or employees entrusted with receipt and disbursement of funds, shall be placed under a fidelity bond in an amount which shall be set from time to time, but not less than once each year, by the Board of Directors. The fidelity bond coverage amount shall approximate the total annual debt service requirements for all USDA Rural Development, Rural Utilities Service (RUS) loans and be evidenced by a position fidelity schedule bond as acceptable to USDA Rural Development, RUS, or its successor agencies and assigns.

ARTICLE IV

Section 1. A person must be a member of the Corporation and at least 18 years old in order to serve as a Director. A person is not qualified to serve as a director if the person has been determined by a final judgment of a court exercising probate jurisdiction to be totally mentally incapacitated; or partially mentally incapacitated without the right to vote; or has been finally convicted of a felony from which the person has not been pardoned or otherwise released from the resulting disabilities.

Section 2. The Board of Directors shall consist of 9 Directors, a majority of whom shall constitute a quorum. Upon issuance of the Charter and annually thereafter on the second Tuesday, the Board of Directors shall elect a President, a Vice-President and a Secretary-Treasurer from among the Directors. The Directors shall be elected by the Members at the Members' meetings provided for in Article VI of the Bylaws. The Directors shall be divided into three (3) classes, each class to be as near as equal in number as possible. The terms of the Directors of the first class shall expire at the first annual meeting of the Members after their election; the terms of the Directors of the second class shall expire at the second annual meeting after their election; and terms of the Directors of the third class shall expire at the third annual meeting after their election. At each annual meeting after such classification, the number of Directors equal to the number of the class whose term expires at the time of such meeting shall be elected to hold office until the third succeeding annual meeting. Directors, as such, shall not receive any stated salary for their services, except as provided for by state law.

Not later than the 60th day after a Director dies, resigns or is determined by the Board to not meet one of the qualifications set forth in Section 1, a successor who meets those qualifications shall be appointed by a majority of the remaining Directors to serve until the next regular or special Membership meeting, at which time the general Membership shall elect a successor for the remaining balance of the previously vacated term.

Section 3. Directors may be removed from office in the following manner, except as otherwise provided in Article V. Any Member or Director may present charges against a Director by filing such charges in writing with the Secretary-Treasurer of the Corporation. The charges must be accompanied by a petition signed by at least ten (10) percent of the Members of the Corporation. Such removal shall be voted on at the next regular or special meeting of the Membership and shall be effective if approved by a vote of 2/3 majority of those voting if a quorum is present. The Director(s) against whom such charges have been presented shall be informed in writing of such charges at least twenty (20) days prior to the meeting, and shall have the opportunity at such meeting to be heard in person or by counsel and to present witnesses; and the person or persons presenting such charges shall have the same opportunity. If the removal of a Director(s) is approved, such action shall also vacate any other office(s) held by the removed Director(s) in the Corporation. A vacancy in the Board thus created shall immediately be filled by a qualified person other than the removed Director upon a vote of a majority of the Members present and voting at such meeting, in accordance with the written annual or special meetings procedures as adopted by the Board. A vacancy in any office thus created shall be filled by the Board of Directors from among their number so constituted after the vacancy in the Board has been filled.

Section 4. The President of the Board, or Vice-President, shall preside at any meeting of the Members convened to consider removal of a Director as provided under Section 2, unless the President is the subject of charges, in which event the Vice-President shall preside. In the event both the President and the Vice-President are the subject of charges, those Directors who are not the subject of any charges shall appoint one of the other Directors to preside over the meeting. Any meeting convened to consider the removal of a Director shall be conducted in accordance with the procedures prescribed by the Board. The fact that the President, Vice-President, or

other Officer or Director has been made the subject of charges does not prevent such individual from continuing to act as Officer and/or Director. Any Director that has been removed under the provisions of this Article shall not be precluded from subsequent election to a position on the Board of Directors.

Section 5. The Board of Directors shall adopt and maintain a conflict of interest policy designed to promote the business of the Corporation and serve the interests of the Membership. Such policy, at a minimum, shall be in conformance with the provisions of the Texas Business Organizations Code pertaining to duties and responsibilities of the Board of Directors.

ARTICLE V

Section 1. Meetings of the Board of Directors shall be held at such time and place as the Board may determine at the previous meeting, and shall include posting of the meeting as required by the Texas Open Meetings Act. The Board of Directors shall ensure that all meetings comply with the requirements of the Open Meetings Act, Chapter 551, Texas Government Code, including any subsequent amendment thereto. In the event of any conflict between the provisions of these Bylaws and the requirements of the Open Meetings Act, the provisions of the Open Meetings Act shall prevail.

Section 2. Any Director failing to attend two (2) consecutive meetings may be given written notice by the balance of the Board of Directors that failure by said Director to attend a third consecutive meeting, without justifiable cause acceptable to the balance of the Board of Directors, shall give rise to removal of said Director from the Board. A successor shall be appointed by a majority vote of the Directors remaining to serve until the next regular or special Membership meeting, at which time the general Membership shall elect a successor for the balance of the term.

Section 3. The Board of Directors shall provide access for the public, new service applicants, or Members to the meetings of the Board of Directors by setting aside a time for hearing of suggestions, proposals, or grievances; however, there shall be no deliberations or

actions by the Board unless such has first been noticed in accordance with the Texas Open Meetings Act. The Board of Directors shall establish reasonable rules for access to such meetings.

Section 4. The Board of Directors may, upon lawful notice to the public, meet in executive session when permitted, in the manner and for such limited purposes as provided for in the Texas Open Meetings Act, as amended, and for no other reason. All proceedings of any meeting at which a quorum of Directors is present to discuss the business of the Corporation shall be recorded in the manner required by the Texas Open Meetings Act.

Section 5. In conducting their duties as members of the Board, Directors: (1) shall be entitled to rely, in good faith and with ordinary care, on information, opinions, reports, or statements, including financial statements and other financial data, concerning the Corporation or the Corporation's affairs that have been prepared or presented by one or more officers or employees of the Corporation, or by legal counsel, public accountants, or other persons retained by the Corporation for the development of professional advice and information falling within such person's professional or expert competence; (2) may believe, in good faith and with ordinary care, that the assets of the Corporation are at least that of their book value; and (3) in determining whether the Corporation has made adequate provision for the discharge of its liabilities and obligations, may rely in good faith and with ordinary care, on the financial statements of, or other information concerning, any person or entity obligated to pay, satisfy or discharge some or all of the Corporation's liabilities or obligations; and may rely in good faith on information, opinions, reports, or statements, including financial statements and other financial data, prepared or presented by one or more Officers or employees of the Corporation, legal counsel, public accountants, or other persons provided the Directors reasonably believes such matters to fall within such person's professional or expert competence. Nevertheless, Directors must disclose any knowledge they may have concerning a matter in question that makes reliance otherwise provided herein to be unwarranted.

ARTICLE VI

Section 1. There shall be a regular meeting of the Members annually, on the 1st Tuesday of March, to transact all business that may be properly brought before it.

Section 2. The Board of Directors shall adopt, and from time to time may revise, written procedures for conducting annual or special Membership meetings, including notification to the Membership of the proposed agenda, location, and date of the meeting; election procedures; approval of the ballot form to be used; and validation of eligible voters, ballots, and election results. At least thirty (30) days before the date of a Membership meeting that includes an election, the Corporation shall mail to each member of record at the address last known to the Corporation written notice of such meeting indicating the time, place, and purpose of such meeting; the election ballot; and for director elections, a statement of each candidate's qualifications, including biographical information as provided in each candidate's application. The election ballot for director elections must include the number of directors to be elected and the names of the candidates.

Failure to hold or call an annual or special meeting in accordance with these Bylaws shall give each Member rights to compel the Board of Directors to properly hold an annual or special meeting of the Membership.

Section 3. The Board shall select an independent election auditor not later than thirty (30) days before the scheduled date of a Membership meeting where an election will be held. The independent election auditor is not required to be an experienced election judge or auditor and may serve as an unpaid volunteer. At the time of selection and while serving in the capacity of an independent election auditor, the independent election auditor may not be associated with the Corporation as an employee; a director or candidate for director; or an independent contractor engaged by the Corporation as part of the Corporation's regular course of business. The independent election auditor shall receive and count the ballots before the meeting is adjourned. The independent election auditor shall provide the board with a written report of the election results.

Section 4. For any election, a member may vote in person at the Membership meeting; by mailing a completed ballot to the office of the independent election auditor or to the Corporation's main office which must be received by noon on the business day before the date of the meeting; or by delivering a completed ballot to the office of the independent election auditor or to the Corporation's main office by noon on the business day before the date of the meeting.

A quorum for the transaction of business at a meeting of the Membership is a majority of the members present. In determining whether a quorum is present, all members who mailed or delivered ballots to the independent election auditor or the Corporation on a matter submitted to a vote at the meeting are counted as present.

Section 5. The Board of Directors shall establish a standing Credentials Committee of three (3) Members, of which the Secretary-Treasurer shall be the chairperson. This committee shall at no time have sufficient board members appointed to constitute a quorum of the Board of Directors. This committee, in accordance with procedures adopted by the Board under Section 2, shall recommend for Board approval the election procedures and all related forms and notices, recommend for Board approval a person to fill the role of independent election auditor, ensure that the election procedures are implemented, and serve other functions designated in the Corporation's election procedures. Should the individual holding the office of Secretary-Treasurer be running for re-election, the Board shall appoint an officer not currently running for re-election to serve as chairperson of this committee.

Section 6. 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 Texas Business Organizations Code Section 22.156, 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 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 67.014 (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 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 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.

(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 and/or sewer service unless each condition for water and/or sewer service is met as provided in the Corporation's published rates, charges, and conditions of service. Water and/or sewer 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.

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.

ARTICLE XVI

The fiscal year of the Corporation shall be January 1 to December 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.

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 fund 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 Open Record 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 voting 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 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, 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.

ARTICLE XXI

The seal of the Corporation shall consist of a circle within which shall be inscribed "RUSK RURAL 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

If newly formed Corporation:

The above Bylaws were adopted by a majority vote of the initial Board of Directors of the _____ Water Supply Corporation, at a meeting held on the _____ day of _____, 20____.

If an existing Corporation:

The above Bylaws were adopted as amended by the Members of the _____ Water Supply Corporation, at a meeting held on the _____ day of _____, 20____.

President

Attest:

Secretary-Treasurer

RUSK RURAL
WATER SUPPLY CORPORATION
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

MURREY PASCHALL & CAPERTON, P.C.
Certified Public Accountants

RUSK RURAL WATER SUPPLY CORPORATION
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M **Murrey Paschall & Caperton PC**
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Rusk Rural Water Supply Corporation
Rusk, Texas

We have audited the accompanying financial statements of Rusk Rural Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016 and 2015, the related statement of activities and changes in membership equity and the statement of cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our 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 evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rusk Rural Water Supply Corporation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Murrey Paschall & Caperton, PC

Murrey, Paschall & Caperton, P.C.
Forney, Texas
March 28, 2017

RUSK RURAL WATER SUPPLY CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS		<u>2016</u>	<u>2015</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$	205,311	\$ 130,898
Investments (NOTE 2)		556,035	551,958
Accounts receivable (net)		50,079	44,217
Inventory		<u>16,905</u>	<u>29,749</u>
Total Current Assets		<u>828,330</u>	<u>756,822</u>
FIXED ASSETS: (NOTE 3)			
Plant, property and equipment		3,541,012	3,519,382
Less accumulated depreciation		<u>(2,185,103)</u>	<u>(2,101,811)</u>
Total Fixed Assets		<u>1,355,909</u>	<u>1,417,571</u>
TOTAL ASSETS:	\$	<u>2,184,239</u>	<u>\$ 2,174,393</u>
LIABILITIES AND MEMBERSHIP EQUITY			
CURRENT LIABILITIES:			
Accrued Expenses	\$	4,703	\$ 5,072
Current Portion - USDA Note		13,570	12,877
Note Payable - Austin Bank		<u>-</u>	<u>100,000</u>
Total Current Liabilities		<u>18,273</u>	<u>117,949</u>
LONG-TERM LIABILITIES: (NOTE 4)			
Notes Payable - USDA		<u>367,251</u>	<u>380,823</u>
Total Long-Term Liabilities		<u>367,251</u>	<u>380,823</u>
MEMBERSHIP EQUITY			
Temporarily Restricted			
Customer Deposits		151,665	152,692
Unrestricted			
Retained earnings		<u>1,647,050</u>	<u>1,522,929</u>
Total Membership Equity		<u>1,798,715</u>	<u>1,675,621</u>
TOTAL LIABILITIES AND MEMBERSHIP EQUITY	\$	<u>2,184,239</u>	<u>\$ 2,174,393</u>

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

RUSK RURAL WATER SUPPLY CORPORATION
STATEMENT OF ACTIVITIES AND CHANGES IN MEMBERSHIP EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
REVENUES:		
Water Sales	\$ 663,110	\$ 570,262
Penalties, Reconnects, and Installations	14,901	28,920
Miscellaneous Income	<u>4,116</u>	<u>5,118</u>
Total Revenue	<u>682,127</u>	<u>604,300</u>
EXPENSES:		
Program Operations		
Auto & Truck	13,828	16,468
Contract Labor	-	115
Depreciation	83,292	80,061
Dues & Fees	11,414	9,775
Lab Fees	4,165	4,974
Repairs & Maintenance	8,071	24,127
Payroll	177,298	151,482
Supplies	62,120	65,633
Utilities	45,960	51,073
Office Administration		
Payroll & Benefits	65,253	50,674
Insurance	21,461	22,150
Legal & Professional	8,915	9,529
Supplies & Other	8,698	13,020
EMS	5,105	5,220
Miscellaneous	<u>27,787</u>	<u>23,724</u>
Total Expenses	<u>543,367</u>	<u>528,025</u>
OTHER INCOME / (EXPENSE)		
Interest & Dividends	7,343	7,171
Interest (Expense)	(21,982)	(21,432)
Gain / (Loss) Sale of Asset	<u>-</u>	<u>2,000</u>
Total Other	<u>(14,639)</u>	<u>(12,261)</u>
Increase in Membership Equity	124,121	64,014
Total Membership Equity Beginning	1,675,621	1,613,605
Net New Customer Deposits	<u>(1,027)</u>	<u>(1,998)</u>
Total Membership Equity Ending	<u>\$ 1,798,715</u>	<u>\$ 1,675,621</u>

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

RUSK RURAL WATER SUPPLY CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 124,121	\$ 64,014
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	83,292	80,061
Change in accounts receivable	(5,862)	-
Change in inventory	12,844	-
Change in current liabilities	<u>(369)</u>	<u>1,516</u>
Net cash provided by operating activities	<u>214,026</u>	<u>145,591</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(21,630)	(309,236)
Gain / Loss on Sale of Asset	<u>-</u>	<u>2,000</u>
Net cash provided (used) by investing activities	<u>(21,630)</u>	<u>(307,236)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes	(112,879)	(12,220)
Advances from notes	-	100,000
CD cashed in	-	54,232
(Gain) / Loss on investments	(4,077)	(4,024)
Increase in customer deposits	<u>(1,027)</u>	<u>(1,998)</u>
Net cash provided (used) by financing activities	<u>(117,983)</u>	<u>135,990</u>
INCREASE (DECREASE) IN CASH	74,413	(25,655)
Cash and cash equivalents at beginning of year	<u>130,898</u>	<u>156,553</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 205,311</u>	<u>\$ 130,898</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFO:		
Cash paid during the year for interest:	<u>\$ 21,982</u>	<u>\$ 21,432</u>

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

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Rusk Rural Water Supply Corporation (the “Corporation”) is a non-profit corporation formed for the purpose of furnishing water and related services to its residential and business members in the rural community of Rusk and the surrounding areas. The Texas Commission on Environmental Quality regulates Rusk Rural Water Supply Corporation, as it does all water supply corporations in the State of Texas.

Basis of Accounting

The financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles. The accrual basis of accounting recognizes revenue when it is earned, and expenditures in the accounting period in which the liability incurred, if measurable.

Revenue

Rusk Rural Water Supply Corporation receives a substantial portion of its revenue from its member’s water consumption and related fees associated with providing water delivery services. Additional revenue sources include construction/extension contributions to the distribution system and investment income.

Cash and cash equivalents

For the purpose of the statement of cash flows, Rusk Rural Water Supply Corporation considers all unrestricted cash and all related highly liquid funds with initial maturities of three months or less to be cash equivalents.

Accounts Receivable

The corporation bills for water usage ascertained by meter readings at the end of the month but does not record the amount due in accounts receivable as noted by audit adjustment proposed and booked. The corporation uses the direct write-off method for uncollectible amounts. This is not GAAP but is a reasonable approximation due to the fact that an advance deposit usually larger than the bill is held and that a speedy disconnect of service follows non-payment. As such, a minimal allowance for doubtful accounts \$500 was considered necessary at December 31, 2016 and 2015.

Investments

Rusk Rural Water Supply Corporation’s investments consist of certificates of deposit, with an original maturity in excess of three months. Each of these investments is valued at their fair market value at the financial statement date. Earnings, in the form of interest, are unrestricted. Rusk Rural Water Supply Corporation’s certificate of deposit portfolio does not include any donor restricted certificates.

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

Inventory

Inventories consist primarily of distribution system parts and are recorded at the lower of their cost or market value. These parts are not inventory as defined by generally accepted accounting principles, therefore audit procedures which are normally applied to inventory were performed at a basic level. Additionally, nearly all inventory is purchased on an 'as needed' basis for field repairs leaving the year end value consistent year over year. As of December 31, 2016 and 2015 inventory was \$16,905 and \$29,749, respectively.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, unless contributed, and then the asset is recorded at fair market value at the date of contribution. Depreciation is computed using primarily the straight-line method over estimated useful lives ranging from 5 to 40 years. Depreciation expense for the years ended December 31, 2016 and 2015 was \$83,292 and \$80,061. The Corporation considers the useful life and the cost of the asset in determining whether an asset should be capitalized. Typically, maintenance and repairs are charged to expense as incurred and major additions to property or betterments that would extend the useful life are capitalized.

Impairment of Long-lived Assets

The Corporation reviews potential impairments of long-lived assets when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. An impairment loss is recognized if the sum of the expected, undiscounted future cash flows is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the excess of the net book value of the assets over the estimated fair value. As of December 31, 2016 and 2015, no impairment of long-lived assets is necessary.

Membership Equity

Membership equity consists of membership fees and retained earnings of the Corporation. Membership fees are paid by new members to the Corporation on existing lines. These \$100 deposits are temporarily restricted until the customer leaves the system or forfeits the deposit.

Income Taxes

Rusk Rural Water Supply Corporation is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Therefore, Rusk Rural Water Supply Corporation has not made provision for federal income taxes in the accompanying financial statements. Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2013, 2014 and 2015 are subject to examination by the IRS, generally for three years after they were filed.

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 vary from those estimates.

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

Fair Value of Financial Assets

The Corporation measures and discloses certain financial assets and liabilities at fair value. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

For disclosure purposes, assets and liabilities are classified in their entirety in the fair value hierarchy level based on the lowest level of input that is significant to the overall fair value measurement. The Corporation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

The Corporation uses the active market approach to measure fair value of financial assets or liabilities.

NOTE 2 – FAIR VALUE MEASUREMENTS

The following table summarizes financial assets the Corporation measures at fair value on a recurring basis:

Fair Value Measurements at December 31, 2016 Using				
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Certificates of Deposit	\$556,035	-	-	\$556,035

Fair Value Measurements at December 31, 2015 Using				
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Certificates of Deposit	\$551,958	-	-	\$551,958

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows:

	Balance 12/31/15	Additions	Dispositions	Balance 12/31/16
Land	\$ 138,247	\$ -	\$ -	\$ 138,247
Water System	2,835,921	19,100	-	2,855,021
Autos	126,795	-	-	126,795
Major Repairs	167,506	-	-	167,506
Building	60,138	-	-	60,138
Equipment	190,775	2,530	-	193,305
Accum. Depr.	<u>(2,101,811)</u>	<u>(83,292)</u>	<u>-</u>	<u>(2,185,103)</u>
Total	\$ <u>1,417,571</u>	\$ <u>(61,662)</u>	\$ <u>-</u>	\$ <u>1,355,909</u>

NOTE 4 – LONG-TERM DEBT

Note payable to USDA, original amount of \$550,600 on 8/4/1994 with a 40 year term and fixed interest rate of 5.25%. Monthly installments of \$2,770 and maturity on 8/4/2034.

	\$ 380,821
Less: Current Maturities	<u>(13,570)</u>
Total Long Term Debt	\$ <u>367,251</u>

The approximate maturities of long-term debt for years subsequent to December 31, 2016 are as follows:

December 31, 2017	\$ 13,570
December 31, 2018	14,299
December 31, 2019	15,068
December 31, 2020	15,879
December 31, 2021	16,733
Due after 2021	<u>305,272</u>
Total	\$ <u>380,821</u>

In October of 2015, a \$100,000 loan was borrowed from Austin Bank to purchase a new truck and for the remaining balance owed to A.T.S. Construction for work on the Salem Plant. The note was due and paid in full with 2.8% interest in July 2016.

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 5 – CONCENTRATIONS OF RISK

Rusk Rural Water Supply Corporation maintains an interest bearing operating account. Interest bearing accounts are FDIC insured up to \$250,000. As of December 31, 2016 and 2015, the operating account did not exceed insured limits. At times during the year an account may exceed the insured limit. However, the corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Rusk Rural Water Supply Corporation holds certificate of deposit investments with a federally insured institution. Steps are taken to ensure that each of these certificate of deposit purchases are with institutions covered by FDIC or other similar insuring organization and the total with each institution is at or under insured limits.

Rusk Rural Water Supply Corporation considers all aspects, including but not limited to the anticipated immediate financial need with respect to current projects when considering whether amounts in excess of federally insured limits are reasonable.

NOTE 6 – COMPENSATED ABSENCES

Benefits include, vacation, sick leave and health insurance coverage on a voluntary basis. After the six month probationary period, employees accrue vacation at one half day per month up to three years service and ten days thereafter, may be carried forward to the next year. No more than this amount may be accrued. An employee may request pay in lieu of accrued vacation. Any unused vacation is compensated for at the regular rate upon voluntary separation.

Sick leave is accrued at the rate of six days per year for the first three years and ten days per year thereafter. Unused sick leave may be carried forward to a maximum of thirty days. No compensation for sick leave is made on separation from service.

Due to the discretion of the employee to take or be paid for certain benefits, it is impractical to accrue an amount for the unused benefits and thus the organization doesn't accrue a liability for it. Also the number of eligible employees is so few, that any accrual would be immaterial to the financial statements taken as a whole.

The company also has health insurance available if the employee elects to be covered by it and a 401(k) plan is available. Employee contributions are matched up to 5%. During 2016 total IRA Expense was \$8,879 and was \$4,058 in 2015.

NOTE 7 – SUBSEQUENT EVENTS

Management has evaluated its operations through March 28, 2017, the financial statement issuance date, to determine whether there are any significant subsequent events to merit inclusion in these financial statements.

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 8 – RESERVE FUND

The Corporation is required to comply with certain covenants prescribed by the loan resolutions relating to USDA Rural Development notes payable. Major covenants which the Corporation must comply with are as follows:

Reserve Fund: The Corporation will deposit into the Reserve Fund an amount equal to an annual installment on each loan.

Maintenance Fund: The Corporation will maintain adequate funds to be used for the express purposes of making emergency repairs to existing facilities, for making extensions or improvements to the facilities.

M **Murrey Paschall & Caperton PC**
Certified Public Accountants

March 28, 2017

To the Board of Directors of
Rusk Rural Water Supply Corporation

We have audited the financial statements of Rusk Rural Water Supply Corporation for the year ended December 31, 2016 and 2015, and have issued our report thereon dated March 28, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 6, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Rusk Rural Water Supply Corporation, are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2016. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for depreciation expense is based on the estimated useful lives of each asset. We evaluated the key factors and assumptions used to develop the estimate of depreciating the estimated useful lives of each asset in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of Long Term Debt outstanding in Note 4 to the financial statements is sensitive because it reflects the obligations of the corporation to be paid from current earnings.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

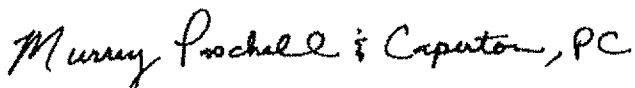
We have requested certain representations from management that are included in the management representation letter dated March 28, 2017.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the board of directors and management of Rusk Rural Water Supply Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Murrey Paschall & Caperton, P.C." The signature is written in a cursive, flowing style.

Murrey Paschall & Caperton, P.C.

RUSK RURAL
WATER SUPPLY CORPORATION
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

MURREY PASCHALL & CAPERTON, P.C.
Certified Public Accountants

RUSK RURAL WATER SUPPLY CORPORATION
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Murrey Paschall & Caperton PC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Rusk Rural Water Supply Corporation
Rusk, Texas

We have audited the accompanying financial statements of Rusk Rural Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017 and 2016, the related statement of activities and changes in membership equity and the statement of cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our 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 evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rusk Rural Water Supply Corporation as of December 31, 2017 and 2016, and the related statement of activities and changes in membership equity and the statement of cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Murrey Paschall & Caperton, P.C.

Murrey, Paschall & Caperton, P.C.
Forney, Texas
March 27, 2018

RUSK RURAL WATER SUPPLY CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS		<u>2017</u>	<u>2016</u>
CURRENT ASSETS:			
Cash and Cash Equivalents		\$ 332,013	\$ 205,311
Investments (NOTE 2)		560,270	556,035
Accounts Receivable (net)		53,200	50,079
Inventory		<u>22,041</u>	<u>16,905</u>
Total Current Assets		<u>967,524</u>	<u>828,330</u>
FIXED ASSETS: (NOTE 3)			
Property, Plant and Equipment		3,578,746	3,541,012
Less Accumulated Depreciation		<u>(2,262,493)</u>	<u>(2,185,103)</u>
Total Fixed Assets		<u>1,316,253</u>	<u>1,355,909</u>
TOTAL ASSETS:		<u>\$ 2,283,777</u>	<u>\$ 2,184,239</u>
LIABILITIES AND MEMBERSHIP EQUITY			
CURRENT LIABILITIES:			
Accrued Expenses		\$ 12,405	\$ 4,703
Current Portion - USDA Note		<u>14,299</u>	<u>13,570</u>
Total Current Liabilities		<u>26,704</u>	<u>18,273</u>
LONG-TERM LIABILITIES: (NOTE 4)			
Notes Payable - USDA		<u>352,971</u>	<u>367,251</u>
Total Long-Term Liabilities		<u>352,971</u>	<u>367,251</u>
MEMBERSHIP EQUITY			
Temporarily Restricted			
Customer Deposits		150,537	151,665
Unrestricted			
Retained earnings		<u>1,753,565</u>	<u>1,647,050</u>
Total Membership Equity		<u>1,904,102</u>	<u>1,798,715</u>
TOTAL LIABILITIES AND			
MEMBERSHIP EQUITY		<u>\$ 2,283,777</u>	<u>\$ 2,184,239</u>

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

RUSK RURAL WATER SUPPLY CORPORATION
STATEMENT OF ACTIVITIES AND CHANGES IN MEMBERSHIP EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
REVENUES:		
Water Sales	\$ 669,557	\$ 663,110
Penalties, Reconnects, and Installations	16,732	14,901
Miscellaneous Income	<u>4,174</u>	<u>4,116</u>
Total Revenue	<u>690,463</u>	<u>682,127</u>
EXPENSES:		
Program Operations		
Auto & Truck	17,465	13,828
Contract Labor	756	-
Depreciation	77,390	83,292
Dues & Fees	11,807	11,414
Lab Fees	4,066	4,165
Repairs & Maintenance	21,927	8,071
Payroll	196,411	177,298
Supplies	51,315	62,120
Utilities	47,804	45,960
Office Administration		
Payroll & Benefits	65,263	65,253
Insurance	19,513	21,461
Legal & Professional	9,385	8,915
Supplies & Other	13,258	8,698
EMS	4,945	5,105
Miscellaneous	<u>30,960</u>	<u>27,787</u>
Total Expenses	<u>572,265</u>	<u>543,367</u>
OTHER INCOME / (EXPENSE)		
Interest & Dividends	8,006	7,343
Interest (Expense)	<u>(19,689)</u>	<u>(21,982)</u>
Total Other	<u>(11,683)</u>	<u>(14,639)</u>
Increase in Membership Equity	106,515	124,121
Total Membership Equity Beginning	1,798,715	1,675,621
Net New Customer Deposits	<u>(1,128)</u>	<u>(1,027)</u>
Total Membership Equity Ending	<u>\$ 1,904,102</u>	<u>\$ 1,798,715</u>

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

RUSK RURAL WATER SUPPLY CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 106,515	\$ 124,121
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	77,390	83,292
(Increase) Decrease in accounts receivable	(3,121)	(5,862)
(Increase) Decrease in inventory	(5,136)	12,844
Increase (Decrease) in current liabilities	<u>7,702</u>	<u>(369)</u>
Net cash provided by operating activities	<u>183,350</u>	<u>214,026</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(37,734)</u>	<u>(21,630)</u>
Net cash provided (used) by investing activities	<u>(37,734)</u>	<u>(21,630)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes	(13,551)	(112,879)
(Gain) / Loss on investments	(4,235)	(4,077)
Increase (Decrease) in customer deposits	<u>(1,128)</u>	<u>(1,027)</u>
Net cash provided (used) by financing activities	<u>(18,914)</u>	<u>(117,983)</u>
INCREASE (DECREASE) IN CASH	126,702	74,413
Cash and cash equivalents at beginning of year	<u>205,311</u>	<u>130,898</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 332,013</u>	<u>\$ 205,311</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFO:		
Cash paid during the year for interest:	<u>\$ 19,689</u>	<u>\$ 21,982</u>

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

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Rusk Rural Water Supply Corporation (the "Corporation") is a non-profit corporation formed for the purpose of furnishing water and related services to its residential and business members in the rural community of Rusk and the surrounding areas. The Texas Commission on Environmental Quality regulates Rusk Rural Water Supply Corporation, as it does all water supply corporations in the State of Texas.

Basis of Accounting

The financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles. The accrual basis of accounting recognizes revenue when it is earned, and expenditures in the accounting period in which the liability incurred, if measurable.

Revenue

Rusk Rural Water Supply Corporation receives a substantial portion of its revenue from its member's water consumption and related fees associated with providing water delivery services. Additional revenue sources include construction/extension contributions to the distribution system and investment income.

Cash and cash equivalents

For the purpose of the statement of cash flows, Rusk Rural Water Supply Corporation considers all unrestricted cash and all related highly liquid funds with initial maturities of three months or less to be cash equivalents.

Accounts Receivable

The corporation bills for water usage ascertained by meter readings at the end of the month but does not record the amount due in accounts receivable as noted by audit adjustment proposed and booked. The corporation uses the direct write-off method for uncollectible amounts. This is not GAAP but is a reasonable approximation due to the fact that an advance deposit usually larger than the bill is held and that a speedy disconnect of service follows non-payment. As such, a minimal allowance for doubtful accounts \$500 was considered necessary at December 31, 2017 and 2016.

Investments

Rusk Rural Water Supply Corporation's investments consist of certificates of deposit, with an original maturity in excess of three months. Each of these certificates are valued at their cost value at the financial statement date. Earnings, in the form of interest, are unrestricted. Rusk Rural Water Supply Corporation's certificate of deposit portfolio does not include any donor restricted certificates.

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Inventory

Inventories consist primarily of distribution system parts and are recorded at the lower of their cost or market value. These parts are not inventory as defined by generally accepted accounting principles, therefore audit procedures which are normally applied to inventory were performed at a basic level. Additionally, nearly all inventory is purchased on an 'as needed' basis for field repairs leaving the year end value consistent year over year. As of December 31, 2017 and 2016 inventory was \$22,041 and \$16,905, respectively.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, unless contributed, and then the asset is recorded at fair market value at the date of contribution. Depreciation is computed using primarily the straight-line method over estimated useful lives ranging from 5 to 40 years. Depreciation expense for the years ended December 31, 2017 and 2016 was \$77,390 and \$83,292. The Corporation considers the useful life and the cost of the asset in determining whether an asset should be capitalized. Typically, maintenance and repairs are charged to expense as incurred and major additions to property or betterments that would extend the useful life are capitalized.

Impairment of Long-lived Assets

The Corporation reviews potential impairments of long-lived assets when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. An impairment loss is recognized if the sum of the expected, undiscounted future cash flows is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the excess of the net book value of the assets over the estimated fair value. As of December 31, 2017 and 2016, no impairment of long-lived assets is necessary.

Membership Equity

Membership equity consists of membership fees and retained earnings of the Corporation. Membership fees are paid by new members to the Corporation on existing lines. These \$100 deposits are temporarily restricted until the customer leaves the system or forfeits the deposit.

Income Taxes

Rusk Rural Water Supply Corporation is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Therefore, Rusk Rural Water Supply Corporation has not made provision for federal income taxes in the accompanying financial statements. Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2014, 2015 and 2016 are subject to examination by the IRS, generally for three years after they were filed.

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 vary from those estimates.

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Fair Value of Financial Assets

The Corporation measures and discloses certain financial assets and liabilities at fair value. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

For disclosure purposes, assets and liabilities are classified in their entirety in the fair value hierarchy level based on the lowest level of input that is significant to the overall fair value measurement. The Corporation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

The Corporation uses the active market approach to measure fair value of financial assets or liabilities.

NOTE 2 – FAIR VALUE MEASUREMENTS

The following table summarizes financial assets the Corporation measures at fair value on a recurring basis:

Fair Value Measurements at December 31, 2017 Using				
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant		Total
		Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Certificates of Deposit	\$560,270	-	-	\$560,270

Fair Value Measurements at December 31, 2016 Using				
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant		Total
		Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Certificates of Deposit	\$556,035	-	-	\$556,035

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows:

	Balance 12/31/16	Additions	Dispositions	Balance 12/31/17
Land	\$ 138,247	\$ -	\$ -	\$ 138,247
Water System	2,855,021	2,500	-	2,857,521
Autos	126,795	-	-	126,795
Major Repairs	167,506	28,091	-	195,597
Building	56,000	-	-	56,000
Equipment	197,443	7,143	-	204,587
Accum. Depr.	<u>(2,185,103)</u>	<u>(77,390)</u>	<u>-</u>	<u>(2,262,493)</u>
Total	\$ <u>1,355,909</u>	\$ <u>(39,656)</u>	\$ <u>-</u>	\$ <u>1,316,253</u>

NOTE 4 – LONG-TERM DEBT

Note payable to USDA, original amount of \$550,600 on 8/4/1994 with a 40 year term and fixed interest rate of 5.25%.
Monthly installments of \$2,770 and maturity on 8/4/2034.

	\$ 367,270
Less: Current Maturities	<u>(14,299)</u>
Total Long Term Debt	\$ <u>352,971</u>

The approximate maturities of long-term debt for years subsequent to December 31, 2017 are as follows:

December 31, 2018	\$ 14,299
December 31, 2019	15,068
December 31, 2020	15,879
December 31, 2021	16,733
December 31, 2022	17,633
Due after 2023	<u>287,658</u>
Total	\$ <u>367,270</u>

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5 – CONCENTRATIONS OF RISK

Rusk Rural Water Supply Corporation maintains an interest bearing operating account. Interest bearing accounts are FDIC insured up to \$250,000. As of December 31, 2017 and 2016, the operating account did not exceed insured limits. At times during the year an account may exceed the insured limit. However, the corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Rusk Rural Water Supply Corporation holds certificate of deposit investments with a federally insured institution. Steps are taken to ensure that each of these certificate of deposit purchases are with institutions covered by FDIC or other similar insuring organization and the total with each institution is at or under insured limits.

Rusk Rural Water Supply Corporation considers all aspects, including but not limited to the anticipated immediate financial need with respect to current projects when considering whether amounts in excess of federally insured limits are reasonable.

NOTE 6 – COMPENSATED ABSENCES

Benefits include, vacation, sick leave and health insurance coverage on a voluntary basis. After the six month probationary period, employees accrue vacation at one half day per month up to three years service and ten days thereafter, may be carried forward to the next year. No more than this amount may be accrued. An employee may request pay in lieu of accrued vacation. Any unused vacation is compensated for at the regular rate upon voluntary separation.

Sick leave is accrued at the rate of six days per year for the first three years and ten days per year thereafter. Unused sick leave may be carried forward to a maximum of thirty days. No compensation for sick leave is made on separation from service.

Due to the discretion of the employee to take or be paid for certain benefits, it is impractical to accrue an amount for the unused benefits and thus the organization doesn't accrue a liability for it. Also the number of eligible employees is so few, that any accrual would be immaterial to the financial statements taken as a whole.

The company also has health insurance available if the employee elects to be covered by it and a 401(k) plan is available. Employee contributions are matched up to 5%. During 2017 total IRA Expense was \$10,549 and was \$8,879 in 2016.

NOTE 7 – SUBSEQUENT EVENTS

Management has evaluated its operations through March 27, 2018, the financial statement issuance date, to determine whether there are any significant subsequent events to merit inclusion in these financial statements.

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 8 – RESERVE FUND

The Corporation is required to comply with certain covenants prescribed by the loan resolutions relating to USDA Rural Development notes payable. Major covenants which the Corporation must comply with are as follows:

Reserve Fund: The Corporation will deposit into the Reserve Fund an amount equal to an annual installment on each loan.

Maintenance Fund: The Corporation will maintain adequate funds to be used for the express purposes of making emergency repairs to existing facilities, for making extensions or improvements to the facilities.

RUSK RURAL
WATER SUPPLY CORPORATION
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

MURREY PASCHALL & CAPERTON, P.C.
Certified Public Accountants

RUSK RURAL WATER SUPPLY CORPORATION
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M **Murrey Paschall & Caperton PC**
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Rusk Rural Water Supply Corporation
Rusk, Texas

We have audited the accompanying financial statements of Rusk Rural Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018 and 2017, the related statement of activities and changes in net assets and the statement of cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our 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 evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rusk Rural Water Supply Corporation as of December 31, 2018 and 2017, and the related statement of activities and changes in net assets and the statement of cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Murrey Paschall & Caperton, P.C.

Murrey, Paschall & Caperton, P.C.
Forney, Texas
March 26, 2019

RUSK RURAL WATER SUPPLY CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS		<u>2018</u>	<u>2017</u>
CURRENT ASSETS:			
Cash and Cash Equivalents		\$ 103,323	\$ 332,013
Investments (NOTE 2)		725,767	560,270
Accounts Receivable (net)		58,267	53,200
Inventory		<u>23,348</u>	<u>22,041</u>
Total Current Assets		<u>910,705</u>	<u>967,524</u>
FIXED ASSETS: (NOTE 3)			
Property, Plant and Equipment		3,728,299	3,578,746
Less Accumulated Depreciation		<u>(2,238,485)</u>	<u>(2,262,493)</u>
Total Fixed Assets		<u>1,489,814</u>	<u>1,316,253</u>
TOTAL ASSETS:		<u>\$ 2,400,519</u>	<u>\$ 2,283,777</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accrued Expenses		\$ 3,378	\$ 12,405
Current Portion - USDA Note		<u>15,068</u>	<u>14,299</u>
Total Current Liabilities		<u>18,446</u>	<u>26,704</u>
LONG-TERM LIABILITIES:			
Membership Deposits		117,100	150,537
Notes Payable - USDA (NOTE 4)		<u>337,903</u>	<u>352,971</u>
Total Long-Term Liabilities		<u>455,003</u>	<u>503,508</u>
NET ASSETS			
Without donor restrictions		<u>1,927,070</u>	<u>1,753,565</u>
Total Net Assets		<u>1,927,070</u>	<u>1,753,565</u>
TOTAL LIABILITIES AND			
NET ASSETS		<u>\$ 2,400,519</u>	<u>\$ 2,283,777</u>

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

RUSK RURAL WATER SUPPLY CORPORATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUES:		
Water Sales	\$ 700,403	\$ 669,557
Penalties, Reconnects, and Installations	13,114	16,732
Miscellaneous Income	<u>3,435</u>	<u>4,174</u>
Total Revenue	<u>716,952</u>	<u>690,463</u>
EXPENSES:		
Program Operations		
Auto & Truck	18,715	17,465
Contract Labor	905	756
Depreciation	95,455	77,390
Dues & Fees	13,438	11,807
Lab Fees	5,371	4,066
Repairs & Maintenance	14,681	21,927
Payroll & Benefits	186,945	196,411
Supplies	55,302	51,315
Utilities	45,047	47,804
Office Administration		
Payroll & Benefits	70,925	65,263
Insurance	22,620	19,513
Legal & Professional	9,505	9,385
Supplies & Other	12,397	13,258
EMS	4,290	4,945
Miscellaneous	<u>29,832</u>	<u>30,960</u>
Total Operating Expenses	<u>585,428</u>	<u>572,265</u>
OTHER INCOME / (EXPENSE)		
Gain (Loss) on Disposal of Assets	19,062	-
Interest & Dividends	10,313	8,006
Interest (Expense)	<u>(18,941)</u>	<u>(19,689)</u>
Total Other	<u>10,434</u>	<u>(11,683)</u>
Net Income	141,958	106,515
Total Net Assets Beginning	1,753,565	1,647,050
Prior Period Adjustment (NOTE 12)	<u>31,547</u>	<u>-</u>
Total Net Assets Ending	<u>\$ 1,927,070</u>	<u>\$ 1,753,565</u>

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

RUSK RURAL WATER SUPPLY CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 141,958	\$ 106,515
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	95,455	77,390
(Increase) Decrease in accounts receivable	(5,067)	(3,121)
(Increase) Decrease in inventory	(1,307)	(5,136)
Increase (Decrease) in current liabilities	(9,027)	7,702
Increase (Decrease) in member deposits (PY)	31,547	-
Increase (Decrease) in member deposits	<u>(33,437)</u>	<u>(1,128)</u>
Net cash provided by operating activities	<u>220,122</u>	<u>182,222</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(269,014)</u>	<u>(37,734)</u>
Net cash provided (used) by investing activities	<u>(269,014)</u>	<u>(37,734)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes	(14,301)	(13,551)
Transfers from / (to) investments	(160,000)	-
(Gain) / Loss on investments	<u>(5,497)</u>	<u>(4,235)</u>
Net cash provided (used) by financing activities	<u>(179,798)</u>	<u>(17,786)</u>
INCREASE (DECREASE) IN CASH	(228,690)	126,702
Cash and cash equivalents at beginning of year	<u>332,013</u>	<u>205,311</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 103,323</u>	<u>\$ 332,013</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFO:		
Cash paid during the year for interest:	<u>\$ 18,941</u>	<u>\$ 19,689</u>

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

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Rusk Rural Water Supply Corporation (the "Corporation") is a non-profit corporation formed for the purpose of furnishing water and related services to its residential and business members in the rural community of Rusk and the surrounding areas. The Texas Commission on Environmental Quality regulates Rusk Rural Water Supply Corporation, as it does all water supply corporations in the State of Texas.

Basis of Accounting

The financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles. The accrual basis of accounting recognizes revenue when it is earned, and expenditures in the accounting period in which the liability incurred, if measurable.

Revenue

Rusk Rural Water Supply Corporation receives a substantial portion of its revenue from its member's water consumption and related fees associated with providing water delivery services. Additional revenue sources include construction/extension contributions to the distribution system and investment income.

Cash and cash equivalents

For the purpose of the statement of cash flows, Rusk Rural Water Supply Corporation considers all unrestricted cash and all related highly liquid funds with initial maturities of three months or less to be cash equivalents.

Accounts Receivable

The corporation bills for water usage ascertained by meter readings at the end of the month but does not record the amount due in accounts receivable as noted by audit adjustment proposed and booked. The corporation uses the direct write-off method for uncollectible amounts. This is not GAAP but is a reasonable approximation due to the fact that an advance deposit usually larger than the bill is held and that a speedy disconnect of service follows non-payment. As such, a minimal allowance for doubtful accounts \$500 was considered necessary at December 31, 2018 and 2017.

Investments

Rusk Rural Water Supply Corporation's investments consist of certificates of deposit, with an original maturity in excess of three months. Each of these certificates are valued at their cost value at the financial statement date. Earnings, in the form of interest, are unrestricted. Rusk Rural Water Supply Corporation's certificate of deposit portfolio does not include any donor restricted certificates. These are held at multiple financial institutions and are fully covered by FDIC insurance.

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Inventory

Inventories consist primarily of distribution system parts and are recorded at the lower of their cost or market value. These parts are not inventory as defined by generally accepted accounting principles, therefore audit procedures which are normally applied to inventory were performed at a basic level. Additionally, nearly all inventory is purchased on an 'as needed' basis for field repairs leaving the year end value consistent year over year. As of December 31, 2018 and 2017 inventory was \$23,348 and \$22,041, respectively.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, unless contributed, and then the asset is recorded at fair market value at the date of contribution. Depreciation is computed using primarily the straight-line method over estimated useful lives ranging from 5 to 40 years. Depreciation expense for the years ended December 31, 2018 and 2017 was \$95,455 and \$77,390. The Corporation considers the useful life and the cost of the asset in determining whether an asset should be capitalized. Typically, maintenance and repairs are charged to expense as incurred and major additions to property or betterments that would extend the useful life are capitalized.

Impairment of Long-lived Assets

The Corporation reviews potential impairments of long-lived assets when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. An impairment loss is recognized if the sum of the expected, undiscounted future cash flows is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the excess of the net book value of the assets over the estimated fair value. As of December 31, 2018 and 2017, no impairment of long-lived assets is necessary.

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net Assets Without Donor Restrictions
 - Net assets available for use in general operations and not subject to donor restrictions. The governing board has the option to internally designate funds, but no such designations have been made.
- Net Assets With Donor Restrictions
 - Net assets subject to donor-imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Historically, these net assets primarily consist of net assets without donor restrictions such as excess membership fees, surplus, and retained earnings of the Corporation. Surplus represents capital contributed by each new line member upon joining the Corporation in an effort to offset the cost of putting the water line and meter into service.

Membership Deposits

Membership fees are paid by new members to the Corporation on existing lines. These \$100 deposits are held until the customer leaves the system or forfeits the deposit. The balance of these deposits as of December 31, 2018 and 2017 was \$117,100 and \$150,537, respectively. See note 12 below regarding prior period adjustment related to membership deposits in 2018.

Functional Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Rusk Rural Water Supply Corporation allocates all costs between program services, administrative, and fundraising by estimating the percentage of personnel time spent on each area as estimated by management. The estimates are reviewed periodically and the allocations revised, if necessary, to reflect changes in the activities of the Corporation.

Income Taxes

Rusk Rural Water Supply Corporation is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Therefore, Rusk Rural Water Supply Corporation has not made provision for federal income taxes in the accompanying financial statements. Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2015, 2016 and 2017 are subject to examination by the IRS, generally for three years after they were filed.

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 vary from those estimates.

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Fair Value of Financial Assets

The Corporation measures and discloses certain financial assets and liabilities at fair value. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

For disclosure purposes, assets and liabilities are classified in their entirety in the fair value hierarchy level based on the lowest level of input that is significant to the overall fair value measurement. The Corporation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

The Corporation uses the active market approach to measure fair value of financial assets or liabilities.

NOTE 2 – FAIR VALUE MEASUREMENTS

The following table summarizes financial assets the Corporation measures at fair value on a recurring basis:

Fair Value Measurements at December 31, 2018 Using				
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant		Total
		Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Certificates of Deposit	\$725,767	-	-	\$725,767

Fair Value Measurements at December 31, 2017 Using				
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant		Total
		Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Certificates of Deposit	\$560,270	-	-	\$560,270

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows:

	Balance <u>12/31/17</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/18</u>
Land	\$ 138,247	\$ -	\$ -	\$ 138,247
Water System	2,857,521	97,600	-	2,955,121
Autos	126,795	65,576	(57,897)	134,474
Major Repairs	195,597	74,528	-	270,125
Building	56,000	-	-	56,000
Equipment	204,587	36,750	(67,006)	174,331
Accum. Depr.	<u>(2,262,493)</u>	<u>(95,455)</u>	<u>119,463</u>	<u>(2,238,485)</u>
Total	\$ <u>1,316,253</u>	\$ <u>178,999</u>	\$ <u>(5,438)</u>	\$ <u>1,489,814</u>

Capital asset activity during the year included the purchase of a new generator, rehabilitation of the tank at Crocket Street Plant, rebuilding the chlorine building at Crocket Street, major repairs at the 69 Plant, purchase of a new excavator (trade in old) and the purchase of two new field trucks (trade in old).

NOTE 4 – LONG-TERM DEBT

Note payable to USDA, original amount of \$550,600 on 8/4/1994 with a 40 year term and fixed interest rate of 5.25%.

Monthly installments of \$2,770 and maturity on 8/4/2034.

\$ 352,971

Less: Current Maturities

(15,068)

Total Long Term Debt

\$ 337,903

The approximate maturities of long-term debt for years subsequent to December 31, 2018 are as follows:

December 31, 2019	\$ 15,068
December 31, 2020	15,879
December 31, 2021	16,733
December 31, 2022	17,633
December 31, 2023	18,581
Due after 2023	<u>269,077</u>
Total	\$ <u>352,971</u>

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 5 – CONCENTRATIONS OF RISK

Rusk Rural Water Supply Corporation maintains an interest bearing operating account. Interest bearing accounts are FDIC insured up to \$250,000. As of December 31, 2018 and 2017, the operating account did not exceeded insured limits. At times during the year an account may exceed the insured limit. However, the corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Rusk Rural Water Supply Corporation holds certificate of deposit investments with a federally insured institution. Steps are taken to ensure that each of these certificate of deposit purchases are with institutions covered by FDIC or other similar insuring organization and the total with each institution is at or under insured limits.

Rusk Rural Water Supply Corporation considers all aspects, including but not limited to the anticipated immediate financial need with respect to current projects when considering whether amounts in excess of federally insured limits are reasonable.

NOTE 6 – COMPENSATED ABSENCES

Benefits include, vacation, sick leave and health insurance coverage on a voluntary basis. After the six month probationary period, employees accrue vacation at one half day per month up to three years service and ten days thereafter, may be carried forward to the next year. No more than this amount may be accrued. An employee may request pay in lieu of accrued vacation. Any unused vacation is compensated for at the regular rate upon voluntary separation.

Sick leave is accrued at the rate of six days per year for the first three years and ten days per year thereafter. Unused sick leave may be carried forward to a maximum of thirty days. No compensation for sick leave is made on separation from service.

Due to the discretion of the employee to take or be paid for certain benefits, it is impractical to accrue an amount for the unused benefits and thus the organization doesn't accrue a liability for it. Also the number of eligible employees is so few, that any accrual would be immaterial to the financial statements taken as a whole.

The company also has health insurance available if the employee elects to be covered by it and a 401(k) plan is available. Employee contributions are matched up to 5%. During 2018 total IRA Expense was \$9,176 and was \$10,549 in 2017.

NOTE 7 – SUBSEQUENT EVENTS

Management has evaluated its operations through March 26, 2019, the financial statement issuance date, to determine whether there are any significant subsequent events to merit inclusion in these financial statements.

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8 - FUNCTIONAL EXPENSE ALLOCATION

<u>December 31, 2018</u>	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Auto & Truck	\$ 18,715	\$ -	\$ 18,715
Contract Labor	905	-	905
Depreciation	95,455	-	95,455
Dues & Fees	13,438	-	13,438
Lab Fees	5,371	-	5,371
Repairs & Maintenance	14,681	-	14,681
Payroll & Benefits	186,945	70,925	257,870
Supplies	55,302	-	55,302
Utilities	45,047	-	45,047
Insurance	-	22,620	22,620
Legal & Professional	-	9,505	9,505
Supplies & Other	-	12,397	12,397
EMS	-	4,290	4,290
Miscellaneous	-	29,832	29,832
Total Operating Expenses	\$ 435,859	\$ 149,569	\$ 585,428
Percent Allocation	<u>74%</u>	<u>26%</u>	

<u>December 31, 2017</u>	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Auto & Truck	\$ 17,465	\$ -	\$ 17,465
Contract Labor	756	-	756
Depreciation	77,390	-	77,390
Dues & Fees	11,807	-	11,807
Lab Fees	4,066	-	4,066
Repairs & Maintenance	21,927	-	21,927
Payroll & Benefits	196,411	65,263	261,674
Supplies	51,315	-	51,315
Utilities	47,804	-	47,804
Insurance	-	19,513	19,513
Legal & Professional	-	9,385	9,385
Supplies & Other	-	13,258	13,258
EMS	-	4,945	4,945
Miscellaneous	-	30,960	30,960
Total Operating Expenses	\$ 428,941	\$ 143,324	\$ 572,265
Percent Allocation	<u>75%</u>	<u>25%</u>	

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 9 – RESERVE FUND

The Corporation is required to comply with certain covenants prescribed by the loan resolutions relating to USDA Rural Development notes payable. Major covenants which the Corporation must comply with are as follows:

Reserve Fund: The Corporation will deposit into the Reserve Fund an amount equal to an annual installment on each loan. (\$2,770 monthly for 12 months equals annual \$33,240). The value of the reserve fund held in the Texas National Bank CD as of December 31, 2018 and 2017 was \$114,621 and \$112,633, respectively.

Maintenance Fund: The Corporation will maintain adequate funds to be used for the express purposes of making emergency repairs to existing facilities, for making extensions or improvements to the facilities.

NOTE 10 – LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of net position date, comprise the following:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash and cash equivalents	\$ 103,323	\$ 332,013
Investments	725,767	560,270
Accounts receivable	<u>58,267</u>	<u>53,200</u>
	<u>\$ 887,357</u>	<u>\$ 945,484</u>

As part of Rusk Rural Water Supply Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The policy is that monthly revenues are to cover monthly expenses. Monthly revenues and expenditures are deposited in and deducted from the operating accounts.

Any excess cash for the year is to be used for general capital purchases in the upcoming years. These funds are invested in savings and certificate of deposit accounts with short term maturities. The board has approved a list of financial institutions for which it may deposit funds. Limits were set at each of the financial institutions, so monies are transferred when needed to stay within the guidelines.

As previously noted, the Corporation is required to have a reserve fund equal to 12 months of payments per USDA requirements. (\$2,770 monthly for 12 months equals annual \$33,240). The value of the reserve fund held in the Texas National Bank CD as of December 31, 2018 and 2017 was \$114,621 and \$112,633, respectively.

Additionally, the corporation chooses to set aside funds to cover the amount of outstanding membership deposits. These \$100 deposits are held until the customer leaves the system or forfeits the deposit. The balance of these deposits as of December 31, 2018 and 2017 was \$117,100 and \$150,537, respectively. The value of the reserve fund held in the Cherokee County Teachers FCU CD as of December 31, 2018 and 2017 was \$100,000 and \$100,000, respectively.

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPAL

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-For-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about the liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The effective date for the changes to be implemented was December 15, 2018. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

As noted above, each customer is required to contribute a \$100 refundable membership deposit at the initial date service is requested. As of December 31, 2018, the Corporation had 1,171 active members. After discussing with management and analyzing the history of the membership reserve balance, all agreed the reserve should be adjusted to \$100 per customer for the current active membership in order to present an accurate reserve liability.

RUSK RURAL
WATER SUPPLY CORPORATION
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

MURREY PASCHALL & CAPERTON, P.C.
Certified Public Accountants

RUSK RURAL WATER SUPPLY CORPORATION
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M **Murrey Paschall & Caperton PC**
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Rusk Rural Water Supply Corporation
Rusk, Texas

We have audited the accompanying financial statements of Rusk Rural Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019 and 2018, the related statement of activities and changes in net assets and the statement of cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our 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 evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rusk Rural Water Supply Corporation as of December 31, 2019 and 2018, and the related statement of activities and changes in net assets and the statement of cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Murrey Paschall & Caperton, P.C.

Murrey, Paschall & Caperton, P.C.
Forney, Texas
March 20, 2020

RUSK RURAL WATER SUPPLY CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS		<u>2019</u>	<u>2018</u>
CURRENT ASSETS:			
Cash and Cash Equivalents	\$	210,140	\$ 103,323
Investments (NOTE 2)		673,371	725,767
Accounts Receivable (net)		54,887	58,267
Inventory		<u>16,792</u>	<u>23,348</u>
Total Current Assets		<u>955,190</u>	<u>910,705</u>
FIXED ASSETS: (NOTE 3)			
Property, Plant and Equipment		3,773,434	3,728,299
Less Accumulated Depreciation		<u>(2,350,532)</u>	<u>(2,238,485)</u>
Total Fixed Assets		<u>1,422,902</u>	<u>1,489,814</u>
TOTAL ASSETS:	\$	<u>2,378,092</u>	<u>\$ 2,400,519</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accrued Expenses	\$	210	\$ 3,378
Current Portion - USDA Note		<u>15,672</u>	<u>15,068</u>
Total Current Liabilities		<u>15,882</u>	<u>18,446</u>
LONG-TERM LIABILITIES:			
Membership Deposits		118,100	117,100
Notes Payable - USDA (NOTE 4)		<u>322,231</u>	<u>337,903</u>
Total Long-Term Liabilities		<u>440,331</u>	<u>455,003</u>
NET ASSETS			
Without Donor Restrictions		<u>1,921,879</u>	<u>1,927,070</u>
Total Net Assets		<u>1,921,879</u>	<u>1,927,070</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>2,378,092</u>	<u>\$ 2,400,519</u>

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

RUSK RURAL WATER SUPPLY CORPORATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
REVENUES:		
Water Sales	\$ 650,540	\$ 700,403
Penalties, Reconnects, and Installations	34,457	13,114
Miscellaneous Income	<u>3,786</u>	<u>3,435</u>
Total Revenue	<u>688,783</u>	<u>716,952</u>
EXPENSES:		
Program Operations		
Auto & Truck	15,376	18,715
Contract Labor	932	905
Depreciation	141,009	95,455
Dues & Fees	13,525	13,438
Lab Fees	3,772	5,371
Repairs & Maintenance	27,202	14,681
Payroll & Benefits	201,194	186,945
Supplies	76,480	55,302
Utilities	41,427	45,047
Office Administration		
Payroll & Benefits	85,110	70,925
Insurance	21,671	22,620
Legal & Professional	9,835	9,505
Supplies & Other	18,090	12,397
EMS	4,855	4,290
Miscellaneous	<u>35,070</u>	<u>29,832</u>
Total Operating Expenses	<u>695,548</u>	<u>585,428</u>
OTHER INCOME / (EXPENSE)		
Gain (Loss) on Disposal of Assets	6,438	19,062
Interest & Dividends	13,308	10,313
Interest (Expense)	<u>(18,172)</u>	<u>(18,941)</u>
Total Other	<u>1,574</u>	<u>10,434</u>
Net Income	(5,191)	141,958
Total Net Assets Beginning	1,927,070	1,753,565
Prior Period Adjustment (NOTE 11)	<u>-</u>	<u>31,547</u>
Total Net Assets Ending	<u>\$ 1,921,879</u>	<u>\$ 1,927,070</u>

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

RUSK RURAL WATER SUPPLY CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (5,191)	\$ 141,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	141,009	95,455
(Increase) Decrease in accounts receivable	3,380	(5,067)
(Increase) Decrease in inventory	6,556	(1,307)
Increase (Decrease) in current liabilities	(3,168)	(9,027)
Increase (Decrease) in member deposits (PY)	-	31,547
Increase (Decrease) in member deposits	<u>1,000</u>	<u>(33,437)</u>
Net cash provided by operating activities	<u>143,586</u>	<u>220,122</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(77,658)	(269,014)
Disposal of property and equipment	<u>3,561</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(74,097)</u>	<u>(269,014)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes	(15,068)	(14,301)
Transfers from / (to) investments	40,000	(160,000)
(Gain) / Loss on investments	<u>12,396</u>	<u>(5,497)</u>
Net cash provided (used) by financing activities	<u>37,328</u>	<u>(179,798)</u>
INCREASE (DECREASE) IN CASH	106,817	(228,690)
Cash and cash equivalents at beginning of year	<u>103,323</u>	<u>332,013</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 210,140</u>	<u>\$ 103,323</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFO:		
Cash paid during the year for interest:	<u>\$ 18,172</u>	<u>\$ 18,941</u>

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

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Rusk Rural Water Supply Corporation (the "Corporation") is a non-profit corporation formed for the purpose of furnishing water and related services to its residential and business members in the rural community of Rusk and the surrounding areas. The Texas Commission on Environmental Quality regulates Rusk Rural Water Supply Corporation, as it does all water supply corporations in the State of Texas.

Basis of Accounting

The financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles. The accrual basis of accounting recognizes revenue when it is earned, and expenditures in the accounting period in which the liability incurred, if measurable.

Revenue

Rusk Rural Water Supply Corporation receives a substantial portion of its revenue from its member's water consumption and related fees associated with providing water delivery services. Additional revenue sources include construction/extension contributions to the distribution system and investment income.

Cash and cash equivalents

For the purpose of the statement of cash flows, Rusk Rural Water Supply Corporation considers all unrestricted cash and all related highly liquid funds with initial maturities of three months or less to be cash equivalents.

Accounts Receivable

The corporation bills for water usage ascertained by meter readings at the end of the month but does not record the amount due in accounts receivable as noted by audit adjustment proposed and booked. The corporation uses the direct write-off method for uncollectible amounts. This is not GAAP but is a reasonable approximation due to the fact that an advance deposit usually larger than the bill is held and that a speedy disconnect of service follows non-payment. As such, a minimal allowance for doubtful accounts \$500 was considered necessary at December 31, 2019 and 2018.

Investments

Rusk Rural Water Supply Corporation's investments consist of certificates of deposit, with an original maturity in excess of three months. Each of these certificates are valued at their cost value at the financial statement date. Earnings, in the form of interest, are unrestricted. Rusk Rural Water Supply Corporation's certificate of deposit portfolio does not include any donor restricted certificates. These are held at multiple financial institutions and are fully covered by FDIC insurance.

RUSK RURAL WATER SUPPLY CORPORATION
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Inventory

Inventories consist primarily of distribution system parts and are recorded at the lower of their cost or market value. These parts are not inventory as defined by generally accepted accounting principles, therefore audit procedures which are normally applied to inventory were performed at a basic level. Additionally, nearly all inventory is purchased on an 'as needed' basis for field repairs leaving the year end value consistent year over year. As of December 31, 2019 and 2018 inventory was \$16,792 and \$23,348, respectively.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, unless contributed, and then the asset is recorded at fair market value at the date of contribution. Depreciation is computed using primarily the straight-line method over estimated useful lives ranging from 5 to 40 years. Depreciation expense for the years ended December 31, 2019 and 2018 was \$141,009 and \$95,455. The Corporation considers the useful life and the cost of the asset in determining whether an asset should be capitalized. Typically, maintenance and repairs are charged to expense as incurred and major additions to property or betterments that would extend the useful life are capitalized.

Impairment of Long-lived Assets

The Corporation reviews potential impairments of long-lived assets when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. An impairment loss is recognized if the sum of the expected, undiscounted future cash flows is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the excess of the net book value of the assets over the estimated fair value. As of December 31, 2019 and 2018, no impairment of long-lived assets is necessary.

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net Assets Without Donor Restrictions
 - Net assets available for use in general operations and not subject to donor restrictions. The governing board has the option to internally designate funds, but no such designations have been made.
- Net Assets With Donor Restrictions
 - Net assets subject to donor-imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

RUSK RURAL WATER SUPPLY CORPORATION
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Historically, these net assets primarily consist of net assets without donor restrictions such as excess membership fees, surplus, and retained earnings of the Corporation. Surplus represents capital contributed by each new line member upon joining the Corporation in an effort to offset the cost of putting the water line and meter into service.

Membership Deposits

Membership fees are paid by new members to the Corporation on existing lines. These \$100 deposits are held until the customer leaves the system or forfeits the deposit. The balance of these deposits as of December 31, 2019 and 2018 was \$118,100 and \$117,100, respectively. See note 11 below regarding prior period adjustment related to membership deposits in 2018.

Functional Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Rusk Rural Water Supply Corporation allocates all costs between program services, administrative, and fundraising by estimating the percentage of personnel time spent on each area as estimated by management. The estimates are reviewed periodically and the allocations revised, if necessary, to reflect changes in the activities of the Corporation.

Income Taxes

Rusk Rural Water Supply Corporation is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Therefore, Rusk Rural Water Supply Corporation has not made provision for federal income taxes in the accompanying financial statements. Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2016, 2017 and 2018 are subject to examination by the IRS, generally for three years after they were filed.

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 vary from those estimates.

RUSK RURAL WATER SUPPLY CORPORATION
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Fair Value of Financial Assets

The Corporation measures and discloses certain financial assets and liabilities at fair value. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

For disclosure purposes, assets and liabilities are classified in their entirety in the fair value hierarchy level based on the lowest level of input that is significant to the overall fair value measurement. The Corporation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

The Corporation uses the active market approach to measure fair value of financial assets or liabilities.

NOTE 2 – FAIR VALUE MEASUREMENTS

The following table summarizes financial assets the Corporation measures at fair value on a recurring basis:

Fair Value Measurements at December 31, 2019 Using				
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Certificates of Deposit	\$673,371	-	-	\$673,371

Fair Value Measurements at December 31, 2018 Using				
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Certificates of Deposit	\$725,767	-	-	\$725,767

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows:

	Balance <u>12/31/18</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/19</u>
Land	\$ 138,247	\$ -	\$ -	\$ 138,247
Water System	2,955,121	4,869	-	2,959,990
Autos	134,474	36,637	(32,524)	138,587
Major Repairs	270,125	36,154	-	306,279
Building	56,000	-	-	56,000
Equipment	174,331	-	-	174,331
Accum. Depr.	<u>(2,238,485)</u>	<u>(141,009)</u>	<u>28,962</u>	<u>(2,350,532)</u>
Total	\$ <u>1,489,814</u>	\$ <u>(63,350)</u>	\$ <u>(3,562)</u>	\$ <u>1,422,902</u>

Capital asset activity during the year included the purchase of a 2019 Dodge Utility Truck (and sale of old 2015 truck), and major repairs at the Hwy 69 and Salem Plants.

NOTE 4 – LONG-TERM DEBT

Note payable to USDA, original amount of \$550,600 on 8/4/1994 with a 40 year term and fixed interest rate of 5.25%. Monthly installments of \$2,770 and maturity on 8/4/2034.

\$ 337,903

Less: Current Maturities

(15,672)

Total Long Term Debt

\$ 322,231

The approximate maturities of long-term debt for years subsequent to December 31, 2019 are as follows:

December 31, 2020	\$ 15,672
December 31, 2021	16,733
December 31, 2022	17,633
December 31, 2023	18,581
December 31, 2024	19,580
Due after 2024	<u>249,704</u>
Total	\$ <u>337,903</u>

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 – CONCENTRATIONS OF RISK

Rusk Rural Water Supply Corporation maintains an interest bearing operating account. Interest bearing accounts are FDIC insured up to \$250,000. As of December 31, 2019 and 2018, the operating account did not exceed insured limits. At times during the year an account may exceed the insured limit. However, the corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Rusk Rural Water Supply Corporation holds certificate of deposit investments with a federally insured institution. Steps are taken to ensure that each of these certificate of deposit purchases are with institutions covered by FDIC or other similar insuring organization and the total with each institution is at or under insured limits.

Rusk Rural Water Supply Corporation considers all aspects, including but not limited to the anticipated immediate financial need with respect to current projects when considering whether amounts in excess of federally insured limits are reasonable.

NOTE 6 – COMPENSATED ABSENCES

Benefits include, vacation, sick leave and health insurance coverage on a voluntary basis. After the six month probationary period, employees accrue vacation at one half day per month up to three years service and ten days thereafter, may be carried forward to the next year. No more than this amount may be accrued. An employee may request pay in lieu of accrued vacation. Any unused vacation is compensated for at the regular rate upon voluntary separation.

Sick leave is accrued at the rate of six days per year for the first three years and ten days per year thereafter. Unused sick leave may be carried forward to a maximum of thirty days. No compensation for sick leave is made on separation from service.

Due to the discretion of the employee to take or be paid for certain benefits, it is impractical to accrue an amount for the unused benefits and thus the organization doesn't accrue a liability for it. Also the number of eligible employees is so few, that any accrual would be immaterial to the financial statements taken as a whole.

The company also has health insurance available if the employee elects to be covered by it and a 401(k) plan is available. Employee contributions are matched up to 5%. During 2019 total IRA Expense was \$10,902 and was \$9,176 in 2018.

NOTE 7 – SUBSEQUENT EVENTS

Management has evaluated its operations through March 20, 2020, the financial statement issuance date, to determine whether there are any significant subsequent events to merit inclusion in these financial statements.

RUSK RURAL WATER SUPPLY CORPORATION
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NOTE 8 - FUNCTIONAL EXPENSE ALLOCATION

December 31, 2019

	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Auto & Truck	\$ 15,376	\$ -	\$ 15,376
Contract Labor	932	-	932
Depreciation	141,009	-	141,009
Dues & Fees	13,525	-	13,525
Lab Fees	3,772	-	3,772
Repairs & Maintenance	27,202	-	27,202
Payroll & Benefits	201,194	85,110	286,304
Supplies	76,480	-	76,480
Utilities	41,427	-	41,427
Insurance	-	21,671	21,671
Legal & Professional	-	9,835	9,835
Supplies & Other	-	18,090	18,090
EMS	-	4,855	4,855
Miscellaneous	-	35,070	35,070
Total Operating Expenses	\$ 520,917	\$ 174,631	\$ 695,548
Percent Allocation	<u>75%</u>	<u>25%</u>	

December 31, 2018

	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Auto & Truck	\$ 18,715	\$ -	\$ 18,715
Contract Labor	905	-	905
Depreciation	95,455	-	95,455
Dues & Fees	13,438	-	13,438
Lab Fees	5,371	-	5,371
Repairs & Maintenance	14,681	-	14,681
Payroll & Benefits	186,945	70,925	257,870
Supplies	55,302	-	55,302
Utilities	45,047	-	45,047
Insurance	-	22,620	22,620
Legal & Professional	-	9,505	9,505
Supplies & Other	-	12,397	12,397
EMS	-	4,290	4,290
Miscellaneous	-	29,832	29,832
Total Operating Expenses	\$ 435,859	\$ 149,569	\$ 585,428
Percent Allocation	<u>74%</u>	<u>26%</u>	

RUSK RURAL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 – RESERVE FUND

The Corporation is required to comply with certain covenants prescribed by the loan resolutions relating to USDA Rural Development notes payable. Major covenants which the Corporation must comply with are as follows:

Reserve Fund: The Corporation will deposit into the Reserve Fund an amount equal to an annual installment on each loan. (\$2,770 monthly for 12 months equals annual \$33,240). The value of the reserve fund held in the Texas National Bank CD as of December 31, 2019 and 2018 was \$116,931 and \$114,621, respectively.

Maintenance Fund: The Corporation will maintain adequate funds to be used for the express purposes of making emergency repairs to existing facilities, for making extensions or improvements to the facilities.

NOTE 10 – LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of net position date, comprise the following:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash and cash equivalents	\$ 210,140	\$ 103,323
Investments	673,371	725,767
Accounts receivable	54,887	58,267
	<u>\$ 938,398</u>	<u>\$ 887,357</u>

As part of Rusk Rural Water Supply Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The policy is that monthly revenues are to cover monthly expenses. Monthly revenues and expenditures are deposited in and deducted from the operating accounts.

Any excess cash for the year is to be used for general capital purchases in the upcoming years. These funds are invested in savings and certificate of deposit accounts with short term maturities. The board has approved a list of financial institutions for which it may deposit funds. Limits were set at each of the financial institutions, so monies are transferred when needed to stay within the guidelines.

As previously noted, the Corporation is required to have a reserve fund equal to 12 months of payments per USDA requirements. (\$2,770 monthly for 12 months equals annual \$33,240). The value of the reserve fund held in the Texas National Bank CD as of December 31, 2019 and 2018 was \$116,931 and \$114,621, respectively.

Additionally, the corporation chooses to set aside funds to cover the amount of outstanding membership deposits. These \$100 deposits are held until the customer leaves the system or forfeits the deposit. The balance of these deposits as of December 31, 2019 and 2018 was \$118,100 and \$117,100, respectively. The value of the reserve fund held in the Cherokee County Teachers FCU CD as of December 31, 2019 and 2018 was \$136,151 and \$133,749, respectively.

RUSK RURAL WATER SUPPLY CORPORATION
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NOTE 11 – PRIOR PERIOD ADJUSTMENT

As noted above, each customer is required to contribute a \$100 refundable membership deposit at the initial date service is requested. As of December 31, 2018, the Corporation had 1,171 active members. After discussing with management and analyzing the history of the membership reserve balance, all agreed the reserve should be adjusted to \$100 per customer for the current active membership in order to present an accurate reserve liability.