

HEATH 2-9 Please produce all documents concerning, reviewed, supplied to or by, or relied upon by Forney Lake to respond to HEATH 2-7.

RESPONSE:

See Response to Heath 2-7.

Response prepared by Eddy Daniel; sponsoring witness Eddy Daniel

HEATH 2-10 Please identify the total number of additional residential connections in Forney Lake's certificated service area in Rockwall County that Forney Lake could provide with retail water utility service with its existing facilities.

RESPONSE:

Approximately 500.

Response prepared by Eddy Daniel; sponsoring witness Eddy Daniel

HEATH 2-11 What has been Forney Lake's rate of customer growth for each of the last three calendar years? By rate of customer growth, Heath means the change in the number of total connections between the beginning and the end of the calendar year.

RESPONSE:

2013 – 58 meters

2014 – 65 meters

2015 – 142 meters

Response prepared by Robin Baley; sponsoring witness Robin Baley

HEATH 2-12 What is Forney Lake's anticipated rate of customer growth for each of the next three calendar years?

RESPONSE:

2016 – 35 meters

2017 – 113 meters

2018 – 142 meters

Response prepared by Robin Baley; sponsoring witness Robin Baley

HEATH 2-13 In response to HEATH 1-3, Forney Lake states that capacity in its facilities will be "stranded" if single certification is granted.

- a. What does Forney Lake mean by the term "stranded" as used in its response?
- b. Does Forney Lake contend that the term "stranded" is synonymous with "useless or valueless"?

RESPONSE:

- a. See response to RFI 2-13 (b).
- b. In the context of the response, yes.

Response prepared by Eddy Daniel; sponsoring witness Eddy Daniel

HEATH 2-14 Is Forney Lake obligated by contract or otherwise to provide fire flows to the Travis Ranch subdivision located in Kaufman County?

RESPONSE:

The Travis Ranch contract provides as follows:

Forney Lake agrees to maintain and operate facilities that comply with the Fire Flow requirements of any jurisdiction. However, the parties understand that Forney Lake does not provide water directly from its system in sufficient quantities to provide water for fire fighting purposes, a quantity known as "Fire Flow." In accordance with its Tariff, Forney Lake does not guarantee Fire Flow.

Response prepared by Robin Baley; sponsoring witness Robin Baley

HEATH 2-15 Please provide all contracts and other agreements relating to Forney Lake's obligations to provide retail water utility service to the Travis Ranch subdivision located in Kaufman County.

RESPONSE:

See Exhibit Heath RFI 2-15.

Response prepared by Robin Baley; sponsoring witness Robin Baley

HEATH 2-16 Please provide Forney Lake's two most recent audited, year-end Financial Statements. If an audit has not been prepared for the requested Financial Statements, please provide the most recent unaudited, year-end Financial Statement.

RESPONSE:

See Exhibit Heath RFI 2-16.

Response prepared by Robin Baley; sponsoring witness Robin Baley

HEATH 2-17 Please provide all worksheets, accounting ledgers, and other supporting documentation for the Fixed Assets entry in Forney Lake's Balance Sheet included in the most recent Financial Statement, including documentation for both "Plant, property and equipment" and for "Accumulated depreciation." If the requested information is in the possession of Forney Lake's auditor or other consultant, Forney Lake should instruct that person to provide the information.

RESPONSE:

The most recent audited financial statement is provided in Exhibit Heath RFI 2-16. FLWSC has not been able to locate the documents requested.

Response prepared by Robin Baley; sponsoring witness Robin Baley

HEATH 2-18 Please admit that under Forney Lake's accounting policies that plant, property and equipment are carried at cost, and that depreciation is computed using the straight-line method over estimated useful lives ranging from 3 to 50 years. If the requested information is in the possession of Forney Lake's auditor or other consultant, Forney Lake should instruct that person to provide the information.

RESPONSE:

Admit.

Response prepared by Robin Baley; sponsoring witness Robin Baley

HEATH 2-19 Please admit that Forney Lake's Comparative Balance Sheet dated December 31, 2010 (Exhibit 2) shows Forney Lake's total fixed assets as of December 31, 2010 to be \$2,634,637. If the requested information is in the possession of Forney Lake's auditor or other consultant, Forney Lake should instruct that person to provide the information.

RESPONSE:

FLWSC can neither admit or deny as Exhibit 2 was not provided.

Response prepared by Robin Baley; sponsoring witness Robin Baley

HEATH 2-20 Please admit that Forney Lake's Comparative Balance Sheet dated December 31, 2010 (Exhibit 2) shows Forney Lake's "Paid in Capital" to be \$2,327,787. If the requested information is in the possession of Forney Lake's auditor or other consultant, Forney Lake should instruct that person to provide the information.

RESPONSE:

FLWSC can neither admit or deny as Exhibit 2 was not provided.

Response prepared by Robin Baley; sponsoring witness Robin Baley

HEATH 2-21 Please provide all worksheets, accounting ledgers, and other supporting documentation for the "Paid in Capital" entry in Forney Lake's Balance Sheet included in the most recent Financial Statement. If the requested information is in the possession of Forney Lake's auditor or other consultant, Forney Lake should instruct that person to provide the information.

RESPONSE:

The most recent audited financial statement is provided in Exhibit Heath RFI 2-16. FLWSC has not been able to locate the documents requested.

Response prepared by Robin Baley; sponsoring witness Robin Baley

HEATH 2-22 Please explain what values are included in "Paid in Capital" as shown on Forney Lake's Comparative Balance Sheet dated December 31, 2010 (Exhibit 2). If the requested information is in the possession of Forney Lake's auditor or other consultant, Forney Lake should instruct that person to provide the information.

RESPONSE:

FLWSC cannot provide an explanation as Exhibit 2 was not provided.

Response prepared by Robin Baley; sponsoring witness Robin Baley

HEATH 2-23 Please admit that under Forney Lake's accounting policies that assets contributed to Forney Lake by developers, such as distribution lines, are recorded as "Paid in Capital" on Forney Lake's books. If the requested information is in the possession of Forney Lake's auditor or other consultant, Forney Lake should instruct that person to provide the information.

RESPONSE:

Deny.

Response prepared by Robin Baley; sponsoring witness Robin Baley

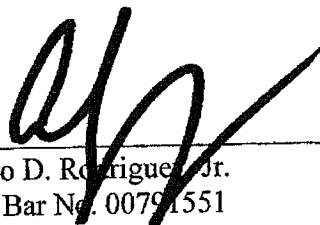
HEATH 2-24 Please provide copies of Forney Lake's IRS Form 990 filed for tax years 2012 through 2014.

RESPONSE:

See attached Exhibits Heath RFI 2-24 2012 and Heath RFI 2-24 2013. FLWSC filed an extension for tax year 2014. Thus, it has not been filed.

Response prepared by Robin Baley; sponsoring witness Robin Baley

Respectfully submitted,



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ATTORNEY FOR FORNEY LAKE WATER
SUPPLY CORPORATION

CERTIFICATE OF SERVICE

I hereby certify that on the 1st day of December, 2015, a true and correct copy of the foregoing document was served on all parties in accordance with PUC Procedural Rule 22.74.



Arturo D. Rodriguez, Jr.

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Representing City of Heath

Exhibit Heath RFI 2-7

FORNEY LAKE WATER SUPPLY CORPORATION		
ESTIMATED REPLACEMENT COSTS FOR STRANDED FACILITIES		
QUANTITY	ITEM DESCRIPTION	ESTIMATED COST
2,080	12" waterline with appurtenances @ \$50 per L.F.	\$104,000.00
15,486	10" waterline with appurtenances @ \$35 per L.F.	\$542,010.00
22,528	8" waterline with appurtenances @ \$25 per L.F.	\$563,200.00
1	200,000 gallon GST - FM 740 PS	\$300,000.00
1	500,000 gallon GST - FM 460 PS	\$600,000.00
1	500,000 gallon ET - FM 740 PS	\$1,000,000.00
1	3,000 GPM Booster Station - FM 740	\$125,000.00
LS	1,500 GPM Booster Pumps and Building (3 ea. @ FM 740 PS)	\$375,000.00
LS	1,500 GPM Booster Pumps and Building (2 ea. @ FM 460 PS)	\$300,000.00
1	230 KW GenSet - FM 740	\$100,000.00
1	275 KW GenSet - FM 460	\$115,000.00
LS	Electrical/SCADA FM 740 PS, FM 460 PS & FM 740 Booster Pump	\$150,000.00
LS	Valves/Fittings/Bores	\$125,000.00
13.80	approximate right-of-way and easement acreage @ \$5,000 per acre	\$69,000.00
	TOTAL REPLACEMENT COSTS	\$4,468,210.00

NOTE: The figures shown above are construction replacement estimates only. Engineering/Legal/Administrative Costs are excluded.

DANIEL & BROWN INC.

11/30/2015

**AGREEMENT BY AND BETWEEN
FORNEY LAKE WATER SUPPLY CORPORATION AND
TRAVIS RANCH DEVELOPMENT, L.P.**

**STATE OF TEXAS §
 § KNOW ALL MEN BY THESE PRESENTS
COUNTY OF ROCKWALL §**

THIS AGREEMENT is made and entered into by and between Forney Lake Water Supply Corporation, a Texas non-profit water supply corporation, hereinafter referred to as "Forney Lake", and Travis Ranch Development, L.P., a Texas limited partnership, hereinafter referred to as "TRD."

WHEREAS, Forney Lake is a participating utility of the North Texas Municipal Water District ("NTMWD"); and

WHEREAS, Forney Lake holds the certificate of convenience and necessity ("CCN") to provide retail water service to its service territory, which includes the property described in Exhibit "A", attached hereto and incorporated herein for all purposes (the "Service Area"); and

WHEREAS, TRD is preparing engineering plans and planning a mixed use community with residential, commercial, retail and recreational uses within the Service Area; and

WHEREAS, TRD has created Lake Vista Ranch Municipal Utility District Nos. 1 and 2 and has filed petitions with the Texas Commission on Environmental Quality ("TCEQ") for the formation of Lake Vista Ranch Municipal Utility District Nos. 3 and 4 ("LVR MUD 1", "LVR MUD 2", "LVR MUD 3", and "LVR MUD 4", respectively, and collectively known as the "MUDs") within the Service Area, which entities will be responsible for providing wastewater and drainage services to the Service Area; and

WHEREAS, the MUDs also will provide the infrastructure, transmission and distribution lines, storage facilities, and associated facilities for Forney Lake to provide retail water service to the Service Area; and

WHEREAS, the water provided within the Service Area will be transported through transmission lines, distribution lines, water lines, ground storage tanks, storage towers, pump stations, and associated facilities (the "System") built by TRD or the MUDs for the benefit of Forney Lake and its retail water customers located within the Service Area; and

WHEREAS, upon creation of the MUDs, TRD intends to enter into a reimbursement contract with each MUD so that it may convey to the MUDs the System and be reimbursed for such facilities; and

WHEREAS, upon creation of the MUDs, it is contemplated that LVR MUD 1 will be designated the master district ("Master District") and will be responsible for constructing all regional water and wastewater facilities to service the Service Area; and

WHEREAS, upon creation of the MUDs, TRD intends to assign this Agreement to the Master District, so that it can provide for the regional water facilities to the Service Area; and

WHEREAS, the purpose of this Agreement is to: (1) facilitate the provision of water service within the Service Area; and (2) protect and preserve the system integrity and CCN of Forney Lake.

NOW THEREFORE, Forney Lake and TRD, its successors and assigns, enter into this agreement ("Agreement") and agree as follows:

I. CONTRACT TERMS

- 1.01 Ratification By The MUDs.** TRD shall use its best efforts to see that within 180 calendar days after the later of the creation of each of the MUDs or the date hereof, such MUD will ratify this Agreement thereby accepting all rights, obligations, and duties of TRD herein applicable to the land located within such MUD. In the event: (1) any of the MUDs is not confirmed by the voters of such MUD within twelve (12) months after the date of the final TCEQ order approving the creation of such MUD; or (2) the Board of Directors of a MUD fails to ratify and accept this Agreement within 180 calendar days after the later of creation or the date hereof, this Agreement shall terminate and be of no effect as to such MUD. However, until such time as each of the MUDs is created and has its creation confirmed by the voters of the MUD and the Board of Directors of the MUD has assumed the obligation of this Agreement, TRD is bound by all actions TRD takes on behalf of a MUD. Upon (a) confirmation of the creation of a MUD; and (b) the ratification and acceptance of this Agreement by the MUD's Board of Directors as set out above, TRD shall be released from any and all obligations relative to such MUD and the land located therein. This Agreement supersedes and replaces any agreements previously executed between TRD and Forney Lake.
- 1.02 Consideration.** The parties stipulate that the obligations, rights, and benefits provided herein are mutual and supported by adequate consideration.
- 1.03 Forney Lake CCN.** Notwithstanding any other provision of this Agreement, Forney Lake shall maintain without restriction or diminution its CCN, including that portion within the Service Area. Nothing in this Agreement shall be notice of or support any implication that Forney Lake's CCN is being sold, transferred, merged, abandoned, or released. In compliance with all applicable regulatory requirements, Forney Lake shall be the sole retail water supplier in the Service Area. For the term of this Agreement, TRD and the MUDs shall not (i) directly or indirectly seek to decertify or seek to multiply-certificate the Service Area, or (ii) seek to be a retail water provider in the Service Area.

- 1.04 **Agreement for NTMWD Water Service.** TRD shall cooperate in the implementation of the contract between the North Texas Municipal Water District ("NTMWD") and Forney Lake so as to provide adequate water services for the needs of the Service Area. Forney Lake will work with the MUDs to ensure that the MUDs construct sufficient elevated storage to provide adequate pressure to the System within the Service Area. Further, during the term of this Agreement, neither the MUDs nor any owner or developer of property located within the Service Area shall be required to make any payment to Forney Lake with respect to any cost, fee, or charge for water service within the Service Area, save and except for costs associated with execution of this Agreement, costs outlined in this Agreement, membership fees, and fees for water usage (but excluding fees for capital costs) charged to retail water customers at the same rate schedule charged to Forney Lake members as may be amended from time to time by Forney Lake's tariff. **It is agreed and understood that performance under this Agreement is contingent upon Forney Lake receiving from time to time adequate potable water in an amount sufficient to service the Service Area.**
- 1.05 **District Dissolution.** Each of the MUDs agrees that, if it seeks dissolution or transfers its interest in the Agreement to another entity, to the extent allowed by law, this Agreement shall survive as an agreement between the successor to such MUD and Forney Lake.
- 1.06 **Failure to Ratify Agreement.** In the event one or more MUDs is created and then fails to ratify this Agreement, TRD shall be responsible for paying Forney Lake liquidated damages for the applicable MUD's failure to ratify. Such liquidated damages shall be calculated as enumerated in Texas Water Code § 13.255, attached hereto and incorporated herein for all purposes as Exhibit "B". Such payment under this section shall be due and payable six months after the failure of the applicable MUD to ratify this Agreement.

II. TRD'S OR THE MUDS' OBLIGATIONS

- 2.01 **The System.** Except as specifically provided herein, TRD and the MUDs shall have full responsibility for the cost and construction of the System which TRD or the applicable MUD must construct within the boundaries of the Service Area to include: all water storage, pressurization facilities, and water transmission and distribution system(s) necessary to provide continuous and adequate service to customers in the Service Area in compliance with all applicable statutory and regulatory requirements. Except as specifically provided herein, TRD acknowledges that Forney Lake shall have no obligation to construct such facilities. The general design of the permanent System, attached hereto and incorporated herein for all purposes as Exhibit "C", together with any minor modifications thereto, is hereby approved by Forney Lake. The specific design of the System shall be approved as described in Section 2.04.

Once constructed and after a one year warranty period, Forney Lake shall have full responsibility for the operation and maintenance of such portion of the System. Forney Lake shall be responsible for any normal repairs from normal system operations, such as leak repairs, motor replacements due to ordinary wear and tear, and tank painting.

However, any expenses for capital improvements, system failures, extraordinary repairs, or line replacement costs shall be at the sole cost of TRD or the applicable MUD, until such time as the System is conveyed to Forney Lake as set out in Section 2.07. For purposes hereof, if a before described expense is greater than or equal \$2,500, it will be deemed a capital cost borne by TRD or the applicable MUD and if such expense is less than \$2,500 it will be deemed an operation expense borne by Forney Lake.

- 2.02 Engineering and Inspections.** All costs associated with engineering review and inspection of the System shall be borne by TRD or the applicable MUD. TRD or the applicable MUD shall reimburse Forney Lake in the same manner as outlined in Article VI.
- 2.03 Construction Materials.** The use of pipes and pipe fittings that contain more than 8.0% lead, or solders and flux that contain more than 0.2% lead, or whatever prohibitions may be set by applicable regulatory agency(ies), are prohibited from any plumbing installation or repair of any residential or non-residential facility providing water for human consumption and connected to the System.
- 2.04 Forney Lake Review of System Plan.** Prior to construction of any portion of the System, TRD or the applicable MUD shall submit the plans and specifications for the System to Forney Lake for review. The System shall be designed in accordance with the standards of the TCEQ, NTMWD, the North Texas Council of Governments, and other applicable authorities or agencies with jurisdiction. All plans and specifications for construction, including construction materials, of any part of the System shall be submitted to Forney Lake for its review and approval which approval shall not be unreasonably withheld, delayed or conditioned. Forney Lake will have thirty (30) days from Forney Lake's receipt of the plans and specifications to deliver written comments to TRD or the MUDs relating to such plans and specifications. TRD or such MUD shall accommodate Forney Lake's comments. In the event that Forney Lake fails to deliver comments within thirty (30) days, then Forney Lake shall have waived its right to comment on such plans and specifications. Forney Lake's approval for any construction plans, either expressly or impliedly given, shall be limited to six months. If construction of the approved portion of the System has not begun after six months from the date of approval by Forney Lake, Forney Lake's approval is hereby withdrawn. After construction of each portion of the System, TRD or the applicable MUD shall provide Forney Lake as-built drawings of the applicable facility and air gap. TRD and the applicable MUD agrees to reimburse Forney Lake for its reasonable expenses in reviewing the System's plans. Reimbursement of costs shall be in the manner as outlined in Article VI.
- 2.05 Notice of Need to Construct.** In the event construction does not keep pace with demand, TRD or the applicable MUD must construct within the boundaries of the Service Area the applicable service facility at Forney Lake's request. Construction of the service facility shall begin within a reasonable time after such request (it being understood that plans for such facilities will need to be approved by all applicable entities and construction thereof publicly bid) and diligently pursued through

completion, but in no event shall construction begin later than 180 days after said request is made.

- 2.06 **Construction of the System.** Construction of the System shall be performed to industry standards and to Forney Lake's reasonable satisfaction. Additionally, all facilities to be constructed by TRD or the MUDs shall meet the specifications of Forney Lake with respect to the style, type of material to be used, and/or appearance of the facility to be constructed. Forney Lake may, at TRD's or the applicable MUD's expense, allow Forney Lake to inspect each facility constructed by an inspector of Forney Lake's choosing.
- 2.07 **Conveyance of Facilities.** Upon payment in full of: (i) all of such MUD's bonded indebtedness to construct its portion of the System; and (ii) all outstanding reimbursements due to the developer of the property to construct the System within such MUD, to the extent allowed by law, each MUD shall convey to Forney Lake the System in its then present condition at Forney Lake's sole option. In the event a MUD is not authorized by law to convey such portion of the System then Forney Lake shall continue to be authorized to use such facilities without compensation to the MUD until such time as the MUD is authorized to convey such facilities.
- 2.08 **NTMWD Water.** The parties understand that in order to facilitate the provision of retail water service to customers within the Service Area, from time to time, Forney Lake will need to acquire additional water supply from NTMWD. Forney Lake anticipates that in order to serve the Service Area NTMWD will require Forney Lake to commit to a higher "take or pay" minimum. TRD and the Master District agree to guarantee the "take or pay" minimums applicable to the Service Area. That is, TRD and the Master District will reimburse Forney Lake any and all costs required by NTMWD associated with Forney Lake's failure to purchase the minimum amount of water committed to be purchased from NTMWD because of the lack of water sales in the Service Area in relation to the commitment required because of the projected water sales in the Service Area. TRD's projected water sales within the Service Area are attached hereto and incorporated herein for all purposes as Exhibit "D".

At such time as Forney Lake determines it is necessary to approach NTMWD to acquire an additional supply of water to serve the Service Area, Forney Lake shall request updated projections of water demand for the Service Area and TRD shall supply such information within sixty (60) days. Forney Lake shall utilize such information in determining the amount of water it requests from NTMWD, which amounts may include water to serve the Service Area plus other service areas of Forney Lake.

Throughout the time that Forney Lake is negotiating with NTMWD the terms for purchasing additional water, Forney Lake shall advise TRD as to the proposed terms of such agreement and TRD's projected share of the costs, including any "take-or-pay" payments. In the event Forney Lake negotiates to acquire water to serve lands outside the Service Area, the "take-or-pay" payments shall be allocated pro rata between the Service Area and the other areas. In the event TRD determines that it cannot pay its

share of such costs, TRD may revise its projections of future water demands and Forney Lake shall use such revised projections for the purpose of negotiating its contract with NTMWD. Forney Lake will not enter into a contract with NTMWD for the purchase of water to serve the Service Area unless the terms thereof are satisfactory to TRD. In the event TRD does not approve the terms for purchasing additional water from NTMWD to serve the Service Area, then Forney Lake will be excused from providing such additional water service until TRD approves such terms.

The parties hereto acknowledge that over time the Service Area may receive water from NTMWD through more than one meter and NTMWD may require Forney Lake to enter into a separate "take-or-pay" contract for each water meter. The parties hereto agree to co-operate in balancing the amount of water purchased through each meter in order to minimize the risk that Forney Lake is charged for water that is not used.

- 2.09 **Forney Lake Membership.** Each MUD will require each of its customers to sign an agreement requiring them to become members of Forney Lake.
- 2.10 **Fees.** All fees incurred by Forney Lake and required to be paid by TRD or the MUDs in accordance with the terms of this Agreement shall be reimbursed by TRD or the applicable MUD in the same manner as outlined in Article VI.

III. CONSTRUCTION OF IMPROVEMENTS TO ALLOW TEMPORARY SERVICE TO SERVICE AREA PRIOR TO COMPLETION OF SYSTEM.

- 3.01 **General.** Forney Lake is agreeable to serving the Service Area on a temporary basis from facilities constructed to serve other customers of Forney Lake's system (and thereby postponing costs to be incurred by TRD in constructing the System, in return for TRD funding the construction of certain upgrades to the Forney Lake system.
- 3.02 **Construction of Forney Lake Temporary System Improvements.** In conjunction with Forney Lake amending its existing water purchase agreement with NTMWD to purchase 1,500 gpm of water, Forney Lake shall cause to be constructed the following (collectively, the "Forney Lake Temporary System Improvements"):
- (a) Install a twelve (12) inch waterline along U.S. Highway 80 and FM 460 extending from the existing Forney Lake ground storage tank to the existing twelve inch (12") water line on north side of U.S. Highway 80;
 - (b) Replace the existing four (4) inch meter with an eight inch (8") meter at the connection from the NTMWD connection to the Forney Lake water system;
 - (c) Install SCADA equipment as may be required by NTMWD and Forney Lake for operation of the system;

- (d) Construct a pump station and install three (3) 1500 gallons per minute ("gpm") pumps at the existing elevated storage tank site located on FM 740; and
- (e) Install two (2) 1500 gpm pumps at the existing Forney Lake booster pump station located on F.M. 460.

The specifications and location of the Forney Lake Temporary System Improvements are described in greater detail on the attached Exhibit "E". The estimated cost of the Forney Lake Temporary System Improvements is \$380,000.00. The Forney Lake Temporary System Improvements will be designed by the engineering firm representing Forney Lake. Upon completion of the Forney Lake Temporary System Improvements and approval from NTMWD for 1500 gpm supply, Forney Lake will have sufficient capacity in its facilities to serve up to 2,500 equivalent single family connections ("esfc") to customers.

Forney Lake and TRD shall share in the cost of designing and constructing the Forney Lake Temporary System Improvements as follows:

- (i) Forney Lake and TRD each shall pay 50% of the cost of items (a)- (c); and
- (ii) For the pumps described in (d) and (e), Forney Lake shall bid each item both as 1,000 gpm pumps and 1,500 gpm pumps. Forney Lake shall install only 1,500 gpm pumps. Forney Lake shall pay an amount equal to 50% of the cost of installing 1,000 gpm pumps and TRD shall pay the remainder.

At such time as Forney Lake and TRD agree, but no later than the date Forney Lake executes an amendment to its water supply contract with NTMWD, Forney Lake shall proceed with engineering design and construction of the Forney Lake Temporary System Improvements and diligently pursue such project through completion. Within thirty (30) days after Forney Lake advises TRD that it has authorized its engineer to begin designing the Forney Lake Temporary System Improvements TRD shall deposit with Forney Lake its share of the costs thereof. Within 30 days after completion of the Forney Lake Temporary System Improvements, TRD and Forney Lake shall determine the actual costs of the Forney Lake Temporary System Improvements. At that time, TRD shall be entitled to reimbursement or pay Forney Lake the appropriate portion of the final costs of the Forney Lake Temporary System Improvements.

3.03 Acquisition of Waterline Easement. In order to construct the extension of the twelve (12) inch water line along U.S. Highway 80 and FM 460, the Master District shall be responsible for obtaining all easements necessary to construct, install and maintain such portion of the Forney Lake Temporary System Improvements.

3.04 Water Supply Contract with NTMWD. Upon the execution of this Agreement, Forney Lake Shall use its reasonable good faith efforts to negotiate and enter into an

amended contract with NTMWD increasing the amount of water being supplied by NTMWD to Forney Lake from the current volume to 1,500 gpm. 64% of the additional take or pay payments to be made by Forney Lake for such increase shall be paid by TRD and 36% shall be paid by Forney Lake. In negotiating the contract for such increase in water supply, Forney Lake shall comply with the provisions of Section 2.08 as it relates to advising TRD as to the proposed terms of the contract amendment and the right of TRD to approve such agreement.

- 3.05 COMMITMENT OF WATER SUPPLY TO THE SERVICE AREA.** Upon completion of the construction of the Forney Lake Temporary System Improvements and amending the contract with NTMWD to 1500 gpm as provided in Section 3.04, Forney Lake shall reserve for the Service Area and be prepared to provide water supply service to 960 equivalent single family connections ("esfc") of water.

At such time as TRD proceeds with the development of land requiring a commitment of water in excess of the 960 esfcs, Forney Lake agrees to allocate its available water supplies to serve such development, subject, however, to Forney Lake keeping sufficient water available to serve the anticipated number of new customers outside the Service Area during the next two (2) years.

Following the construction of the Forney Lake Temporary System Improvements and the amending of Forney Lake's water supply contract with NTMWD to provide 1,500 gpm of water, at such time as requested by TRD, Forney Lake will issue to a developer, homebuilder or residential customer located within the Service Area a letter evidencing the availability of water substantially in the form attached hereto as Exhibit "F". Forney Lake, however, will not be required to issue water commitment letters for more than the total amount of water then reserved for the Service Area.

- 3.06 CONSTRUCTION OF PERMANENT SYSTEM IMPROVEMENTS.** The Forney Lake Temporary System Improvements being constructed pursuant to §3.01 will allow Forney Lake to supply the Service Area from facilities heretofore constructed by Forney Lake to serve other customers. At such time as demand for water supply within the Service Area and other areas being served by Forney Lakes exceeds 2,200 esfc, and upon the request of Forney Lake, TRD shall cause to be constructed ground storage capacity, pump station, a water main and elevated storage capacity to serve, as needed, the demand for water within the Service Area. When determining the adequacy of such facilities, the capacities created by the Forney Lake Temporary Water Improvements will not be considered, unless agreed by Forney Lake, to serve the Service Area and Forney Lake Temporary System Improvements may be used to serve other customers of Forney Lake.

IV. FORNEY LAKE'S RIGHTS AND OBLIGATIONS

- 4.01 Access.** TRD and the MUDs hereby grant Forney Lake a license for reasonable ingress and egress over the public roadways and utility easements inside the Service Area to inspect and maintain the System in order to insure continuous and adequate water service.

- 4.02 **Relocation of Existing Facilities.** In connection with TRD's development of property within the Service Area, Forney Lake agrees, if consent is provided, that TRD or the applicable MUD may remove, replace, relocate, redefine or abandon all or a portion of the existing water pipelines, other improvements and easements owned by Forney Lake (the "Existing Facilities"), provided that such actions do not materially adversely affect Forney Lake's ability to provide services to its customers being serviced by the Existing Facilities. Forney Lake agrees to execute such documentation as may be reasonably requested by TRD or the MUDs to evidence its consent to such release or abandonment of existing easements that are no longer required for providing services.

V. TERM

The term of this Agreement shall be for fifty (50) years from the Effective Date of this Agreement or until the System is conveyed to Forney Lake as described in Section 2.07.

VI. REIMBURSEMENT OF COSTS

As consideration for Forney Lake's performance of its obligations hereunder, TRD or the Master District, as the case may be, agrees to reimburse Forney Lake for the following expenses related to the execution of this Agreement: all of Forney Lake's reasonable attorneys fees, engineering fees, inspection fees, administrative fees, and consultant fees incurred in negotiating this Agreement, not to exceed \$23,077⁵⁰. In addition TRD or the Master District shall reimburse Forney Lake all of Forney Lake's reasonable costs in reviewing plans for the System. Nothing herein shall be read to limit the fees otherwise to be paid to Forney Lake pursuant to the Agreement.

Upon receipt of the charges to be reimbursed, TRD or the applicable MUD shall reimburse Forney Lake of the applicable expense within 30 days of delivery of the applicable invoice or charge to TRD or the applicable MUD.

VII. DEFAULT

If either party believes that the other party has defaulted under one or more provisions of this Agreement, then the non-defaulting party shall give the other party written notice of such default and allow such party ten (10) days to cure a monetary default and thirty (30) days to cure a non-monetary default.

VIII. MISCELLANEOUS

- 8.01 **Expansion of Service Area.** The Service Area shall automatically be expanded to include any lands annexed into any of the MUDs, if such lands are located within the area subject to Forney Lake's CCN. Upon the prior written consent of Forney Lake, the Service Area shall also be expanded to include any lands annexed into any of the MUDs, if such lands are located outside of the area covered by Forney Lake's CCN and such area may legally be served by Forney Lake.

8.02 Easements. At the option of TRD and subject to compliance with the applicable regulations of the City of Dallas, all water distribution lines shall be constructed either within public rights-of-way or non-exclusive easements dedicated to Forney Lake.

8.03 Notice. Any notice to be given hereunder to a party shall be in writing and effected by certified mail, return receipt requested.

Notice to Forney Lake shall be addressed to:

Forney Lake Water Supply Corporation
P. O. Box 2034
Rockwall, Texas 75087

With a copy to:

Arturo D. Rodriguez, Jr.
Russell, Moorman, and Rodriguez, L.L.P.
102 W. Morrow St., Suite 103
Georgetown, Texas 78628

Notice to TRD shall be addressed to:

Travis Ranch Development, L.P.
c/o Landmark Interests
Attn: Mr. Jack Tate
16660 North Dallas Parkway, Suite 2900
Dallas, Texas 75248

With a copy to:

Travis Ranch Development, L.P.
Attn: Mr. Samuel Dabney Ware
C/o Lazarus Property Corporation
5949 Sherry Lane, Suite 1255
Dallas, Texas 75225

With a copy to:

Timothy G. Green
Coats, Rose, Yale, Ryman & Lee, P.C.
1001 Fannin, Suite 800
Houston, Texas 77002

Each party may change the address for notice to it by giving notice of such change at the last address designated in accordance with this section.

8.04 Franchise Agreements. Forney Lake is granted a license to use the public roadways and utility easements inside the Service Area where water transmission or distribution lines are located and where related water facilities are located. Forney Lake shall not

be required to pay a franchise fee to the MUDs for use of the public roadways and utility easements for the System.

In the event, as a condition to Forney Lake approving the plans for any portion of the System, Forney Lake requires TRD or the MUDs to oversize the capacity of any of such facilities to accommodate the development of lands located outside the Service Area, Forney Lake agrees that it shall share the cost of the oversized facilities. Forney Lake's share of the oversized facilities shall be the construction cost differential of the oversized facilities.

- 8.05 **Negligent Acts.** To the extent allowed by law, Forney Lake, TRD, and each of the MUDs agrees to each be legally responsible for its own negligent acts and indemnify each other from same.
- 8.06 **Indemnity.** To the extent allowed by law, TRD and each of the MUDs agrees to and will indemnify Forney Lake and hold Forney Lake harmless from any claim or damage to Forney Lake or its CCN that is caused by TRD's or the applicable MUD's failure to design or construct an adequate water distribution system within the portions of the Service Area within its boundaries.
- 8.07 **Attorney Fees and Costs.** The non-prevailing party in any dispute or legal proceedings enforcing this Agreement shall be entitled to recover its attorney's fees, witness fees, litigation expenses and costs, as same are reasonable and necessary, to be paid by the non-prevailing party.
- 8.08 **Fire Flow.** Forney Lake agrees to maintain and operate facilities that comply with the Fire Flow requirements of any jurisdiction. However, the parties understand that Forney Lake does not provide water directly from its system in sufficient quantities to provide water for fire fighting purposes, a quantity commonly known as "Fire Flow". In accordance with its Tariff, Forney Lake does not guarantee Fire Flow.
- 8.09 **Time of Essence.** Time is of the essence in the performance of this Agreement.
- 8.10 **Modification.** This Agreement may be changed or modified only with the consent of the governing bodies of both Forney Lake and the applicable MUD. TRD's authorized representative may approve a change or modification to this Agreement on behalf of the MUDs. No changes or modifications may be made which will affect adversely the prompt payment when due of all monies required to be paid by TRD or the applicable MUDs under the terms of this Agreement.
- 8.11 **Effective Date.** The Effective Date of this Agreement is August 5, 2003.
- 8.12 **Severability.** This Agreement is subject to all applicable Federal, state, and local laws, and any applicable permits, rules, orders, and regulations of any local, state, or federal governmental authority having jurisdiction. In addition, the parties hereto specifically agree that in case any one or more of the provisions of the Agreement should be, or should be held to be, for any reason, invalid or unconstitutional, under the laws or the constitutions of the State or the United States of America, or in contravention in any

such laws or constitutions, such invalidity, unconstitutionality or contravention shall not effect any other provisions of this Agreement.

- 8.13 **Assignment.** Upon creation of the MUDs, TRD shall be authorized to assign all of its rights and obligations hereunder to each of the MUDs. TRD shall provide Forney Lake a copy of each and every assignment. An assignment of rights and obligations under this Agreement shall take effect upon the applicable MUD notifying Forney Lake in writing of such assignment.
- 8.14 **Force Majeure.** If by reason of force majeure any party hereto shall be rendered unable wholly or in part to carry out its obligations under this Agreement, other than the obligation of TRD or the applicable MUD to make the payments required under Article VI, then if such party shall give notice and full particulars of such force majeure in writing to the other party within a reasonable time after occurrence of the event or cause relied on, the obligation of the party giving such notice, so far as it is affected by such force majeure, shall be suspended during the continuance of the inability claimed, but for no longer period, and any such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "force majeure" as employed herein shall mean acts of God, strike, lockouts, or other industrial disturbances, acts of public enemy, orders of any kind of the government of the United States or the State of Texas, or any civil or military authority, insurrection, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accidents to machinery, pipelines or canals, partial or entire failure of water supply, shortages of materials or qualified workmen, or on account of any other causes not reasonable within the control of the party claiming such inability.
- 8.15 **Insurance.** While TRD or the MUDs own the System, TRD or the applicable MUD agrees to carry and arrange for fire, casualty, public liability, and/or other insurance on the System for purposes and in amounts which, as determined by Forney Lake, ordinarily would be carried by a privately owned utility company owning and operating such facilities. Such insurance shall provide for the restoration of damaged or destroyed properties or equipment, to minimize the interruption of such facilities located within the System. Forney Lake shall be an additional insured on said insurance policies. Within 30 days after installation of the first phase of the System, TRD or the MUD shall provide Forney Lake with evidence of insurance.
- 8.16 **Regulatory Bodies and Laws.** This Agreement is subject to all applicable Federal and State laws and any applicable permits, ordinances, rules, orders, and regulations of any local, state, or federal government authority having or asserting jurisdiction, but nothing contained herein shall be construed as a waiver of any right to question or contest any such law, ordinance, order, rule, or regulation in any forum, having jurisdiction.
- 8.17 **Venue.** All amounts due under this Agreement, including, but not limited to, payments under this Agreement or damages for breach of this Agreement, shall be paid and due in Rockwall County, Texas, which is the county in which the principal administrative

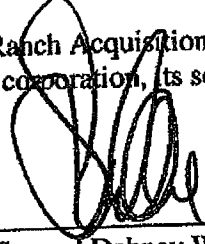
office of Forney Lake is located. It is specifically agreed among the parties to this Agreement that this Agreement is fully performable in Rockwall County, Texas.

- 9.01 **Headings.** The headings contained in this Agreement are for convenience only and shall in no way enlarge, limit, or otherwise modify the scope or the meaning of the language herein.

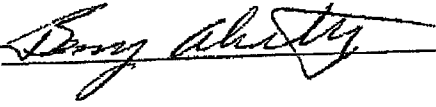
**TRAVIS RANCH DEVELOPMENT, L.P.,
a Texas limited partnership**

By: Travis Ranch Investors, L.P.,
a Texas limited partnership, its sole
general partner

By: Travis Ranch Acquisition Corporation,
a Texas corporation, its sole general
partner

By: 
Samuel Dabney Ware, President
and CEO

**FORNEY LAKE WATER SUPPLY
CORPORATION**

By: 
Title: _____

EXHIBITS:

- A - Service Area
- B - Texas Water Code §13.255
- C - Approved Design of System
- D - Projected water needs of Service Area
- E - Forney Lake Temporary System Improvements
- F - Form of Water Commitment Letter

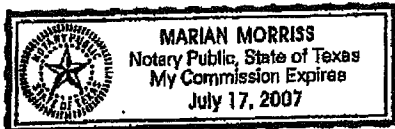
ACKNOWLEDGEMENTS

STATE OF TEXAS

§
§
§

COUNTY OF ROCKWALL

This instrument was acknowledged before me on this 11 day of August, 2003, by Samuel Dabney Ware, President and CEO of Travis Ranch Acquisition Corporation, a Texas Corporation, sole general partner of Travis Ranch Investors, L.P., a Texas limited partnership, sole general partner of Travis Ranch Development, L.P., a Texas limited partnership, on behalf of said limited partnership.



Marian Morris
Notary Public, State of Texas

STATE OF TEXAS

§
§
§

COUNTY OF ROCKWALL

This instrument was acknowledged before me on this ____ day of _____, 2003, by _____, _____ of Forney Lake Water Supply Corporation, a Texas nonprofit corporation, on behalf of said corporation.

Notary Public, State of Texas

**PROPERTY DESCRIPTION
PROPOSED LAKEVIEW RANCH
MUNICIPAL UTILITY DISTRICT NO. 1**

BEING A 819.4 ACRE TRACT OF LAND SITUATED IN THE I. JONES SURVEY, ABSTRACT NO. 257, THE S.C. WHITE SURVEY, ABSTRACT NO. 572, THE J.R. BRISCOE, ABSTRACT NO. 40, THE R.H. LOVE SURVEY, ABSTRACT NO. 638, THE S. WOODS SURVEY, ABSTRACT NO. 574 AND THE J.R. CONNER SURVEY, ABSTRACT NO. 100, KAUFMAN COUNTY, TEXAS AND BEING ALL OF THAT TRACT OF LAND DESCRIBED IN DEED TO B. GILL CLEMENTS, RECORDED IN VOLUME 1041, PAGE 490, OF THE DEED RECORDS OF KAUFMAN COUNTY, TEXAS (D.R.K.C.T.) AND BEING A PORTION OF A TRACT OF LAND DESCRIBED IN DEED TO CLEMGIL REALTY, INC. RECORDED IN VOLUME 543, PAGE 540, D.R.K.C.T. (COLLECTIVELY REFERRED TO HEREINAFTER AS THE CLEMGIL TRACT). SAID 819.4 ACRE TRACT BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT A 1/2" IRON ROD FOUND AT THE INTERSECTION OF THE SOUTH RIGHT-OF-WAY (R.O.W.) LINE OF F.M. HWY. NO. 740 AND THE WEST R.O.W. LINE OF F.M. HWY. NO. 460;

THENCE ALONG THE WEST R.O.W. LINE OF SAID F.M. HWY. NO. 460, THE FOLLOWING COURSES AND DISTANCES:

S 07°13'10" W, A DISTANCE OF 67.35 FEET TO A POINT;

S 46°44'45" W, A DISTANCE OF 2080.20 FEET TO A POINT;

ALONG A CURVE TO THE LEFT HAVING A RADIUS OF 2910.37 FEET, A DELTA ANGLE OF 7°08'00", A CHORD BEARING S 43°10'45" W, A DISTANCE OF 362.11 FEET, AND AN ARC LENGTH OF 362.34 FEET TO A POINT;

S 39°36'45" W, A DISTANCE OF 707.10 FEET TO A POINT;

ALONG A CURVE TO THE RIGHT HAVING A RADIUS OF 2820.64 FEET, A DELTA ANGLE OF 6°01'00", A CHORD BEARING S 42°37'15" W, A DISTANCE OF 296.06 FEET, AND AN ARC LENGTH OF 296.20 FEET TO A POINT;

S 45°37'45" W, A DISTANCE OF 823.83 FEET TO A POINT FOR THE MOST SOUTHERLY SOUTHEAST CORNER OF SAID CLEMGIL TRACT;

THENCE ALONG THE SOUTH LINE OF SAID CLEMGIL TRACT, THE FOLLOWING COURSES AND DISTANCES:

S 89°06'03" W, A DISTANCE OF 1598.90 FEET TO A POINT;

EXHIBIT A

MICHAEL W. BEDFORD
CERTIFIED PUBLIC ACCOUNTANT
205 WEST HIGH STREET
TERRELL, TEXAS 75160
(972) 563-7671
Fax (972) 563-7801

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Forney Lake Water Supply Corporation
Forney, Texas

We have audited the accompanying balance sheets of Forney Lake Water Supply Corporation as of December 31, 2009 and December 31, 2008, and the related statements of income and expense, changes in membership equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forney Lake Water Supply Corporation as of December 31, 2009 and December 31, 2008, the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,



Michael W. Bedford
Certified Public Accountant
July 2, 2010

EXHIBIT A

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS
COMPARATIVE BALANCE SHEET
December 31, 2009

ASSETS	2009	2008
CURRENT ASSETS		
Cash in bank and invested cash:		
Revenue fund account	\$ 947,332	\$ 850,901
Membership fees	195,700	186,800
Construction	367,826	367,514
Maintenance reserve	556,600	528,100
Total cash and invested cash	2,067,458	1,933,315
Accounts receivable, net	26,614	23,874
Inventory	3,200	3,200
Other current assets	3,173	16,039
Total current assets	2,100,445	1,976,428
RESTRICTED ASSETS		
Revenue bond current debt service account	51,215	50,921
Revenue bond future debt service account	42,785	42,539
Total restricted assets	94,000	93,460
FIXED ASSETS		
Plant, property and equipment	4,334,096	4,289,348
Less: Accumulated depreciation	1,523,233	1,345,989
Total fixed assets	2,810,863	2,943,359
OTHER ASSETS		
Other	5,412	6,321
Total assets	\$ 5,010,720	\$ 5,019,568
LIABILITIES AND MEMBERSHIP EQUITY		
CURRENT LIABILITIES		
Payable from current assets:		
Accounts payable and accrued expenses	\$ 54,524	\$ 47,004
Construction related payable and retainage payable		
Total current liabilities payable from current assets	54,524	47,004
Payable from restricted assets:		
Accrued interest payable	874	1,040
Current portion bonds payable	30,000	25,000
Total current liabilities payable from restricted assets	30,874	26,040
LONG-TERM LIABILITIES		
Bonds payable - net of current portion	100,000	130,000
Total liabilities	185,398	203,044
MEMBERSHIP EQUITY		
Contributed capital:		
Membership fees	195,700	186,800
Paid in capital	2,304,287	2,266,887
Total contributed capital	2,499,987	2,453,687
Retained earnings:		
Reserved per revenue bond indenture	63,126	67,420
Unreserved	2,262,209	2,295,417
Total retained earnings	2,325,335	2,362,837
Total membership equity	4,825,322	4,816,524
Total liabilities and membership equity	\$ 5,010,720	\$ 5,019,568

See notes to financial statements.

EXHIBIT B

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

STATEMENT OF INCOME AND EXPENSE
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUE		
Water sales and charges	\$ 914,409	\$ 952,771
	<u>914,409</u>	<u>952,771</u>
OPERATING EXPENSES		
Water purchases	349,757	323,228
Utilities	70,566	74,334
Repairs and maintenance	129,836	102,814
Personal services	162,670	151,369
Inspection fees	14,525	17,500
Office supplies and expense	18,702	17,681
Administrative and general	29,230	32,966
Attorney fees	2,900	1,476
Engineering	6,557	-
Provision for uncollectible accounts	-	3,000
Depreciation and amortization	178,153	175,286
Total operating expense	<u>962,896</u>	<u>899,654</u>
Total operating income (loss)	<u>(48,487)</u>	<u>53,117</u>
NON-OPERATING INCOME (EXPENSE)		
Interest income	23,293	64,885
Interest expense	<u>(12,308)</u>	<u>(14,272)</u>
Net income (loss) for period	\$ <u>(37,502)</u>	\$ <u>103,730</u>

See notes to financial statements.

EXHIBIT C

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

STATEMENT OF CHANGES IN MEMBERSHIP EQUITY
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Membership equity at beginning of year	\$ 4,816,524	\$ 4,657,894
Net income (loss) for year	(37,502)	103,730
Contributed capital	46,300	54,900
(increase (decrease)	8,798	158,630
Membership equity at end of year	\$ 4,825,322	\$ 4,816,524

See notes to financial statements.

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Net income (loss) for period	\$ (37,502)	\$ 103,730
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	178,153	175,286
(Increase) Decrease in accounts receivable	(2,740)	15,501
(Increase) Decrease in other current assets	12,868	2,765
Increase (Decrease) in payables & accrued expenses	7,520	2,423
Net cash provided by operating activities	<u>158,297</u>	<u>299,705</u>
INVESTING ACTIVITIES		
(Increase) decrease in investment in time deposits	600,833	91,980
Purchases of plant, property and equipment	<u>(44,748)</u>	<u>(123,012)</u>
Net cash provided (used) by investing activities	<u>556,085</u>	<u>(31,032)</u>
FINANCING ACTIVITIES		
Principal payments of long-term debt	(25,000)	(25,000)
Proceeds from paid in capital	46,300	54,900
(Increase) decrease in net restricted assets	<u>(706)</u>	<u>(2,755)</u>
Net cash provided (used) by financing activities	<u>20,594</u>	<u>27,145</u>
Increase (Decrease) in cash	734,976	295,818
Cash and cash equivalents at beginning of year	<u>984,513</u>	<u>688,695</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,719,489</u></u>	<u><u>\$ 984,513</u></u>
<u>Reconciliation of Cash and Cash Equivalents to Balance Sheet</u>		
Cash and cash equivalents per cash flow statement	1,719,489	984,513
Cash investments with original maturities over three months when purchased, not considered to be cash and cash equivalents for cash flow statement	347,969	948,802
Total cash and invested cash per Balance Sheet	<u><u>2,067,458</u></u>	<u><u>1,933,315</u></u>

See notes to financial statements.

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

Note 1. SUMMARY OF ACCOUNTING POLICIES

Basis of accounting - The accounting policies of the Forney Lake Water Supply Corporation (Corporation) conform to generally accepted accounting principles. The operations are maintained on an accrual basis.

Cash equivalents - Cash equivalents of \$1,719,489 and \$984,513 at December 31, 2009 and 2008, respectively, consist of funds due from banks. For purposes of the statement of cash flows the Corporation considers all highly liquid debt instruments with original maturities when purchased of three months or less to be cash equivalents.

Inventory - Inventory of parts and supplies is valued at cost.

Property, plant and equipment - Property, plant and equipment are carried at cost. Depreciation is computed using the straight-line method over estimated useful lives ranging from 3 to 50 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred, whereas significant renewals or betterment's are capitalized and a deduction is made for retirements resulting from the renewals or betterment's.

Income taxes - The Corporation is an organization that is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code and will remain exempt as long as it meets the requirements of Section 501(c)(12) each year.

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

Subsequent events - Management has considered subsequent events through July 2, 2010, which is the date the financial statements have been available to be issued.

Note 2. PLANT, PROPERTY AND EQUIPMENT

A summary of fixed assets follows:

	12-31-09	12-31-08
Land	\$ 3,710	\$ 3,710
Distribution system	4,314,704	4,269,956
Construction in progress	-	-
Equipment	15,682	15,682
Total	4,334,096	4,289,348
Less accumulated depreciation	1,523,233	1,345,989
Net	\$ 2,810,863	\$ 2,943,359

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

Note 3. COMMITMENTS

The Corporation has entered into a contract with North Texas Municipal Water District for the purchase of water which requires a minimum purchase according to number of gallons per year on a take or pay basis. Each ensuing year the Corporation must purchase minimum quantities according to the contract amounts or the highest total amount withdrawn by the Corporation during any previous year, whichever is greater. The total price paid for the water will be determined annually and will be five cents (\$.05) per thousand gallons above the rate established for the Member Cities of the North Texas Municipal Water District, but in no event less than fifty cents (\$.50) per thousand gallons. The table listed below reflects the minimum annual purchase requirements in gallons per the contract. The minimum annual demand has exceeded the contract and is currently 295,577,000 gallons.

<u>Annual Fiscal Period</u>	<u>Number of gallons</u>
October 1, 2004 through September 30, 2005	171,795,000 gallons
October 1, 2005 through September 30, 2006	182,996,000 gallons
October 1, 2006 through September 30, 2007	194,197,000 gallons
October 1, 2007 through September 30, 2008	205,398,000 gallons
October 1, 2008 through September 30, 2009	216,599,000 gallons
October 1, 2009 through September 30, 2010	227,800,000 gallons

After September, 2010, the annual minimum to be purchased during any ensuing year shall not be less than the highest total amount withdrawn by the Corporation during any previous year or 227,800,000 gallons.

Note 4. BONDED DEBT

In 1998, the Corporation borrowed \$325,000 and pledged its assets and net revenue to repay the principal and interest. Effective interest rates range from 7.14% to 8.14%. The following is a summary of bonded debt transactions for the Corporation for the periods indicated:

	12-31-09	12-31-08
Balance payable at beginning of year	\$ 155,000	\$ 180,000
New bonds issued	-	-
Bonds retired	25,000	25,000
Bonds payable at end of year	<u>\$ 130,000</u>	<u>\$ 155,000</u>

Debt service requirements for bonds are as follows:

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	30,000	10,490	40,490
2011	30,000	8,093	38,093
2012	35,000	5,681	40,681
2013	35,000	2,849	37,849
	<u>130,000</u>	<u>27,113</u>	<u>157,113</u>

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

Note 5. CONCENTRATION OF RISKS

Most of the Corporation's business activity is with customers located within Kaufman County, Texas and Rockwall County, Texas. Any significant occurrence affecting the economy of Kaufman and Rockwall Counties would significantly affect the Corporation.

The Corporation purchases treated water for sale to its members from the North Texas Municipal Water District. The North Texas Municipal Water District is currently the Corporation's only source of water.

The Corporation maintains accounts with several banks and a broker. Accounts at each institution are insured by the Federal Insurance Corporation (FDIC). At various times during the year 2009 the Corporation had cash deposits with institutions in excess of FDIC insurance coverage.

Note 6. COMPLIANCE WITH BOND INDENTURE

During the course of our audits we took measures to ascertain compliance with the bond indenture requirements. Nothing came to our attention to indicate any violation of those requirements.

FORNEY LAKE WATER SUPPLY CORPORATION

FORNEY, TEXAS

FINANCIAL STATEMENTS

DECEMBER 31, 2010

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	Notes to Financial Statements	5

**MICHAEL W. BEDFORD
CERTIFIED PUBLIC ACCOUNTANT
205 WEST HIGH STREET
TERRELL, TEXAS 75160
(972) 563-7671
Fax (972) 563-7801**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Forney Lake Water Supply Corporation
Forney, Texas

We have audited the accompanying balance sheets of Forney Lake Water Supply Corporation as of December 31, 2010 and December 31, 2009, and the related statements of income and expense, changes in membership equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forney Lake Water Supply Corporation as of December 31, 2010 and December 31, 2009, the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,



Michael W. Bedford
Certified Public Accountant
June 14, 2011

EXHIBIT A

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS
COMPARATIVE BALANCE SHEET
December 31, 2010

ASSETS	2010	2009
CURRENT ASSETS		
Cash in bank and invested cash:		
Revenue fund account	\$ 1,103,806	\$ 947,332
Membership fees	201,600	195,700
Construction	367,952	367,826
Maintenance reserve	574,300	556,600
Total cash and invested cash	2,247,658	2,067,458
Accounts receivable, net	40,257	28,614
Inventory	3,200	3,200
Other current assets	10,316	3,173
Total current assets	2,301,431	2,100,445
RESTRICTED ASSETS		
Revenue bond current debt service account	51,333	51,215
Revenue bond future debt service account	42,884	42,785
Total restricted assets	94,217	94,000
FIXED ASSETS		
Plant, property and equipment	4,334,096	4,334,096
Less: Accumulated depreciation	1,699,459	1,523,233
Total fixed assets	2,634,637	2,810,863
OTHER ASSETS		
Other	4,503	5,412
Total assets	\$ 5,034,788	\$ 5,010,720
LIABILITIES AND MEMBERSHIP EQUITY		
CURRENT LIABILITIES		
Payable from current assets:		
Accounts payable and accrued expenses	\$ 32,033	\$ 54,524
Construction related payable and retainage payable	-	-
Total current liabilities payable from current assets	32,033	54,524
Payable from restricted assets:		
Accrued interest payable	674	874
Current portion bonds payable	30,000	30,000
Total current liabilities payable from restricted assets	30,674	30,874
LONG-TERM LIABILITIES		
Bonds payable - net of current portion	70,000	100,000
Total liabilities	132,707	185,398
MEMBERSHIP EQUITY		
Contributed capital:		
Membership fees	201,600	195,700
Paid in capital	2,327,187	2,304,287
Total contributed capital	2,528,787	2,499,987
Retained earnings:		
Reserved per revenue bond indenture	63,543	63,126
Unreserved	2,309,751	2,262,209
Total retained earnings	2,373,294	2,325,335
Total membership equity	4,902,081	4,825,322
Total liabilities and membership equity	\$ 5,034,788	\$ 5,010,720

See notes to financial statements.

EXHIBIT B

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

STATEMENT OF INCOME AND EXPENSE
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE		
Water sales and charges	\$ 1,087,012	\$ 914,409
	<u>1,087,012</u>	<u>914,409</u>
OPERATING EXPENSES		
Water purchases	378,616	349,757
Utilities	86,284	70,566
Repairs and maintenance	99,334	129,836
Personal services	219,844	162,670
Inspection fees	10,250	14,525
Office supplies and expense	29,100	18,702
Administrative and general	33,474	29,230
Attorney fees	1,214	2,900
Engineering	-	6,557
Provision for uncollectible accounts	-	-
Depreciation and amortization	<u>177,134</u>	<u>178,153</u>
Total operating expense	<u>1,035,250</u>	<u>962,896</u>
Total operating income (loss)	51,762	(48,487)
NON-OPERATING INCOME (EXPENSE)		
Interest income	6,487	23,293
Interest expense	<u>(10,290)</u>	<u>(12,308)</u>
Net income (loss) for period	\$ 47,959	\$ (37,502)

See notes to financial statements.

EXHIBIT C

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

STATEMENT OF CHANGES IN MEMBERSHIP EQUITY
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Membership equity at beginning of year	\$ 4,825,322	\$ 4,816,524
Net income (loss) for year	47,959	(37,502)
Contributed capital	28,800	46,300
Increase (decrease)	76,759	8,798
Membership equity at end of year	\$ 4,902,081	\$ 4,825,322

See notes to financial statements.

EXHIBIT D

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES		
Net income (loss) for period	\$ 47,959	\$ (37,502)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	177,134	178,153
(Increase) Decrease in accounts receivable	(13,643)	(2,740)
(Increase) Decrease in other current assets	(7,143)	12,866
Increase (Decrease) in payables & accrued expenses	(22,491)	7,520
Net cash provided by operating activities	<u>181,816</u>	<u>158,297</u>
INVESTING ACTIVITIES		
(Increase) decrease in investment in time deposits	(502,938)	600,833
Purchases of plant, property and equipment	<u>-</u>	<u>(44,748)</u>
Net cash provided (used) by investing activities	<u>(502,938)</u>	<u>556,085</u>
FINANCING ACTIVITIES		
Principal payments of long-term debt	(30,000)	(25,000)
Proceeds from paid in capital	28,800	46,300
(Increase) decrease in net restricted assets	<u>(417)</u>	<u>(706)</u>
Net cash provided (used) by financing activities	<u>(1,617)</u>	<u>20,594</u>
Increase (Decrease) in cash	(322,739)	734,976
Cash and cash equivalents at beginning of year	<u>1,719,489</u>	<u>984,513</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,396,750</u></u>	<u><u>\$ 1,719,489</u></u>
<u>Reconciliation of Cash and Cash Equivalents to Balance Sheet</u>		
Cash and cash equivalents per cash flow statement	\$ 1,396,750	\$ 1,719,489
Cash investments with original maturities over three months when purchased, not considered to be cash and cash equivalents for cash flow statement	<u>850,908</u>	<u>347,969</u>
Total cash and invested cash per Balance Sheet	<u><u>\$ 2,247,658</u></u>	<u><u>\$ 2,067,458</u></u>

See notes to financial statements.

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

Note 1. SUMMARY OF ACCOUNTING POLICIES

Basis of accounting - The accounting policies of the Forney Lake Water Supply Corporation (Corporation) conform to generally accepted accounting principles. The operations are maintained on an accrual basis.

Cash equivalents - Cash equivalents of \$1,396,750 and \$1,719,489 at December 31, 2010 and 2009, respectively, consist of funds due from banks. For purposes of the statement of cash flows the Corporation considers all highly liquid debt instruments with original maturities when purchased of three months or less to be cash equivalents.

Inventory - Inventory of parts and supplies is valued at cost.

Property, plant and equipment - Property, plant and equipment are carried at cost. Depreciation is computed using the straight-line method over estimated useful lives ranging from 3 to 50 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred, whereas significant renewals or betterment's are capitalized and a deduction is made for retirements resulting from the renewals or betterment's.

Income taxes - The Corporation is an organization that is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code and will remain exempt as long as it meets the requirements of Section 501(c)(12) each year.

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

Subsequent events - Management has considered subsequent events through July 2, 2010, which is the date the financial statements have been available to be issued.

Note 2. PLANT, PROPERTY AND EQUIPMENT

A summary of fixed assets follows:

	12-31-10	12-31-09
Land	\$ 3,710	\$ 3,710
Distribution system	4,314,704	4,314,704
Construction in progress	-	-
Equipment	15,682	15,682
Total	4,334,096	4,334,096
Less accumulated depreciation	1,699,459	1,523,233
Net	\$ 2,634,637	\$ 2,810,863

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

Note 3. COMMITMENTS

The Corporation has entered into a contract with North Texas Municipal Water District for the purchase of water which requires a minimum purchase according to number of gallons per year on a take or pay basis. Each ensuing year the Corporation must purchase minimum quantities according to the contract amounts or the highest total amount withdrawn by the Corporation during any previous year, whichever is greater. The total price paid for the water will be determined annually and will be five cents (\$.05) per thousand gallons above the rate established for the Member Cities of the North Texas Municipal Water District, but in no event less than fifty cents (\$0.50) per thousand gallons. The table listed below reflects the minimum annual purchase requirements in gallons per the contract. The minimum annual demand has exceeded the contract and is currently 295,577,000 gallons.

<u>Annual Fiscal Period</u>	<u>Number of gallons</u>
October 1, 2004 through September 30, 2005	171,795,000 gallons
October 1, 2005 through September 30, 2006	182,996,000 gallons
October 1, 2006 through September 30, 2007	194,197,000 gallons
October 1, 2007 through September 30, 2008	205,398,000 gallons
October 1, 2008 through September 30, 2009	216,599,000 gallons
October 1, 2009 through September 30, 2010	227,800,000 gallons

After September, 2010, the annual minimum to be purchased during any ensuing year shall not be less than the highest total amount withdrawn by the Corporation during any previous year or 227,800,000 gallons.

Note 4. BONDED DEBT

In 1998, the Corporation borrowed \$325,000 and pledged its assets and net revenue to repay the principal and interest. Effective interest rates range from 7.14% to 8.14%. The following is a summary of bonded debt transactions for the Corporation for the periods indicated:

	<u>12-31-10</u>	<u>12-31-09</u>
Balance payable at beginning of year	\$ 130,000	\$ 155,000
New bonds issued	-	-
Bonds retired	30,000	25,000
Bonds payable at end of year	<u>\$ 100,000</u>	<u>\$ 130,000</u>

Debt service requirements for bonds are as follows:

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2011	30,000	8,093	38,093
2012	35,000	5,681	40,681
2013	35,000	2,849	37,849
	<u>100,000</u>	<u>16,623</u>	<u>116,623</u>

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

Note 5. CONCENTRATION OF RISKS

Most of the Corporation's business activity is with customers located within Kaufman County, Texas and Rockwall County, Texas. Any significant occurrence affecting the economy of Kaufman and Rockwall Counties would significantly affect the Corporation.

The Corporation purchases treated water for sale to its members from the North Texas Municipal Water District. The North Texas Municipal Water District is currently the Corporation's only source of water.

The Corporation maintains accounts with several banks and a broker. Accounts at each institution are insured by the Federal Insurance Corporation (FDIC). At various times during the year 2010 the Corporation had cash deposits with institutions in excess of FDIC insurance coverage.

Note 6. COMPLIANCE WITH BOND INDENTURE

During the course of our audits we took measures to ascertain compliance with the bond indenture requirements. Nothing came to our attention to indicate any violation of those requirements.

Exhibit 12

**Email from Joe Freeland
to Art Rodriguez (Sept. 28, 2015)**

Heath's Second RFI to Forney Lake

Mon, Sep 28, 2015 at 2:43 PM

Joe Freeland <jfreeland@mandf.com>

To: Art Rodriguez <arodriguez@txadminlaw.com>, Tanza Smith <tsmith@txadminlaw.com>, "Smullen, AJ" <aj.smullen@puc.texas.gov>

Cc: Jimmie Mathews <jmathews@mandf.com>

Art,

Attached is Exhibit 2 as referenced in HEATH 2-19 and 2-20. The exhibit was inadvertently omitted from Heath's 2d RFIs to Forney Lake that were filed and served last week. Hopefully this oversight will not delay your response to those RFIs. Please contact me if Forney Lake will need additional time or if you have any questions.

Joe Freeland
Mathews & Freeland, LLP
jfreeland@mandf.com
(512) 404-7800

[Quoted text hidden]

 **Exhibit 2.pdf**
324K

Exhibit 13

Excerpts from Robin Baley's Deposition (May 12, 2015)

**FORNEY LAKE WATER SUPPLY
CORPORATION'S REQUEST FOR
CEASE AND DESIST ORDER AGAINST
THE CITY OF HEATH**

ROBIN BAILEY
May 12, 2015

MERRILL CORPORATION

LegalLink, Inc.

4144 North Central Expressway
Suite 850
Dallas, TX 75204
Phone: 214.720.4567
Fax: 214.720.4503

SOAH DOCKET NO. 473-15-2102.WS

PUC DOCKET NO. 43463

FORNEY LAKE WATER SUPPLY) STATE OFFICE OF
CORPORATION'S REQUEST FOR)
CEASE AND DESIST ORDER AGAINST)
THE CITY OF HEATH) ADMINISTRATIVE HEARINGS

PUC DOCKET NO. 44541

APPLICATION OF CITY OF HEATH) PUBLIC UTILITY COMMISSION
TO AMEND A CERTIFICATE OF)
CONVENIENCE AND NECESSITY AND)
TO DECERTIFY A PORTION OF) OF TEXAS
FORNEY LAKE WATER SUPPLY)
CORPORATION'S SERVICE AREA IN)
ROCKWALL COUNTY)

ORAL DEPOSITION OF

ROBIN BALEY

May 12, 2015

Volume 1 of 1

ORAL DEPOSITION OF ROBIN BALEY, produced as a
witness at the instance of the RESPONDENT/PETITIONER,
and duly sworn, was taken in the above-styled and
numbered cause on the 12th day of May, 2015, from
1:03 p.m. to 4:27 p.m., before Shayne Wimmer, CSR in and
for the State of Texas, reported by machine shorthand,
at the City of Heath Offices, 200 Laurence Drive, Heath,
Texas, pursuant to the P.U.C. Procedural Rule 22.143 and
the provisions stated on the record or attached hereto.

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FOR THE RESPONDENT/PETITIONER:

MR. JIM MATHEWS
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FOR THE PETITIONER/RESPONDENT:

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FOR THE P.U.C.:

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