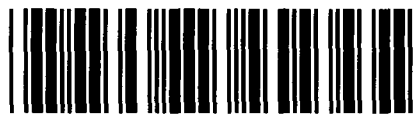




Control Number: 48565



Item Number: 1

Addendum StartPage: 0



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

Pursuant to Texas Water Code § 13.301 and 16 Texas Administrative Code § 24.106

2018 AUG -2 PM 3:36

PUBLIC UTILITY COMMISSION  
FILING CLERK

**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

1

05807

**Application Summary**

**Transferor:** Aqua Texas, Inc.

*(selling entity)*

**CCN No.s:** 13201

- Sale
- Transfer
- Merger
- Consolidation
- Lease/Rental

**Transferee:** Town of Buffalo Gap, Texas

*(acquiring entity)*

**CCN No.s:** Not applicable

- Water
- Sewer
- All CCN
- Portion CCN
- Facilities transfer

**County(ies):** Taylor

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**Please mark the items included in this filing**

- |  |                                   |
|--|-----------------------------------|
| <input checked="" type="checkbox"/> Contract, Lease, Purchase, or Sale Agreement | Part A: Question 1                |
| <input checked="" type="checkbox"/> Tariff including Rate Schedule               | Part B: Question 4                |
| <input checked="" 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 checked="" 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 checked="" type="checkbox"/> Enforcement Action Correspondence            | Part E: Question 18 (Part D: Q12) |
| <input checked="" 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 checked="" type="checkbox"/> Detailed (large scale) Map                   | Part G: Question 29               |
| <input checked="" type="checkbox"/> General Location (small scale) Map           | Part G: Question 29               |
| <input checked="" type="checkbox"/> Digital Mapping Data                         | Part G: Question 29               |
| <input checked="" 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:

See Attachment A.

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

For **Transferee** (Purchaser) 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

For **Transferor** (Seller) 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: Aqua Texas, Inc.  
(individual, corporation, or other legal entity)  
 Individual  Corporation  WSC  Other: \_\_\_\_\_

B. Mailing Address: 1106 Clayton Lane, Suite 400W, Austin, Texas 78723

Phone: (512) 990-4400 Email: \_\_\_\_\_

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: Geoffrey P. Kirshbaum Title: Attorney

Mailing Address: Terrill & Waldrop, 810 West 10th Street, Austin, Texas 78701

Phone: (512) 474-9100 Email: gkirshbaum@terriillwaldrop.com

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: May 3, 2018

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: Tariff Control No. 48097

**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 246

# of customers with deposits held by the transferor\* 23

\*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: Town of Buffalo Gap, Texas

(individual, corporation, or other legal entity)

Individual  Corporation  WSC  Other: Municipality

B. Mailing Address: P.O. Box 506, Buffalo Gap, Texas 79508-0506

Phone: (325) 572-3347 Email: \_\_\_\_\_

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: Eileen M. Hayman Title: Attorney

Address: Messer Rockefeller Fort, 500 Chestnut St., Suite 1601, Abilene, Texas 79602

Phone: (325) 701-7960 Email: eileen@txmunicipallaw.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): \_\_\_\_\_

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: Not applicable.

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: See Attachment D.

Position: \_\_\_\_\_ Ownership % (if applicable): 0.00%

Address: \_\_\_\_\_

Phone: \_\_\_\_\_ Email: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_ Ownership % (if applicable): 0.00%

Address: \_\_\_\_\_

Phone: \_\_\_\_\_ Email: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_ Ownership % (if applicable): 0.00%

Address: \_\_\_\_\_

Phone: \_\_\_\_\_ Email: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_ Ownership % (if applicable): 0.00%

Address: \_\_\_\_\_

Phone: \_\_\_\_\_ 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: \$ 397,500.00

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:**

The Town has determined that there is a booster station which serves three connections at the top of a hill that is not compliant because it does not have ground storage. However, TCEQ personnel have inspected the system multiple times over the years and have not noted this as a non-compliant item despite observing the same. The Town plans to address this issue after it closes on the purchase of Gap Water System and use part of its USDA funding for this minor improvement project. Additionally, Gap Water System has experienced public drinking water quality exceedances of TCEQ's secondary standard for total dissolved solids set forth in 30 TAC § 290.105, but its wells are authorized for use by TCEQ. Further, Gap Water System has experienced intermittent fluctuation of water levels in its groundwater wells, particularly in times of drought. Both these issues will be resolved after the Town's purchase by providing Gap Water System with access to City of Abilene water. This project will also be financed by part of the Town's USDA funding

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

The transaction will serve the public interest by enabling Gap Water System customers to have access to City of Abilene water, which is a reliable and consistent regional water source in the area. Aqua's Gap Water System wells have experienced problems in the past during times of drought. In some of those instances, Buffalo Gap has supplied Aqua with water on an emergency basis to use for the Gap Water System. Buffalo Gap currently utilizes City of Abilene Water indirectly through a contract with adjacent Steamboat Mountain Water Supply Corporation. However, Buffalo Gap is developing a project to receive its wholesale water supply directly from the City of Abilene and plans to use that water source to establish even better service in terms of reliability for both its current and future customers.

**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 § 24.31(d) and (e)		
Other (NARUC account name & No.):		
Other (NARUC account name & No.):		

**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.)**

The Town of Buffalo Gap plans to keep Aqua's Gap Water System rates in place for transferred customers immediately following the proposed transaction closing.

**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:**

Not applicable.



**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:

The quality of service to Gap Water System customers will remain at a high level due to the Town of Buffalo Gap's experienced water system operator. Service will meet or exceed current levels at closing. Service quality will improve after the Town's USDA funded projects are completed.

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.

The Town of Buffalo Gap, Texas, does not hold a CCN, but has provided water service to its residents since 1961. Documents reflecting the Town of Buffalo Gap's compliance history for the past five years is attached. See Attachment H.

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:

There will be no change with respect to environmental integrity or land impact/disruption as a result of the proposed transaction. Gap Water System will no longer need to be fully reliant on groundwater wells in this arid region of Texas which will represent an improvement to environmental integrity, particularly in times of drought.

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

The transaction will serve the public interest by enabling Gap Water System customers to have access to City of Abilene water, which is a reliable and consistent regional water source in the area.

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:

See Attachment J.

**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: 2210023 (7 digit ID)

Name of PWS: Gap Water System

Date of last TCEQ compliance inspection: November 12, 2015 (attach TCEQ letter)

Subdivisions served: The Gap

B. For Sewer service:

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

Name of Wastewater Facility: Not applicable.

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
268	5/8" or 3/4"		3"		Commercial
1	1"		4"		Industrial
	1 1/2"		Other		Other
Total Water Connections:			269	Total Sewer Connections:	0

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:
Not applicable.		

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: Town of Buffalo Gap (name of municipality)

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

Water: 4 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: \_\_\_\_\_

Water: \_\_\_\_\_

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:		0.00%
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
Dana Sowell	C	WD0006649	Water

**Part C: Mapping & Attachments**

**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:
  - i. If the application requests to transfer certificated service areas for both water and sewer, separate maps must be provided for each.
  - ii. 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: 1,782.00

Number of customer connections in the requested area: 269

Affected subdivision : The Gap

The closest city or town: Town of Buffalo Gap

Approximate mileage to closest city or town center: 0

Direction to closest city or town: West

The requested area is generally bounded on the North by: Buffalo Gap Road and Bell Plains Road

on the East by: County Road 650

on the South by: County Road 150

on the West by: East Street

31. A copy of the proposed map will be available at: 1106 Clayton Lane, Suite 400 W. Austin, Texas 78723 and the Town Hall of Buffalo Gap

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

Oath for Transferor (Transferring Entity)

STATE OF Texas

COUNTY OF TRAVIS

I, Robert L. Laughman being duly sworn, file this application for sale, transfer, merger, consolidation, acquisition, lease, or rental, as President, Aqua Texas, Inc.

(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.

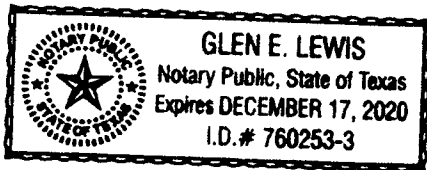
I further state that I have provided to the purchaser or transferee a written disclosure statement about any contributed property as required under Texas Water Code § 13.301(j) and copies of any outstanding enforcement Orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas, or Attorney General and have also complied with the notice requirements in Texas Water Code § 13.301(k).

[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 15<sup>th</sup> of AUGUST, 2018

SEAL



[Signature]  
NOTARY PUBLIC IN AND FOR THE STATE OF TEXAS  
GLEN E. LEWIS  
PRINT OR TYPE NAME OF NOTARY

My commission expires: \_\_\_\_\_

**Oath for Transferee (Acquiring Entity)**

STATE OF Texas

COUNTY OF Taylor

I, David L Perry being duly sworn, file this application for sale, transfer, merger, consolidation, acquisition, lease, or rental, as Mayor of the Town of Buffalo Gap, Texas  
(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 § 24.109 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.

*David L Perry*

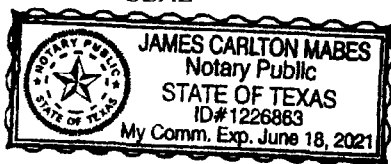
AFFIANT

(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 20 of JULY, 2018

SEAL



*James Carlton Mabes*  
NOTARY PUBLIC IN AND FOR THE  
STATE OF TEXAS

JAMES CARLTON MABES  
PRINT OR TYPE NAME OF NOTARY

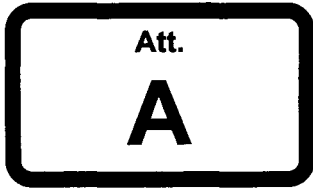
My commission expires: JUNE 18 - 2021

**Aqua Texas and the Town of Buffalo Gap's Application for Sale,  
Transfer, or Merger of a Retail Public Utility**

**Table of Contents**

Attachment A	Overview
Attachment B	Tariff including Rate Schedule - Aqua Texas' Tariff for its North Region
Attachment C	List of Customer Deposits
Attachment D	List of Officials of the Town of Buffalo Gap
Attachment E	Financial Audit – Town of Buffalo Gap's Financial Statements and Independent Auditors' Report for 2017
Attachment F	Projected Financial Information – USDA Financing Information
Attachment G	Contract Lease, Purchase or Sale Agreement - Asset Purchase Agreement
Attachment H	Enforcement Action Correspondence – Town of Buffalo Gap TCEQ Agreed Order and TCEQ Compliance Information
Attachment I	TCEQ Compliance Correspondence – Aqua Texas – The Gap Water System
Attachment J	List of neighboring utilities, cities and districts
Attachment K	Detailed and General Location Maps





**ATTACHMENT A**

**OVERVIEW AND RESPONSE TO PART A: GENERAL INFORMATION, ITEM NO. 1**

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(s) affected by the proposed transaction. Attach all supporting documentation, such as a contract, a lease, or proposed purchase agreement.

**The proposed transaction this application requests approval for involves an asset sale and transfer by Aqua Texas, Inc. (“Aqua”) of its Gap Water System (PWS ID No. 2210023) facilities, along with Aqua’s certificated area that corresponds to that system, to the Town of Buffalo Gap, Texas (“Buffalo Gap” or the “Town”). Aqua is an investor-owned utility (“IOU”) regulated by the Commission. The Town is not an IOU and is a Texas municipality. Therefore, certain items in the Commission’s Sale, Transfer, or Merger (“STM”) application form are not applicable here and left blank. The Applicants have completed all other items.**

**Buffalo Gap does not currently hold a CCN, but the Town provides retail public water utility service to an uncertificated area adjacent to Aqua’s Gap Water System service area. A few Aqua customers are located inside the Town’s corporate limits and their service connections would be transferred to Buffalo Gap along with Aqua’s other Gap Water System customers as part of the proposed transaction. The Town would assume future operations and services to Aqua’s Gap Water System customers following the transaction. The Town would also assume responsibility for responding to future growth within Aqua’s Gap Water System CCN service area.**

**The executed contract document that supports the proposed transaction is included in Attachment G. Final documents evidencing closing of the transaction will be prepared if the Commission provides approval for the transaction to close. Existing land uses in the area affected by the application are residential. Existing land uses are not anticipated to change as a result of the application. Per the proposed transaction contract, customer deposits held by Aqua for Gap Water System customers will be refunded prior to closing.**



Att.  
**B**

**WATER UTILITY TARIFF**  
**Tariff Control Number: 48097**

Aqua Texas, Inc., Aqua Utilities, Inc., and  
Aqua Development, Inc., dba Aqua Texas  
(North Region)  
(Utility Name)

1106 Clayton Lane, Suite 400W  
(Business Address)

Austin, Texas 78723  
(City, State, Zip Code)

(512) 990-4400  
(Area Code/Telephone)

This tariff is effective for utility operations under the following Certificate of Convenience and Necessity:

11157, 12902, and 13201

This tariff is effective in the following counties:

See attached Table – North Region

The following is a list of cities where Aqua Texas – North Region provides water service:

City of Brazos Bend, City of Buffalo Gap, City of Granbury, The Town of Lakewood Village, City of Rhome, Town of Shady Shores, and City of Waco

**The rates set or approved by the city for the systems entirely within its corporate boundary are not presented in this tariff. Those rates are not under the original jurisdiction of the PUC and will have to be obtained from the city or utility. This tariff applies to outside city customers of systems that provide service inside and outside of a city’s corporate boundary.**

This tariff is effective in the following subdivisions and public water systems:

See attached Table A – North Region

**TABLE OF CONTENTS**

The above utility lists the following sections of its tariff (if additional pages are needed for a section, all pages should be numbered consecutively):

SECTION 1.0 -- RATE SCHEDULE.....	2
SECTION 2.0 -- SERVICE RULES AND POLICIES .....	7
SECTION 3.0 -- EXTENSION POLICY .....	22

- APPENDIX A -- DROUGHT CONTINGENCY PLAN
- APPENDIX B – SAMPLE SERVICE AGREEMENT
- APPENDIX C – APPLICATION FOR SERVICE
- APPENDIX D – PASS-THROUGH AND TRUE-UP PROVISIONS

<b>Table A – North Region</b>			
<b>System Name</b>	<b>Subdivision/ Area Served</b>	<b>PWS ID</b>	<b>County</b>
Dogwood Hills North	Dogwood Hills North	0010038	Anderson
Dogwood Hills East	Dogwood Hills East	0010039	Anderson
Lame Duck Water System	Lame Duck	0180072	Bosque
China Spring Ranches	China Spring Ranches	0180082	Bosque and McLennan
Cherokee Point Water Co.	Cherokee Point	0320015	Camp
Eagles Bluff	Eagles Bluff Cedar Bay Shell Shores	0370052	Cherokee and Smith
FRF Water Systems 1345678	FRF	0490042	Cooke
Wren Water System	Wren	0610009	Denton
Woodland Hills	Woodland Hills	0610084	Denton
Hidden Valley Water System	Hidden Valley	0610099	Denton
Saratoga Estates	Saratoga Estates	0610163	Denton
Foxbane Combined WS	Foxbane Riggs Place Estates Double Tree Estates Sage Meadows Payton Place	0610164	Denton
Songbird Addition	Songbird	0610165	Denton
Hanby Acres	Hanby Acres Hanby View Estates	0610166	Denton
Ponder Acres Water System	Ponder Acres	0610201	Denton
Trail Creek Water System	Indian Trail Collingswood Prop Wash Avery Ranch Guy James Ranch	0610203	Denton
Cinnamon Ridge	Cinnamon Ridge Drop M Estates Sunny Ranches	0610209	Denton
Dove Hollow Water System	Dove Hollow	0610210	Denton
Willow Wood Addition Meadow Vista	Meadow Vista Willow Wood	0610212	Denton
Spanish Oaks Addition	Spanish Oaks	0610214	Denton
Spring Hill Estates	Spring Hill Estates	0610218	Denton
Stony Hills Water System	Stony Hills	0610220	Denton
Old Stony Estates	Old Stony Estates	0610224	Denton
Sunny Ranches	Sunny Ranches	0610229	Denton
Ponderosa Ranch	Ponderosa Ranch Hill Country Way Estates	0610233	Denton
Radecke Road Water System	Radecke Road	0610234	Denton
Stone Valley Farm	Stone Valley Farm	0610236	Denton

Tariff Control No. 48097

<b>Table A -- North Region (Cont.)</b>			
<b>System Name</b>	<b>Subdivision/ Area Served</b>	<b>PWS ID</b>	<b>County</b>
Willow Springs Addition	Willow Springs	0610237	Denton
Shale Creek Community	Shale Creek	0610238	Denton, Wise
Mountain Lakes Addition	Mountain Lakes	0720037	Erath
Heritage Estates	Heritage Estates	0910139	Grayson
Forest Lake Subdivision	Forest Lake Forest Park Timber Lakes	0920026	Gregg
Lake Utility Co.	Lake Utilities Dorsey Estates Peninsula Point Timber Lake Estates	1070059	Henderson
Lake Palestine Water Co.	Lake Palestine Water Parkside Shores Cherokee Estates Forest Grove South Holly Hills Lake Point Estates Sunrise Shores Twin Oaks Estates Woodland Hills Woodridge	1070198	Henderson
Phoenix Water Works	Phoenix	1070211	Henderson
High Point Water Co.	High Point	1070233	Henderson
Safari Water System	Safari Waters Ranch Champions Ranch	1070247	Henderson
Rock Harbor Estates	Rock Harbor Estates	1110024	Hood
Sandy Beach Subdivision	Sandy Beach	1110026	Hood
Whippoorwill Bay Subdivision	Whippoorwill Bay	1110027	Hood
Brazos River Acres	Brazos River Acres	1110028	Hood
Mountain View Subdivision	Mountain View Knob Hill	1110035	Hood
River Country Acres	River Country Acres	1110045	Hood
Eastwood Village	Eastwood Village East Park	1110052	Hood
Lake Country Acres	Lake Country Acres Big Timber Estates	1110059	Hood and Parker
North Fork Creek	North Fork Creek I	1110074	Hood
River Run Subdivision	River Run	1110076	Hood
Sunset Acres Subdivision	Sunset Acres	1110077	Hood
Blue Water Shores	Blue Water Shores	1110079	Hood
Nolan Creek Estates	Nolan Creek Estates	1110080	Hood
Plaza East	Plaza East	1110082	Hood

Tariff Control No. 48097

<b>Table A – North Region (Cont.)</b>			
<b>System Name</b>	<b>Subdivision/ Area Served</b>	<b>PWS ID</b>	<b>County</b>
Hunterwood Subdivision Water System	Hunterwood Lakeside Hills	1110083	Hood
Sunchase Meadows	Sunchase Meadows Sunchase Hills Sunchase Village	1110087	Hood
North Fork Creek II	North Fork Creek II Meadowlark Addition	1110088	Hood
Country Meadows Subdivision	Country Meadows	1110089	Hood
Midhaven Estates	Midhaven Estates	1110094	Hood
Mallard Pointe Subdivision	Mallard Pointe	1110112	Hood
Peninsula Addition	Peninsula	1110115	Hood
Bentwater on Lake Granbury	Bentwater on Lake Granbury	1110116	Hood
Rockwall East Mini Ranch	Rockwall East Mini Ranch	1160011	Hunt
Holiday Estates Water	Holiday Estates	1160028	Hunt
Quinlan North Subdivision	Quinlan North	1160063	Hunt
Quinlan South Subdivision	Quinlan South	1160064	Hunt
Barrow Subdivision	Barrow Christy Vista	1160066	Hunt
Crazy Horse Subdivision	Crazy Horse	1160067	Hunt
Oak Ridge Estates	Oak Ridge Estates	1160079	Hunt
Country Wood Estates	Country Wood Estates M G M Estates	1160093	Hunt
Oakview Farms Subdivision	Oakview Farm Village Creek Estates	1260010	Johnson
Peaceful Meadows Subdivision	Peaceful Meadows	1260067	Johnson
Shady Hills Estates Water System	Shady Hills Estates	1260071	Johnson
Shady Meadows Estates	Shady Meadows Estates	1260072	Johnson
Garden Acres	Garden Acres	1260092	Johnson
Walden Estates	Walden Estates	1260101	Johnson
China Spring Water Company	China Spring	1550021	McLennan
North County Water Supply	North County Water Supply	1550049	McLennan
Western Hills Water System	Western Hills Brettwood Addition Lazy Acres Schwann Lane Westlake Addition Park One	1550072	McLennan
T & A Water System	T & A Water System	1550085	McLennan
Rivercrest Water Co.	Rivercrest	1550089	McLennan
Smith Water	Smith Water	1550091	McLennan

<b>Table A – North Region (Cont.)</b>			
<b>System Name</b>	<b>Subdivision/ Area Served</b>	<b>PWS ID</b>	<b>County</b>
V L S	V L S	1550113	McLennan
Tubbs Water System	Tubbs Water System	1550125	McLennan
Goodall Water System	Goodall Water System	1550126	McLennan
North Bosque Estates Water Supply	North Bosque Estates	1550129	McLennan
Behringer Water System	Behringer	1550130	McLennan
Crestwood Water Co.	Crestwood	1580016	Marion
Tanglewood Estates	Tanglewood Estates	1840011	Parker
Live Oak Hills Addition	Live Oak Hills	1840012	Parker
Ashcreek Addition	Ashcreek Acres Reynolds Creek Estates	1840013	Parker
Springtown Subdivision	Springtown	1840015	Parker
La Junta	La Junta	1840016	Parker
Agnes Subdivision	Agnes	1840017	Parker
Lazy Bend Estates	Lazy Bend Estates	1840018	Parker
Shangri La Subdivision	Shangri La West Forty Acres Azle West 40 Canyon Country Estates Cherry Valley	1840021	Parker
Flat Rock Estates	Flat Rock Estates	1840035	Parker
Deer Butte Subdivision	Deer Butte Ranchos	1840037	Parker
Remuda Ranch Estates	Remuda Ranch Estates	1840047	Parker
Windsor Estates	Windsor Estates	1840076	Parker
Kinbrook Estates	Kinbrook Estates	1840094	Parker
Sandy Acres Addition	Sandy Acres Fox Hollow	1840098	Parker
Timbercreek Valley	Timbercreek Valley	1840108	Parker
Saddle Club Estates	Saddle Club Estates Oaks Subdivision	1840130	Parker
Boling Ranch Estates	Boling Ranch Estates	1840133	Parker
Woodlands of Parker County & Old Bank	Woodlands of Parker County Old Bankhead Highway The Woodlands	1840138	Parker
Enchanted Lakes Water System	Enchanted Lakes	2120045	Smith
WWW Water System	WWW Water System	2120077	Smith
Squaw Creek Subdivision Water System	Squaw Creek	2130021	Somervell
Greenfields on Squaw Creek	Greenfields on Squaw Creek	2130036	Somervell
Cottonwood Hills Estates	Cottonwood Hills Estates	2200045	Tarrant
Linkwood Estates Subdivision	Linkwood Estates	2200061	Tarrant

**Tariff Control No. 48097**

<b>Table A – North Region (Cont.)</b>			
<b>Subdivision/ Area Served</b>	<b>PWS ID</b>	<b>County</b>	
Slay Estates	Slay Estates	2200072	Tarrant
Blue Mound Estates	Blue Mound Estates	2200100	Tarrant
Southwood Addition	Southwood	2200108	Tarrant
Avondale Heights	Avondale Heights	2200184	Tarrant
Eagles Nest	Eagles Nest	2200185	Tarrant
Lunar Lane Water System	Lunar Lane Oak Grove Acres	2200208	Tarrant
Silver Creek Estates	Silver Creek Estates	2200277	Tarrant
Ranch Oaks Subdivision	Ranch Oaks	2200291	Tarrant
North Ridge Estates	North Ridge Estates	2200326	Tarrant
North Fork Estates	North Fork Estates North Fork Addition	2200329	Tarrant
Sun Valley Estates Water Supply	Sun Valley Estates	2200337	Tarrant
Savanna Estates	Savanna Estates	2200338	Tarrant
Van Zandt Farms	Van Zandt Farms	2200341	Tarrant
Carson Ranch	Carson Ranch	2200343	Tarrant
The Resort at Eagle Mountain Lake	The Resort	2200344	Tarrant
Prairie Ridge Estates	Prairie Ridge Estates	2200348	Tarrant
Gap Water	The Gap	2210023	Taylor
Sunshine Meadows Water Utility	Sunshine Meadows By Well Lexington	2490040	Wise
Highland Meadows Water System	Highland Meadows	2490042	Wise
Strawberry Estates	Strawberry Estates	2490045	Wise
Mesa Ridge Subdivision	Mesa Ridge	2490047	Wise
Diamond Ridge	Diamond Ridge	2490052	Wise
Reatta Estates	Reatta Estates	2490056	Wise
Highland Hills	Highland Hills	2490057	Wise
Chisholm Springs	Chisholm Springs	2490060	Wise
Hawk Ridge	Hawk Ridge	2490077	Wise
Clear Lakes	Clear Lakes	2500017	Wood

**Tariff Control No. 48097**

SECTION 1.0 -- RATE SCHEDULE

Section 1.01 - Rates

**Monthly Minimum Charges by Meter Size (Includes 0 gallons)**

Meter Size	Year 1 (Partial) 5/1/2013 through 12/31/2013	Year 2 Beginning 1/1/2014	Year 3 Beginning 1/1/2015 Until Changed
5/8" x 3/4"	\$45.06	\$45.06	\$45.06
1"	\$112.65	\$112.65	\$112.65
1½ "	\$225.30	\$225.30	\$225.30
2"	\$360.48	\$360.48	\$360.48
3"	\$720.96	\$720.96	\$720.96
4"	\$1,126.50	\$1,126.50	\$1,126.50
6"	\$2,253.00	\$2,253.00	\$2,253.00
8"	\$3,604.80	\$3,604.80	\$3,604.80
10"	\$5,181.90	\$5,181.90	\$5,181.90
12"	\$9,687.90	\$9,687.90	\$9,687.90

**Gallage Charge: Per 1,000 gallons used**

	Year 1 (Partial) 5/1/2013 through 12/31/2013	Year 2 Beginning 1/1/2014	Year 3 Beginning 1/1/2015 Until Changed
1 to 5,000 gallons	\$2.40	\$2.65	\$2.85
5,001 to 10,000 gallons	\$4.70	\$4.82	\$4.95
10,001 to 20,000 gallons	\$7.13	\$7.13	\$7.13
20,001 and over	\$7.60	\$7.60	\$7.60

Regional Pass-Through Gallage Charge:.....\$0.4231 per 1,000 gallons  
(*Tariff Control No. 48097*)

Monthly Minimum Charge for any meter size larger than 12" will be calculated using American Water Works Association (AWWA) approved meter equivalency factors.

**Tariff Control No. 48097**



SECTION 1.0 -- RATE SCHEDULE (Continued)

FORM OF PAYMENT: The utility will accept the following forms of payment:  
Cash X (If in person at designated locations), Check X, Money Order X, Credit Card X,  
Other (specify) Electronic Billing and Payment (See Section 2.06 Billing)

THE UTILITY MAY REQUIRE EXACT CHANGE FOR PAYMENTS AND MAY REFUSE TO ACCEPT PAYMENTS MADE USING MORE THAN \$1.00 IN SMALL COINS. A WRITTEN RECEIPT WILL BE GIVEN FOR CASH PAYMENTS.

UNAFFILIATED THIRD PARTIES WHO ACCEPT AND PROCESS CASH, CREDIT CARD, OR ELECTRONIC PAYMENTS FOR UTILITY BILLS MAY REQUIRE PAYMENT OF AN ADDITIONAL CONVENIENCE CHARGE FOR THIS SERVICE.

REGULATORY ASSESSMENT..... 1.0%  
PUC RULES REQUIRE THE UTILITY TO COLLECT A FEE OF ONE PERCENT OF THE RETAIL MONTHLY BILL AND REMIT THE FEE TO THE TCEQ

Section 1.02 - Miscellaneous Fees

TAP FEE.....\$1,100.00  
TAP FEE COVERS THE UTILITY'S COSTS FOR MATERIALS AND LABOR TO INSTALL A STANDARD RESIDENTIAL 5/8" x 3/4" METER. AN ADDITIONAL FEE TO COVER UNIQUE COSTS IS PERMITTED IF LISTED ON THIS TARIFF.

TAP FEE (Unique costs) .....Actual Cost  
FOR EXAMPLE, A ROAD BORE FOR CUSTOMERS OUTSIDE A SUBDIVISION IS A UNIQUE COST. UNIQUE COSTS WILL BE DETERMINED ON A CASE-BY-CASE BASIS.

TAP FEE (Larger meter) .....Actual Cost  
THIS TAP FEE IS BASED ON THE UTILITY'S ACTUAL COST FOR MATERIALS AND LABOR FOR METERS LARGER THAN STANDARD 5/8" x 3/4" METERS. UNIQUE COSTS, SUCH AS ROAD BORES, WILL BE CHARGED IN ADDITION TO THIS TAP FEE AT THEIR ACTUAL COST OF INSTALLATION.

RECONNECTION FEE

THE RECONNECTION FEE MUST BE PAID BEFORE SERVICE CAN BE RESTORED TO A CUSTOMER WHO HAS BEEN DISCONNECTED FOR THE FOLLOWING REASONS (OR OTHER REASONS LISTED UNDER SECTION 2.0 OF THIS TARIFF):

- a) Non-payment of bill (Maximum \$25.00).....\$25.00
- b) Customer's request that service be disconnected .....\$75.00

TRANSFER FEE.....\$50.00  
THE TRANSFER FEE WILL BE CHARGED FOR CHANGING AN ACCOUNT NAME AT THE SAME SERVICE LOCATION WHERE THE SERVICE IS NOT DISCONNECTED

LATE CHARGE..... 10%  
PUC RULES ALLOW A ONE-TIME PENALTY TO BE CHARGED ON DELINQUENT BILLS. A LATE CHARGE MAY NOT BE APPLIED TO ANY BALANCE TO WHICH THE PENALTY WAS APPLIED IN A PREVIOUS BILLING

RETURNED CHECK CHARGE .....\$25.00  
RETURNED CHECK CHARGES MUST BE BASED ON THE UTILITY'S DOCUMENTABLE COST

SECTION 1.0 -- RATE SCHEDULE (Continued)

CUSTOMER DEPOSIT - RESIDENTIAL (Maximum \$50) .....\$50.00

CUSTOMER DEPOSIT - COMMERCIAL & NON-RESIDENTIAL 1/6TH OF ESTIMATED ANNUAL  
BILL

METER TEST FEE .....\$25.00

THIS FEE, WHICH SHOULD REFLECT THE UTILITY'S COST, MAY BE CHARGED IF A CUSTOMER REQUESTS A SECOND METER TEST WITHIN A TWO-YEAR PERIOD AND THE TEST INDICATES THAT THE METER IS RECORDING ACCURATELY. THE FEE MAY NOT EXCEED \$25.

METER/SERVICE RELOCATION FEE (Customer's Request).....Actual Cost

THIS FEE MAY BE CHARGED IF A CUSTOMER REQUESTS THAT AN EXISTING METER BE RELOCATED.

STANDARD METER INSTALLATION FEE.....\$150.00

TO BE CHARGED WHEN UNMETERED SERVICE EXISTS ON THE SYSTEM THAT SHOULD BE METERED TO BE IN COMPLIANCE WITH THE UTILITY'S TARIFF BUT THE CONVERSION OF THE SERVICE WOULD NOT REQUIRE A FULL TAP AND ALL OF ITS COSTS. THIS FEE WILL BE A SHARING OF COSTS BETWEEN THE CUSTOMER AND THE UTILITY. THE CUSTOMER MAY HAVE THE OPTION OF PAYING THE FEE OVER NO MORE THAN THREE (3) MONTHS.

CUSTOMER SERVICE INSPECTION FEE.....\$100.00

SERVICE APPLICANTS MAY CHOOSE TO HAVE CUSTOMER SERVICE INSPECTIONS REQUIRED BY TCEQ RULE 290.46(j) PERFORMED BY ANY STATE LICENSED INSPECTOR OF THEIR CHOICE UNLESS THE SERVICE APPLICANT CHOOSES TO ARRANGE FOR AND PAY FOR THE INSPECTION INDEPENDENTLY. THE UTILITY MAY CHARGE SERVICE APPLICANTS THE CUSTOMER SERVICE INSPECTION FEE AT THE TIME THEY APPLY FOR SERVICE. IF A RE-INSPECTION IS REQUIRED TO BRING PLUMBING INTO COMPLIANCE WITH APPLICABLE REQUIREMENTS OR IF AN EXTRA INSPECTION APPOINTMENT IS REQUIRED BECAUSE A CUSTOMER DOES NOT PERMIT PERFORMANCE OF AN INSPECTION AT A PREVIOUSLY AGREED UPON APPOINTMENT TIME, THE CUSTOMER MAY CHOOSE TO HAVE ANY STATE LICENSED INSPECTOR OF THEIR CHOICE PERFORM THE INSPECTION. IF THE CUSTOMER CHOOSES TO HAVE THE UTILITY PERFORM THE INSPECTION OR RE-INSPECTION, THE CUSTOMER WILL BE CHARGED \$100.00 FOR EACH REQUIRED INSPECTION, RE-INSPECTION OR AGREED UPON INSPECTION APPOINTMENT AND WILL PAY THE UTILITY THE TOTAL AMOUNT OWED AT THE TIME AN INSPECTION OR RE-INSPECTION IS PERFORMED. THE UTILITY MAY, AT ITS OPTION, INCLUDE THE ADDITIONAL CHARGE OR CHARGES ON THE NEXT MONTH'S UTILITY BILL RATHER THAN REQUIRING PAYMENT AT THE TIME OF THE INSPECTION OR RE-INSPECTION. THE UTILITY MAY USE UTILITY EMPLOYEES OR MAY HAVE THE INSPECTION PERFORMED BY A LICENSED THIRD PARTY CONTRACTOR.

SECTION 1.0 -- RATE SCHEDULE (Continued)

**ILLEGAL RECONNECTION, LOCK REMOVAL OR DAMAGE FEE.....\$85.00**  
IN ORDER TO REIMBURSE THE UTILITY WITHOUT BURDENING OTHER CUSTOMERS WITH HIGHER RATES FOR THE ADDITIONAL COST OF SERVICE TRIPS TO DISCONNECT A CUSTOMER ACCOUNT HOLDER WHO HAS BEEN DISCONNECTED FOR NONPAYMENT AND TO PAY FOR THE COST OF BROKEN OR CUT LOCKS AND SERVICE TIME, THIS FEE SHALL BE ASSESSED TO THE ACCOUNT HOLDER OF ANY DELINQUENT ACCOUNT THAT HAS BEEN DISCONNECTED FOR NONPAYMENT BY VALVING OFF, LOCKING OR REMOVING THE METER WHEN SERVICE TO THE PREMISES IS SUBSEQUENTLY RECONNECTED BY NON-UTILITY PERSONNEL BY CUTTING OR REMOVING THE LOCK, REOPENING THE VALVE, OR REMOVING OR BYPASSING THE METER WITHOUT AUTHORIZATION BY THE UTILITY. THIS FEE MAY BE CHARGED EACH TIME AN EVENT OCCURS AND SERVICE WILL NOT BE RECONNECTED UNTIL THIS FEE IS PAID IN ADDITION TO ANY OTHER BALANCES AND RECONNECT FEES. THIS FEE SHALL NOT BE CHARGED IF A FEE FOR A DAMAGED METER IS CHARGED OR IF THE ACCOUNT HOLDER OR HIS/HER REPRESENTATIVE INFORMS THE UTILITY WITHIN 24 HOURS AFTER DISCOVERING THAT SERVICE HAS BEEN RESTORED WITHOUT AUTHORIZATION OF THE UTILITY. (1) THAT SERVICE WAS RECONNECTED WITHOUT THE ACCOUNT HOLDER'S PERMISSION; AND (2) THE ACCOUNT HOLDER AGREES TO PAY FOR ALL WATER USED.

**DAMAGED METER AND APPURTENANCES FEE.....Actual cost**  
THIS FEE SHALL BE ASSESSED TO THE ACCOUNT HOLDER OF ANY DELINQUENT ACCOUNT THAT HAS BEEN DISCONNECTED FOR NONPAYMENT BY VALVING OFF OR LOCKING THE METER WHEN THE METER AND/OR METER APPURTENANCES, SUCH AS AN AMR UNIT OR CURB STOP, ARE DAMAGED IN ORDER TO RESTORE WATER SERVICE TO THE ACCOUNT HOLDER'S ORIGINAL PLACE OF SERVICE REQUIRING THE UTILITY TO REPAIR OR REPLACE THEM. THE ACCOUNT HOLDER SHALL BE CHARGED THE FULL COST OF REPAIRING AND/OR REPLACING ALL DAMAGED PARTS AS THE UTILITY DEEMS NECESSARY, INCLUDING LABOR AND VEHICLE COSTS. THIS WILL INCLUDE REPLACEMENT OF VALVES OR CURB STOPS THAT HAVE HAD THEIR LOCKING EYES BROKEN OFF THE FLANGES.

**GOVERNMENTAL TESTING, INSPECTION AND COSTS SURCHARGE:**  
WHEN AUTHORIZED IN WRITING BY PUC AND AFTER NOTICE TO CUSTOMERS, THE UTILITY MAY INCREASE RATES TO RECOVER INCREASED COSTS FOR INSPECTION FEES AND WATER TESTING. [PUC SUBST R 24.21(k)(2)]

**LINE EXTENSION AND CONSTRUCTION CHARGES:**  
REFER TO SECTION 3.0--EXTENSION POLICY FOR TERMS, CONDITIONS, AND CHARGES WHEN NEW CONSTRUCTION IS NECESSARY TO PROVIDE SERVICE.

SECTION 1.0 -- RATE SCHEDULE (Continued)

REGIONAL TEMPORARY WATER RATE:

UNLESS OTHERWISE SUPERSEDED BY PUC ORDER OR RULE, IF THE UTILITY IS ORDERED BY A COURT OR GOVERNMENTAL BODY OF COMPETENT JURISDICTION TO REDUCE ITS PUMPAGE, PRODUCTION OR WATER SALES, AQUA TEXAS SHALL BE AUTHORIZED TO INCREASE ITS APPROVED LINE ITEM CHARGES PER 1,000 GALLONS USED (GALLONAGE CHARGE & REGIONAL PASS-THROUGH GALLONAGE CHARGE) BY THE AMOUNT OF THE REGIONAL TEMPORARY WATER RATE INCREASE ("RTWR") CALCULATED ACCORDING TO THE FORMULA:

$$RTWR = (((PRR)(CGC)(R))/(1-R))*((APV)/(RPV))$$

Where:

- RTWR = Regional Temporary Water Rate increase per 1,000 gallons
- CGC = current total volume charge per 1,000 gallons used  
(Gallonage Charge + Regional Pass-Through gallonage charge)
- R = water use reduction expressed as a decimal fraction (the pumping restriction)
- PRR = percentage of revenues to be recovered expressed as a decimal fraction. for this tariff PRR shall equal 0.5
- APV = Annual Pumped and/or Purchased volume from the most recent rate application for the system or systems where the temporary restrictions are imposed; or the most recent 12 months if more than 3 years have passed since the most recent rate application was filed; and
- RPV = Annual Pumped and Purchased volume for Region from the most recent rate application; or the most recent 12 months if more than 3 years have passed since the most recent rate application was filed

To implement the Regional Temporary Water Rate, Aqua Texas must comply with all notice and other requirements of § 24.21(l).

REGIONAL PASS-THROUGH GALLONAGE CHARGE ADJUSTMENT:

SEE ATTACHED APPENDIX C.

**SECTION 2.0 - SERVICE RULES AND REGULATIONS**

**Section 2.01 - Texas Commission on Environmental Quality Rules**

The utility will have the most current Texas Commission on Environmental Quality (TCEQ) Rules, Chapter 291, Water Rates, available at its office for reference purposes. The Rules and this tariff shall be available for public inspection and reproduction at a reasonable cost. The latest Rules or Commission approved changes to the Rules supersede any rules or requirements in this tariff.

**Section 2.02 - Application for and Provision of Water Service**

All applications for service will be made on the utility's standard application or contract form (attached in the Appendix to this tariff) and will be signed by the applicant before water service is provided by the utility. A separate application or contract will be made for each service location.

After the applicant has met all the requirements, conditions and regulations for service, the utility will install a tap, meter and utility cut-off valve and/or take all necessary actions to initiate service. The utility will serve each qualified applicant for service within ten working days unless line extensions or new facilities are required. If construction is required to fill the order and if it cannot be completed within 30 days, the utility will provide the applicant with a written explanation of the construction required and an expected date of service. Notwithstanding any statement in this tariff to the contrary, the utility will serve each qualified applicant for service within the time limits prescribed in 30 TAC 291.85 (a)-(b) as that rule may be amended by the TCEQ.

Where service has previously been provided, service will be reconnected within three working days after the applicant has met the requirements for reconnection.

The customer will be responsible for furnishing and laying the necessary customer service pipe from the meter location to the place of consumption. Customers may be required to install a customer owned cut-off valve on the customer's side of the meter or connection.

**Section 2.03 - Refusal of Service**

The utility may decline to serve an applicant until the applicant has complied with the regulations of the regulatory agencies (state and municipal regulations) and for the reasons outlined in the TCEQ Rules. In the event that the utility refuses to serve an applicant, the utility will inform the applicant in writing of the basis of its refusal. The utility is also required to inform the applicant a complaint may be filed with the Commission.

SECTION 2.0 - SERVICE RULES AND REGULATIONS (CONT.)

Section 2.04 - Customer Deposits

If a residential applicant cannot establish credit to the satisfaction of the utility, the applicant may be required to pay a deposit as provided for in Section 1.02 of this tariff. The utility will keep records of the deposit and credit interest in accordance with TCEQ Rules.

Residential applicants 65 years of age or older may not be required to pay deposits unless the applicant has an outstanding account balance with the utility or another water or sewer utility which accrued within the last two years.

Nonresidential applicants who cannot establish credit to the satisfaction of the utility may be required to make a deposit that does not exceed an amount equivalent to one-sixth of the estimated annual billings.

Refund of deposit. - If service is not connected, or after disconnection of service, the utility will promptly refund the customer's deposit plus accrued interest or the balance, if any, in excess of the unpaid bills for service furnished. The utility may refund the deposit at any time prior to termination of utility service but must refund the deposit plus interest for any customer who has paid 18 consecutive billings without being delinquent.

Section 2.05 - Meter Requirements, Readings, and Testing

All water sold by the utility will be billed based on meter measurements. The utility will provide, install, own and maintain meters to measure amounts of water consumed by its customers. One meter is required for each residential, commercial or industrial facility in accordance with the TCEQ Rules.

Service meters will be read at monthly intervals and as nearly as possible on the corresponding day of each monthly meter reading period unless otherwise authorized by the Commission.

Meter Tests. - The utility will, upon the request of a customer, and, if the customer so desires, in his or her presence or in that of his or her authorized representative, make without charge a test of the accuracy of the customer's meter. If the customer asks to observe the test, the test will be made during the utility's normal working hours at a time convenient to the customer. Whenever possible, the test will be made on the customer's premises, but may, at the utility's discretion, be made at the utility's testing facility. If within a period of two years the customer requests a new test, the utility will make the test, but if the meter is found to be within the accuracy standards established by the American Water Works Association, the utility will charge the customer a fee which reflects the cost to test the meter up to a maximum \$25 for a residential customer. Following the completion of any requested test, the utility will promptly advise the customer of the date of removal of the meter, the date of the test, the result of the test, and who made the test.

SECTION 2.0 - SERVICE RULES AND REGULATIONS (CONT.)

Section 2.06 - Billing

Bills from the Utility will be mailed monthly unless authorized by the Commission or the customer voluntarily elects to be billed through a paperless electronic billing system which uses standard forms, protocols and conformation processes established and maintained by the utility or unaffiliated third parties providing online billing and payment services that are approved by the Utility. The due date to pay bills for utility service will be at least 21 days from the date of issuance. The postmark on the bill or, if there is no postmark on the bill, the recorded date of mailing or electronic mailing by the Utility or the Utility's billing service will constitute proof of the date of issuance. Payment for utility service is delinquent if full payment, including late fees and the regulatory assessment, is not received at the Utility or the Utility's authorized payment processor by 5:00 p.m. on the due date. If the due date falls on a holiday or weekend, the due date for payment purposes will be the next work day after the due date.

A late penalty of 10% will be charged on delinquent bills. Customer payments post marked by the due date will not incur a late penalty. The penalty on delinquent bills will not be applied to any balance to which the penalty was applied in a previous billing. The utility must maintain a record of the date of mailing to charge the late penalty.

Each bill will provide all information required by the TCEQ Rules. For each of the systems it operates, the utility will maintain and note on the monthly bill a telephone number (or numbers) which may be reached by a local call by customers. At the utility's option, a toll-free telephone number or the equivalent may be provided.

Cash Payments at Non-utility payment locations or Credit Card Payments – The Utility may use unaffiliated third parties to accept and process utility bill cash payments at non-utility payment locations or to accept and process utility bill credit card payments. Any charges required by the third party to accept and process such utility bill payments are the responsibility of the customer and are in addition to utility bill amounts.

Electronic Billing and Payment – A customer may voluntarily elect to be billed through a paperless electronic billing system which uses standard forms, protocols and conformation processes established and maintained by the Utility or unaffiliated third parties providing online billing and payment services that are approved by the Utility. Any charges required by the third party to process the electronic bill or payment are the responsibility of the customer and are in addition to utility bill amounts. In administering this electronic billing option, the Utility does not send the customer paper bills. Customers may sign up for electronic billing at [www.aquaamerica.com](http://www.aquaamerica.com). Required information that otherwise accompanies a paper bill is transmitted to the customer electronically, or an Internet link access to such information is transmitted electronically to the customer. Any applicable

SECTION 2.0 - SERVICE RULES AND REGULATIONS (CONT.)

disconnection notice continues to be sent to the customer via United States mail. The Utility may utilize unaffiliated third parties to electronically transmit bills to the customer. The Utility is not responsible for any loss resulting from the customer's election to receive bills electronically, including but not limited to, any loss associated with damage to the customer's computer equipment or facilities and any loss associated with a third party's unauthorized use of the customer's information. Either the Utility or customer may, upon thirty (30) days notice to the other party, terminate electronic transmission of bills without any liability to the terminating party resulting from such termination, and without affecting the customer's obligation to pay all amounts due to the Utility. In such event, the Utility will begin to issue paper bills via United States mail to the customer as soon as reasonably practical. The Utility reserves the right to determine whether or not a customer is eligible to be billed through its paperless electronic billing system. A customer that elects electronic billing, who is a combination water and sewer service customer of the Utility, will receive electronic billing for both services.

Third party charges for processing utility bill payments- Any charges required by a third party to accept or process a cash utility bill payment at a non-utility payment location, a credit card utility bill payment, or an electronic utility bill or payment are the responsibility of the customer and are in addition to utility bill amounts.

In the event of a dispute between a customer and a utility regarding any bill for utility service, the utility will conduct an investigation and report the results to the customer. If the dispute is not resolved, the utility will inform the customer that a complaint may be filed with the Commission.

Section 2.07 - Service Disconnection

Utility service may be disconnected if the bill has not been paid in full by the date listed on the termination notice. The termination date must be at least 10 days after the notice is mailed or hand delivered.

The utility is encouraged to offer a deferred payment plan to a customer who cannot pay an outstanding bill in full and is willing to pay the balance in reasonable installments. However, a customer's utility service may be disconnected if a bill has not been paid or a deferred payment agreement entered into within 31 days from the date of issuance of a bill and if proper notice of termination has been given.

Notice of termination must be a separate mailing or hand delivery in accordance with the TCEQ Rules.

Utility service may also be disconnected without notice for reasons as described in the TCEQ Rules.



**SECTION 2.0 - SERVICE RULES AND REGULATIONS (CONT.)**

Utility personnel must be available to collect payments and to reconnect service on the day of and the day after any disconnection of service unless service was disconnected at the customer's request or due to a hazardous condition.

**Section 2.08 – Reconnection of Service**

Service will be reconnected within 36 hours after the past due bill and any other outstanding charges are paid or correction of the conditions which caused service to be disconnected.

**Section 2.09 - Service Interruptions**

The utility will make all reasonable efforts to prevent interruptions of service. If interruptions occur, the utility will re-establish service within the shortest possible time. Except for momentary interruptions due to automatic equipment operations, the utility will keep a complete record of all interruptions, both emergency and scheduled and will notify the Commission in writing of any service interruptions affecting the entire system or any major division of the system lasting more than four hours. The notice will explain the cause of the interruptions.

**Prorated Bills.** - If service is interrupted or seriously impaired for 24 consecutive hours or more, except by an act of God, the utility will prorate the monthly base bill in proportion to the time service was not available to reflect this loss of service.

**Section 2.10 - Quality of Service**

The utility will plan, furnish, and maintain production, treatment, storage, transmission, and distribution facilities of sufficient size and capacity to provide a continuous and adequate supply of water for all reasonable consumer uses. Unless otherwise authorized by the Commission, the utility will maintain facilities as described in the TCEQ Rules or in the TCEQ's "Rules and Regulations for Public Water Systems." The utility will not provide supply for fire prevention, fire flow, or fire fighting services as part of standard retail water utility service.

**Section 2.11 - Customer Complaints and Disputes**

If a customer or applicant for service lodges a complaint, the utility will promptly make a suitable investigation and advise the complainant of the results. Service will not be disconnected pending completion of the investigation. If the complainant is dissatisfied with the utility's response, the utility must advise the complainant that he has recourse through the TCEQ complaint process. Pending resolution of a complaint, the commission may require continuation or restoration of service.

**SECTION 2.20 - SPECIFIC UTILITY SERVICE RULES AND REGULATIONS**

The utility will maintain a record of all complaints which shows the name and address of the complainant, the date and nature of the complaint and the adjustment or disposition thereof, for a period of two years after the final settlement of the complaint.

This section contains specific utility service rules in addition to the rules previously listed under Section 2.0. It must be reviewed and approved by the Commission and in compliance with TCEQ Rules to be effective.

The utility adopts the administrative rules of the TCEQ, as the same may be amended from time to time, as its company specific service rules and regulations. These rules will be kept on file at the company's offices for customer inspection during regular business hours. In the event of a conflict between the TCEQ's amended rules and the provisions of this tariff, the amended rules shall prevail. Where necessary, any conflicting provision of this tariff shall be deemed to have been superseded by the TCEQ rule in question to the degree that the utility may conduct its lawful business in conformance with all requirements of said rule.

All payments for utility service shall be delivered or mailed to the remittance address on the utility bill received or paid using any method described on the utility bill received. Cash payments are only accepted in person at designated payment locations as described in the utility bill received. If the utility or its authorized agent fails to receive payment prior to the time of noticed disconnection for non-payment of a delinquent account, service will be terminated as scheduled. Utility service crews shall not be allowed to collect payments on customer accounts in the field.

Payment of an account by any means that has been dishonored and returned by the payor or payee's bank, shall be deemed to be delinquent. All returned payments must be redeemed with cash or valid money order. If a customer has two returned payments within a twelve month period, the customer shall be required to pay a deposit if one has not already been paid.

Customers shall not be allowed to use the utility's cutoff valve on the utility's side of the meter. Existing customers may install cutoff valves on their side of the meter and are encouraged to do so. All new customers must install customer-owned and maintained cutoff valves on their side of the meter.

No water connection from any public drinking water supply system shall be made to any establishment where an actual or potential contamination or system hazard exists without an air gap separation between the drinking water supply and the source of potential contamination. The containment air gap is sometimes impractical and, instead, reliance must be placed on individual internal air gaps or mechanical backflow prevention devices.

SECTION 2.20 - SPECIFIC UTILITY SERVICE RULES AND REGULATIONS (CONT.)

Under these conditions, additional protection shall be required at the meter in the form of a backflow prevention device (in accordance with AWWA Standards C510 and C511, and AWWA Manual M14) on those establishments handling substances deleterious or hazardous to the public health. The water purveyor need not require backflow protection at the water service entrance if an adequate cross-connection control program is in effect that includes

an annual inspection and testing by a certified backflow prevention device tester. It will be the responsibility of the water purveyor to ensure that these requirements are met.

Customer shall be liable for any damage or injury to utility-owned property or personnel shown to be caused by the customer, his invitees, his agents, his employees, or others directly under his control.

Limitation on Product/Service Liability. - Public water utilities are required to deliver water to the customer's side of the meter or service connection that meets the potability and pressure standards of the TCEQ. The utility will not accept liability for any injury or damage to individuals or their property occurring on the customer's side of the meter when the water delivered meets these state standards. The utility makes no representations or warranties (expressed or implied) that customer's appliances will not be damaged by disruptions of or fluctuations in water service whatever the cause. The utility will not accept liability for injuries or damages to persons or property due to disruption of water service caused by: (1) acts of God, (2) acts of third parties not subject to the control of the utility if the utility has undertaken such preventive measures as are required by TCEQ rules, (3) electrical power failures in water systems not required by TCEQ rule to have auxiliary power supplies, or (4) termination of water service pursuant to the utility's tariff and the TCEQ's rules. The utility is not required by law and does not provide fire prevention, fire flow, or fire fighting services. The utility therefore does not accept liability for fire-related injuries or damages to persons or property caused or aggravated by the availability (or lack thereof) of water or water pressure (or lack thereof) during fire emergencies. The utility will accept liability for any injury or damage to individuals or their property directly caused by defective utility plant facilities (e.g., leaking water lines or meters) or the repairs to or construction of the utility's facilities.

If the services of a registered professional engineer are required as a result of an application for service received by the utility for service to that applicant's service extension only, such engineer will be selected by the utility and the applicant, and the applicant shall bear all expenses incurred therein.

If an applicant requires service other than the standard service provided by the utility, such applicant will be required to pay all expenses incurred by the utility in excess of the expenses that would be incurred in providing the standard service and connection. Any

SECTION 2.20 - SPECIFIC UTILITY SERVICE RULES AND REGULATIONS (CONT.)

applicant who places unique or non-standard service demands on the system may be required to provide contributions in aid of construction (as may be allowed by TCEQ rule) for the actual costs of, any additional facilities required to maintain compliance with the TCEQ minimum design criteria for water production, treatment, pumping storage and transmission.

Any applicant or existing customer required to pay for any costs not specifically set forth in the rate schedule pages of this tariff shall be entitled to a written explanation of such costs prior to payment and/or commencement of construction. If the applicant or existing customer does not believe that these costs are reasonable or necessary, the applicant or existing customer shall have the right to appeal such costs to the TCEQ or such other regulatory authority having jurisdiction over the utility's rates in that portion of the utility's service area in which the applicant's or existing customer's property(ies) is located.

Tap fees may be increased by unique costs not normally incurred as may be permitted by 30 TAC 291.86(a)(1)(C).

The utility adopts the Uniform Plumbing Code pursuant to TCEQ Rule 290.46(i). The piping and other equipment on the premises furnished by the customer will be maintained by the customer at all times in conformity with the requirements of the TCEQ, the Uniform Plumbing Code and with the service rules and regulations of the utility. The customer will bring out his service line to his property line at the point on the customer's property mutually acceptable to the customer and the utility subject to such requirements as may exist by TCEQ rule. No meters smaller than those identified in Section 1.0 of this tariff will be connected. No pipe or pipe fitting which contains more than 8.0% lead can be used for the installation or repair of plumbing at any connection which provides water for human use. No solder or flux which contains more than 0.2% lead can be used at any connection which provides water for human use.

The utility will have the right of access to the customer's premises at all times reasonable for the purpose of installing, testing, inspecting or repairing water mains or other equipment used in connection with its provision of water service, or for the purpose of removing its property and disconnecting lines, and for all other purposes necessary to the operation of the utility system including inspecting the customer's plumbing for code, plumbing or tariff violations. The customer shall allow the utility and its personnel access to the customer's property to conduct any water quality tests or inspections required by law. Unless necessary to respond to equipment failure, leak or other condition creating an immediate threat to public health and safety or the continued provision of adequate utility service to others, such entry upon the customer's property shall be during normal business hours. The customer may require any utility representative, employee, contractor, or agent seeking to make such entry to identify themselves, their affiliation with the utility, and the purpose of their entry.

Threats to or assaults upon utility personnel shall result in criminal prosecution.

**SECTION 2.20 - SPECIFIC UTILITY SERVICE RULES AND REGULATIONS (CONT.)**

Except in cases where the customer has a contract with the utility for reserve or auxiliary service, no other water service will be used by the customer on the same installation in conjunction with the utility's service, either by means of a cross-over valve or any other connection. Customer shall not connect, or allow any other person or party to connect, onto any water lines on his premises. Two places shall not be permitted to be supplied with one service pipe where there is a water main abutting the premises.

No connection shall be allowed which allows water to be returned to the public drinking water supply. No backflow prevention device shall be permitted to be installed in the customer's plumbing without notice to and written permission from the utility. Any backflow prevention devices so installed shall be inspected annually by a licensed backflow prevention device inspector or appropriately licensed plumber and a written report of such inspection delivered to the utility.

No application, agreement or contract for service may be assigned or transferred without the written consent of the utility.

It is agreed and understood that any and all meters, water lines and other equipment furnished by the utility (excepting the customer's individual service lines from the point of connection to customer's structures on customer's premises) are and shall remain the sole property of the utility, and nothing contained herein or in a contract/application for service shall be construed to reflect a sale or transfer of any such meters, lines or equipment to any customer. All tap and extension charges shall be for the privilege of connecting to said water lines and for installation, not purchase, of said meters and lines.

Applicants for service at new consuming facilities or facilities which have undergone extensive plumbing modifications are required to deliver to the utility a certificate that their facilities have been inspected by a state-licensed inspector and that they are in compliance with all applicable plumbing codes and are free of potential hazards to public health and safety. Service may be denied until the certificate is received or any identified violations or hazards are remedied. The utility is not required to perform these inspections for the applicant/customer, but will assist the applicant/customer to locate and obtain the services of a licensed inspector in a timely manner. When potential sources of contamination are identified which, in the opinion of the inspector or the utility, require the installation of a state-approved backflow prevention device, such back flow prevention device shall be installed on the customer's service line or other necessary plumbing facilities by an appropriately licensed plumber/backflow prevention device specialist at the customer's expense. The backflow prevention device shall be maintained by the customer at his expense and inspected annually by a licensed inspector. Copies of the annual inspection report must be provided to the utility. Failure to comply with this requirement may constitute grounds for termination of water service with notice.

SECTION 2.20 - SPECIFIC UTILITY SERVICE RULES AND REGULATIONS (CONT.)

All customers or service applicants shall provide access to meters and utility cutoff valves at all times reasonably necessary to conduct ordinary utility business and after normal business hours as needed to protect and preserve the integrity of the public drinking water supply. Access to meters and cutoff valves shall be controlled by the provisions of 30 T.A.C. 291.89(c).

Where necessary to serve an applicant's property, the utility may require the applicant to provide it a permanent recorded public utility easement on and across the applicant's real property sufficient to provide service to that applicant.

Service applicants may be required to comply with any pre-condition to receiving service not printed herein as may exist under TCEQ rule (customer service, health and safety, water conservation, or environmental), USEPA rule, TWDB rule, local water or conservation district rule or health department rule. Existing customers shall be required to comply with such rules, including modification of their plumbing and/or consumption patterns, after notice.

Customers must make meters accessible to the Utility and its personnel. If they do not, the Utility may require the removal of the meter to another location according to Section 291.89(c) of the TCEQ's rules. The Utility will give the customer the option of converting to a remote radio read meter at the customer's expense in lieu of bearing the cost of relocating the meter and any Utility water lines necessitated by the customer's actions. If the customer does not accept this option, the customer will be charged for all incurred meter relocation costs. Before relocating the meter, the utility must provide the customer with written notice of its intent to do so.

This notice must include information on the estimated cost of relocating the meter, an explanation of the condition hindering access and what the customer can do to correct that condition, and information on how to contact the utility. The notice must give the customer a reasonable length of time to arrange for utility access so the customer may avoid incurring the relocation cost. A copy of the notice given to the customer shall be filed with the utility's records on the customer's account.

Customers shall not enclose meters with fences or other artificial barriers. If there is a fence in front of a meter, the customer shall install a gate or stile with 300 pound-load bearing capacity to enable meter readers and service crews to obtain ready access to the utility's property.

SECTION 3.0 - EXTENSION POLICY

Section 3.01 - Standard Extension Requirements

LINE EXTENSION AND CONSTRUCTION CHARGES. No contribution in aid of construction may be required of any customer except as provided for in this approved extension policy.

The customer will be given an itemized statement of the costs, options such as rebates to the customer, sharing of construction costs between the utility and the customer, or sharing of costs between the customer and other applicants prior to beginning construction.

The utility will bear the full cost of any oversizing of water mains necessary to serve other customers in the immediate area. The individual residential customer shall not be charged for any additional production, storage, or treatment facilities. Contributions in aid of construction may not be required of individual residential customers for production, storage, treatment or transmission facilities unless otherwise approved by the Commission under this specific extension policy.

COST UTILITY SHALL BEAR. Within its Certificate of Convenience and Necessity ("CCN") service area, the utility will pay the cost of the first 200 feet of any water main or distribution line necessary to extend service to an individual residential customer within a platted subdivision. However, if the residential customer requesting service purchased the property after the developer was notified of the need to provide facilities to the utility, the utility may charge for the first 200 feet. The utility must also be able to document that the developer of the subdivision refused to provide facilities compatible with the utility's facilities in accordance with the utility's approved extension policy after receiving a written request from the utility.

Developers may be required to provide contributions in aid of construction in amounts to furnish the system with all facilities necessary to comply with the TCEQ's Rules.

SECTION 3.20 - SPECIFIC UTILITY EXTENSION POLICY

This section contains the utility's specific extension policy that complies with the requirements already stated under Section 3.01. It must be reviewed and approved by the Commission and in compliance with TCEQ Rules to be effective.

Residential customers not covered under Section 3.01 will be charged the equivalent of the costs of extending service to their property from the nearest transmission or distribution line even if that line does not have adequate capacity to serve the customer. However, if the customer places unique, non-standard service demands upon the system, the customer may be charged the full cost of extending service to and throughout their property, including the cost of all necessary transmission and storage facilities necessary to meet the service demands anticipated to be created by that property.

Developers may be required to provide contributions in aid of construction in amounts sufficient to furnish the development with all facilities necessary to provide for reasonable local demand requirements and to comply with TCEQ minimum design criteria for facilities used in the production, transmission, pumping, or treatment of water or TCEQ minimum requirements. For purposes of this tariff, a developer is one who subdivides or requests more than two meters on a piece of property. Commercial, industrial, and wholesale customers will be treated as developers.

The utility adopts the administrative rules of the TCEQ, as amended from time to time, as its company specific extension policy. These rules will be kept on file at the company's business office for customer inspection during normal business hours. In the event of a conflict between the TCEQ's amended rules and the provisions of this tariff, the amended rules shall prevail. Where necessary, any conflicting provision of this tariff shall be deemed to have been superseded by the TCEQ rule in question to the degree that the utility may conduct its lawful business in conformance with all requirements of said rule.

When an individual residential applicant requires an extension of a main line beyond 200 feet, the charge to that applicant shall be the actual cost of such extension in excess of 200 feet, plus the applicable tap fee plus such other approved costs as may be provided in this tariff and/or TCEQ rules.

Residential tap fees may be increased by other unique costs not normally incurred as permitted by TCEQ rule. Larger meter taps shall be made at actual cost associated with that tap which shall include such extraordinary expenses.



SECTION 3.20 - SPECIFIC UTILITY EXTENSION POLICY (CONT.)

Any service extension to a subdivision (recorded or unrecorded) may be subject to the provisions and restrictions of 30 T.A.C. 291.86(d) and this tariff. When a developer wishes to extend the system to prepare to service multiple new connections, the charge shall be the cost of such extension, plus a pro-rata charge based upon the capacities of production, transmission, storage, pumping and treatment facilities, compliant with the TCEQ minimum design criteria, which must be committed to such extension. As provided by 30 T.A.C. 291.86(d)(4), for purposes of this tariff, commercial, industrial, and wholesale customers shall be treated as developers.

Any applicant who places unique or non-standard service demands on the system may be required to provide contributions in aid of construction for the actual costs of any additional facilities required to maintain compliance with the TCEQ minimum design criteria for water production, treatment, pumping, storage and transmission.

Unless expressly exempted by TCEQ rule or order, each point of use (as defined by 30 T.A.C. §291.3) must be individually metered.

The imposition of additional extension costs or charges as provided by Sections 2.20 and 3.20 of this tariff shall be subject to appeal as provided in this tariff, TCEQ rules, or the rules of such other regulatory authority as may have jurisdiction over the utility's rates and services. Any applicant required to pay for any costs not specifically set forth in the rate schedule pages of this tariff shall be entitled to a written explanation of such costs prior to payment and/or commencement of construction. If the applicant does not believe that these costs are reasonable or necessary, the applicant shall have the right to appeal such costs to the TCEQ or such other regulatory authority having jurisdiction over the utility's rates in that portion of the utility's service area in which the applicant's property(ies) is located. Unless the TCEQ or other regulatory authority enters interlocutory orders to the contrary, service to the applicant may be delayed until such appeal is resolved.

The Utility will provide a written service application form to the applicant for each request for service received by the utility's business offices. A separate application shall be required for each potential service location if more than one service connection is desired by any individual applicant. Service applications forms will be available for applicant pick up at the utility's business office during normal weekday business hours. Service applications will be sent by prepaid first class United States mail to the address provided by the applicant upon request. Completed applications should be returned by hand delivery in case there are questions which might delay fulfilling the service request. Completed service applications may be submitted by mail if hand delivery is not possible.

SECTION 3.20 - SPECIFIC UTILITY EXTENSION POLICY (CONT.)

The utility shall serve each qualified service applicant within its CCN service area as soon as practical after receiving a completed service application. All service requests will be fulfilled within the time limits prescribed by TCEQ rules once the applicant has met all conditions precedent to achieving a qualified service applicant status. If a service request cannot be fulfilled within the required period, the applicant shall be notified in writing of the delay, its cause and the anticipated date that service will be available. The TCEQ service dates shall not become applicable until the service applicant has met all conditions precedent to becoming a "qualified service applicant" as defined herein or by TCEQ rules.

The utility is not required to extend service to any applicant outside of its CCN service area and will only do so, at the utility's sole option, under terms and conditions mutually agreeable to the utility and the applicant and upon extension of the utility's certificated service area boundaries by the TCEQ. Service applicants may be required to bear the cost of the service area amendment.

A "qualified service applicant" is an applicant who has: (1) met all of the utility's requirements of service contained in this tariff, TCEQ rules and/or TCEQ order, (2) has made all payments for tap fees and extension charges, (3) has provided all necessary easements and rights-of-way necessary to provide service to the requested location, including staking said easements or rights-of-way where necessary, (4) delivered an executed customer service inspection certificate to the utility and (5) has executed a customer service application for each location to which service is being requested.

Where a new tap or service connection is required, the service applicant shall be required to submit a written service application and request that a tap be made. The tap request must be accompanied with a plat, map, diagram or written metes and bounds description of precisely where the applicant desires each tap or service connection is to be made and, if necessary, where the meter is to be installed, along the applicant's property line. The actual point of connection and meter installation must be readily accessible to utility personnel for inspection, servicing and meter reading while being reasonably secure from damage by vehicles and mowers. If the utility has more than one main adjacent to the service applicant's property, the tap or service connection will be made to the utility's nearest service main with adequate capacity to service the applicant's full potential service demand. If the tap or service connection cannot be made at the applicant's desired location, it will be made at another location mutually acceptable to the applicant and the utility. If no agreement on location can be made, applicant may refer the matter to the TCEQ for resolution. Unless otherwise ordered by the TCEQ, the tap or service connection will not be made until the location dispute is resolved.

**SECTION 3.20 - SPECIFIC UTILITY EXTENSION POLICY (CONT.)**

The utility shall require a developer (as defined by TCEQ rule) to provide permanent recorded public utility easements as a condition of service to any location within the developer's property. The developer shall be required to obtain all necessary easements and rights-of-way required to extend the utility's existing service facilities from their nearest point with adequate service capacity (as prescribed by TCEQ rules and local service conditions) to and throughout the developer's property. The easements shall be sufficient to allow the construction, installation, repair, maintenance, testing, and replacement of any and all utility plant necessary to provide continuous and adequate service to each and every potential service location within the property at full occupancy. Unless otherwise restricted by law, well plant sites shall convey with unrestricted rights to produce water for public drinking water supply. The developer shall be required to provide the utility with a minimum of a 160-foot radius sanitary control easement or fee simple real property conveyance around the proposed well site acceptable to the TCEQ for each water well site to be located within the developer's property or otherwise being obtained to serve the developer's property. Unless otherwise agreed to by the utility, pipe line right-of-way easements must be at least 15 feet wide to allow adequate room to facilitate backhoe and other heavy equipment operation and meters. Easements must be provided for all production, storage, treatment, pressurization and disposal sites which are sufficient to construct and maintain all weather roads as prescribed by TCEQ rules. All easements shall be evidenced, at developer's expense, by recorded county-approved subdivision plat or by specific assignment supported by metes and bounds survey from a surveyor licensed by the State of Texas.

Prior to the extension of utility service to developers (as defined by TCEQ rules) or new subdivisions, the Developer shall comply with the following:

- (a) The developer shall make a written request for service to property that is to be subdivided and developed. The developer shall submit to the utility a proposed plat on a scale of one inch (1@) to two hundred feet (200') for review and determination of required easements, utility plant, and plant location. If sewer service is requested, the plat must contain elevation data. A reconcilable deposit in an amount set by the utility may be required to cover preliminary engineering, legal and copy cost to be incurred by the utility in reviewing and planning to meet this service request. The plat and/or accompanying information shall identify the type, location and number of houses and other planned structures that will be requiring utility service. If other than residential structures are to be located on the property, all other types of anticipated businesses and their service demands shall be identified with specificity. All areas requiring special irrigation and/or other unique water demands must be identified. To the extent reasonably possible, this information must be precise so that adequate facilities can be designed and constructed to meet all future service demands without hazard to the public, other utility customers and/or the environment.

SECTION 3.20 - SPECIFIC UTILITY EXTENSION POLICY (CONT.)

- (b) After the requirements of easements and rights-of-way have been determined, a red line copy will be returned by the utility to the developer for final plat preparation.
- (c) Copies of all proposed plats and plans must be submitted to the utility prior to their submission to the county for approval to insure that they are compatible with the adequate long-term utility needs of potential service customers. Copies will be returned after review by the utility so that necessary changes may be incorporated into the developer's final submitted plat(s) and plans.
- (d) The utility shall be provided with three (3) certified copies of the final plat(s) approved by the County Commissioners Court. At this time, the utility will begin engineering the facilities necessary to serve the property. Plans and specifications will be prepared and submitted to the TCEQ by the utility if required by law. If further plat or plans changes are necessary to accommodate the specific service needs of the property and the anticipated customer demands, the developer will be so notified. Plat amendments must be obtained by the developer. The developer shall be notified when all required TCEQ or other governmental approvals or permits have been received. No construction of utility plant which requires prior TCEQ plans approval shall be commenced until that approval has been received by the utility and any conditions imposed by the TCEQ in association with its approvals have been satisfied.
- (e) The developer shall be required to post bond or escrow the funds necessary to construct all required utility plant, except individual taps, meters and sewer connections, required to serve the property. Construction shall not commence until funds are available. If the construction is to be done in coordination with the phased development of the property, funds must be provided in advance which are sufficient to complete each phase. No phase or facilities for any phase shall be constructed prior to the bonding or escrowing of all funds associated with that phase.

SECTION 3.20 - SPECIFIC UTILITY EXTENSION POLICY (CONT.)

- (f) At the sole option of the utility, the developer may be required to execute a Developer Extension Contract setting forth all terms and conditions of extending service to their property including all contributions-in-aid of construction and developer reimbursements, if any.
- (g) The utility may require the developer to commence construction of subdivision improvements within three (3) months of utility plans approval or the utility may abate its construction activities until full development construction begins. If the developer stops construction of subdivision improvements for any purpose, the utility may abate its construction for a similar period.
- (h) As soon as the roads are rough cut and prior to paving, extension lines will need to be constructed at each road crossing. The developer must notify the utility sufficiently in advance of this development stage to allow for the necessary utility construction without disruption to other service operations of the utility. Failure to provide adequate advance notice and cooperation in the construction of necessary utility plant may result in additional delays in obtaining service to the property. The developer shall be required to pay for all additional costs of road boring or other remedial construction necessary to install adequate utility plant throughout the affected property.
- (i) The developer, not the utility, shall insure that developer's employees, agents, contractors and others under its control coordinate their work or construction throughout the property with the utility to insure the orderly and timely construction of all utility plant necessary to serve the public.

Within its CCN service area, the utility shall bear the cost of the first 200 feet of any water main or sewer collection line necessary to extend service to an individual residential service applicant within a platted subdivision unless the utility can document:

- (a) that the developer of the subdivision refused to provide facilities compatible with the utility's facilities in accordance with the utility's approved extension policy after receiving a written request from the utility; or,
- (b) that the developer defaulted on the terms and conditions of a written agreement or contract existing between the utility and the developer or the terms of this tariff regarding payment for services, extensions, or other requirements; or in the event the developer declared bankruptcy and was therefore unable to meet obligations; and,

SECTION 3.20 - SPECIFIC UTILITY EXTENSION POLICY (CONT.)

- (c) that the residential service applicant purchased the property from the developer after the developer was notified of the need to provide facilities to the utility. A residential service applicant may be charged the remaining costs of extending service to his property; provided, however, that the residential service applicant may only be required to pay the cost equivalent to the cost of extending the nearest water main, whether or not that line has adequate capacity to serve that residential service applicant.

The following criteria shall be considered to determine the residential service applicant's cost for extending service:

- (1) The residential service applicant shall not be required to pay for costs of main extensions greater than 2" in diameter for water distribution.
- (2) Exceptions may be granted by the TCEQ Executive Director if:
- (a) adequate service cannot be provided to the applicant using the maximum line sizes listed due to distance or elevation, in which case, it shall be the utility's burden to justify that a larger diameter pipe is required for adequate service;
- (b) larger minimum line sizes are required under subdivision platting requirements or applicable building codes.
- (3) If an exception is granted, the utility shall establish a proportional cost plan for the specific extension or a rebate plan which may be limited to seven years to return the portion of the applicant's costs for oversizing as new customers are added to ensure that future applicants for service on the line pay at least as much as the initial service applicant.

For purposes of determining the costs that service applicants shall pay, commercial customers with service demands greater than residential customer demands in the certificated area, industrial, and wholesale customers shall be treated as developers.

A service applicant requesting a one inch meter for a lawn sprinkler system to service a residential lot is not considered nonstandard service.

**SECTION 4.0 -- DROUGHT CONTINGENCY PLAN  
(Utility must attach copy of TCEQ approved Drought Contingency Plan)**

## APPENDIX- C

### Aqua Texas - North Region Water Utility Tariff

#### Regional Pass-Through Gallonage Charge True- up/Adjustment Provision and Report

The purpose of this true-up/adjustment provision is to true-up and adjust Aqua Texas' authorized Regional Pass-Through Gallonage Charge each year in an effort to provide the best opportunity for regional revenue collected from the charge to align with certain types and amounts of pass-through costs Aqua Texas has incurred in the preceding year for the region using a process that does not require the expense of a full rate proceeding. Additionally, this process is intended to ensure that Aqua Texas balances the collections versus the pass-through costs annually. The types of pass-through costs that form the basis for the Regional Pass-Through Gallonage Charge may be regional costs, fees, rates and charges imposed by governmental entities, water authorities or districts having jurisdiction over Aqua Texas or its operations or by non-affiliated third party water suppliers or water rights holders selling water or water rights to Aqua Texas.

- 1) Regional Pass-Through Gallonage Charge true-up and adjustment calculations shall use historic, actual gallons billed to all regional retail water customers in the previous completed calendar year.
- 2) Amounts referred to in gallons shall be per 1,000 gallons, unless otherwise specified.
- 3) Aqua Texas has provided a list of all expenses (see attached) to be included in the regional pass through costs. The Executive Director has approved the attached list.
- 4) Aqua Texas shall only collect costs directly associated with the production of water in the pass-through and specifically shall not include impact fees and other fees associated with plant and equipment.
- 5) Normalization shall not be used in any pass through calculations.
- 6) No charges by affiliates (as defined by the Texas Water Code) of Aqua Texas shall be included in the pass through.
- 7) True-up Report to the regulatory authority ("Report"): Between the end of each calendar year and the following February 28, Aqua Texas shall provide a Report that reconciles the total Regional Pass-Through Gallonage Charge revenues billed during the previous completed calendar year within the North region to the total amount of all regional passed-through costs incurred during that year as reflected in the general ledger. The Report shall include the amount paid to each entity for allowed passed through costs, the names of the entities paid by Aqua Texas, and the total of costs incurred requested for the purpose of an adjusted Regional Pass-Through Gallonage Charge. Any supporting documentation shall be attached to the report. Aqua Texas may submit information regarding new district charges in the Report (other than fines or penalties - see 4 above). New district charges associated with newly acquired systems shall not be included unless otherwise approved in a rate determination or proceeding. Aqua Texas will not include new purchase water agreements unless approved in a rate proceeding.



- 8) The true-up calculation for a completed calendar year Report shall be as follows:
- a) Regional Pass-Through Gallonage Charge revenues billed during completed calendar year \$XXXX
  - b) Regional passed-through costs actually incurred during completed calendar year \$XXXX
  - c) Difference between a) and b) \$XXXX

where,  $a) - b) = c)$

Annual Regional Pass-Through Gallonage Charge recalculations shall follow the following formula:

- b) Same as b) above. \$XXXX
- c) Same difference as c) above \$XXXX
- d) Total adjusted regional pass-through costs subject to adjusted Regional Pass-Through Gallonage Charge \$XXXX

where,  $b) - c) = d)$

**Divided by:**

- e) Actual historic gallons billed to all regional customers in completed calendar year \$XXXX

**Equals:**

- f) Regional Pass-Through Gallonage Charge as adjusted \$X.XX

where  $d) \div e) = f)$

Notice of any adjustments to the pass-through will be sent to the Executive Director of the regulatory authority and to the affected customers. Notice to the customers may be in the form of a billing insert and must track the language required in 30 TAC § 291.21(h)(4)(B).

- 9) With the Report Aqua Texas files on February 28 setting forth its calculation and supporting documentation for its adjusted Regional Pass-Through Gallonage Charge in accordance with 5) and 6) above, Aqua Texas shall include a tariff page that incorporates the adjusted Regional Pass-Through Gallonage Charge reflected in the Report. Aqua Texas shall implement the adjusted filed rate as follows.
- a) Aqua Texas will bill the adjusted Regional Pass-Through Gallonage Charge for service rendered on or after March 1 each year and thereafter until the rate is modified.
  - b) The first bill received each year incorporating the adjusted Regional Pass-Through Gallonage Charge will be prorated to apply the adjusted charge to service during those days in the billing cycle on or after March 1.
  - c) The Executive Director of TCEQ or a successor agency with authority to regulate investor-owned utility rates (regulatory authority) shall review the Report and

provide the results of its review to Aqua Texas in writing within 45 days after Aqua Texas submits the Report. If no written response is provided to Aqua Texas during that time, the adjusted Regional Pass-Through Gallonage Charge filed with the Report shall stand until modified.

- d) The regulatory authority's Executive Director may dispute the calculation or supporting documentation as presented in the Report. If so, Aqua Texas and the regulatory authority's Executive Director shall work in good faith to attempt resolution of the dispute.
- e) The process of implementing the Regional Pass-Through Gallonage Charge True-up/Adjustment and the regulatory authority's review of same is an informal proceeding and not a contested case hearing. However, if a dispute between Aqua Texas and the regulatory authority cannot be resolved through negotiation, only the regulatory authority, Executive Director of the regulatory authority, or Aqua Texas may request a hearing on Regional Pass-Through Gallonage Charge true-ups/adjustments. It shall not be considered a rate case under the Texas Water Code or TCEQ (or other regulatory authority) rules, and Texas Water Code § 13.187 shall not apply.
- f) In the event of a dispute or hearing concerning the Regional Pass-Through Gallonage Charge reflected in the tariff page filed with the Report, the filed rate shall be considered effective on an interim basis and previous charges will be adjusted in the next annual true-up, except that adjustments to the pass-through exceeding 50 percent may require immediate refunds or credits as directed by the regulatory authority. If the filed rate is modified pursuant to dispute or hearing resolution, a replacement tariff page shall be filed with the regulatory authority reflecting the modified rate.
- g) Notwithstanding the procedures outlined herein, if the Report indicates an increase to Aqua Texas' Regional Pass-through Gallonage Charge is appropriate for the calendar year assessed, Aqua Texas may elect not to implement the increase. Aqua Texas will submit a written notification of such an election with the Report, indicating the amount of foregone pass through revenues. Foregone pass through revenues due to such election shall not be collected.
- h) This pass through provision is not intended to negate any authority granted to the regulatory authority.

Aqua Texas regional pass-through approved entity list

Entities on the list as of 4/5/2013

The regulating commission approved the pass through of costs per contract or permit, existing as of 12/31/2010, for base rates and gallonage charges made by the following entities.

**North Region - Water:**

Bethesda Water Supply  
Cash Special Utility District  
Fort Worth, City of  
Granbury, City of  
Kilgore, City of  
Longview, City of  
MacBee SUD  
Palestine, City of  
Waco, City of  
Walnut Creek SUD  
Lakes Cities MUA  
Southern Trinity GCD  
Upper Trinity GCD  
Neches and Trinity Valley GCD

Company	Customer	Premises	Status	Customer Name	Premises Address	Dpst Code	Dtyp Code	Serv #	Deposit Date	Deposit Amount	Deposit Collected	Deposit Applied	Deposit Balance	Interest Accrued	Interest Applied	Interest Balance	CR Rat	The Gap Water System
1317000	963849	691697	A			41436	T001	1	9/22/2003	50	50		50	25.12	24.73	0.39	D	TRUE
1317003	912773	654233	A			210841	T022	1	8/1/2017	50	50		50	0.09		0.09	C	TRUE
1317003	913340	654651	A			34619	T002	1	8/16/2001	50	50		50	25.37	24.98	0.39	D	TRUE
1317003	914148	655230	A			181952	T022		12/2/2014	50	50		50	0.39		0.39	D	TRUE
1317003	918403	658242	A			206389	T022	1	2/10/2017	50	50		50	0.19		0.19	C	TRUE
1317003	925165	663009	A			37951	T002	1	12/15/1998	25	25		25	13.87	13.66	0.21	D	TRUE
1317003	925437	663204	A			38112	T002	1	12/11/2001	50	50		50	27.37	26.98	0.39	D	TRUE
1317003	930056	666532	A			36090	T002	1	4/2/2003	50	50		50	26.37	25.98	0.39	D	TRUE
1317003	933439	669066	A			38199	T002	1	12/31/2003	50	50		50	27.37	26.98	0.39	C	TRUE
1317003	937942	672418	A			37814	T002	1	12/7/1999	25	25		25	13.87	13.66	0.21	D	TRUE
1317003	975776	700659	A			180199	T022		9/30/2014	50	50		50	1.09		1.09	D	TRUE
1317003	1596634	653642	A			87445	T022		7/8/2010	50	50		50	13.62	13.23	0.39	D	TRUE
1317003	1761576	694185	I			173252	T022		1/27/2014	0			0			0	A	TRUE
1317003	1773620	660552	I			204727	T022	1	12/19/2016	0			0			0	D	TRUE
1317003	1779506	662788	I			153329	T022		2/8/2012	0			0			0	A	TRUE
1317003	1995697	658404	A			210883	T022	1	8/2/2017	50	50		50	0.09		0.09	C	TRUE
1317003	2039695	1185268	A			180194	T022		9/30/2014	50	50		50	1.09		1.09	D	TRUE
1317003	2047651	669065	A			171195	T022		11/8/2013	50	50		50	3.64	3.25	0.39	D	TRUE
1317003	2073456	662508	A			208451	T022	1	5/2/2017	50	50		50	0.15		0.15	D	TRUE
1317003	2104937	652340	A			209463	T022	1	6/6/2017	50	50		50	0.13		0.13	D	TRUE
1317003	2115812	663206	A			214441	T022	1	12/6/2017	50			0			0	D	TRUE
1317003	2119980	663043	A			210602	T022	1	7/21/2017	50	50		50	0.08		0.08	C	TRUE
1317003	2232851	664908	A			213566	T022	1	11/8/2017	50	0		0	0.03		0.03	D	TRUE
1317003	2303750	662591	A			205470	T022	1	1/11/2017	50	50		50	0.22		0.22	D	TRUE
1317003	2315086	694157	A			212707	T022	1	10/6/2017	50	50		50	0.05		0.05	C	TRUE
1317003	2340936	657096	I			208590	T022	1	5/8/2017	0			0			0	D	TRUE
1317003	2355251	694156	I			210842	T022	1	8/1/2017	50	2.65		2.65			0	D	TRUE
													952.65			6.75		

Att.  
**C**

Att.

**D**

**Attachment D - List of Officials for Buffalo Gap, Texas**

<b>Name</b>	<b>Position</b>	<b>Address</b>	<b>City, State, Zip</b>	<b>Phone #</b>	<b>Email</b>
David Perry	Mayor	702 Mulberry	Buffalo Gap TX 79508	325.201.2060	<a href="mailto:diveress@taylortel.net">diveress@taylortel.net</a>
Cindy Husbands	Secretary	PO Box 506	Buffalo Gap TX 79508	325.572.3347	<a href="mailto:buffalogap@taylortel.net">buffalogap@taylortel.net</a>
Dana Sowell	Public Works Director	PO Box 506	Buffalo Gap TX 79508	325.370.5796	<a href="mailto:bgapfire@taylortel.net">bgapfire@taylortel.net</a>
Pete Renick	Mayor Protem	501 Mulberry	Buffalo Gap TX 79508	325.572.5233	<a href="mailto:howard.renick@gmail.com">howard.renick@gmail.com</a>
James Mabes	Council member	2742 FM 89	Buffalo Gap TX 79508	325.572.3235	<a href="mailto:mabesbodyshop@taylortel.net">mabesbodyshop@taylortel.net</a>
Mickey Stewart	Council member	618 Mulberry	Buffalo Gap TX 79508	325.572.3288	<a href="mailto:mickeystewart_44@yahoo.com">mickeystewart_44@yahoo.com</a>
Doris Dillard	Council member	1234 Live Oak	Buffalo Gap TX 79508	325.572.4346	<a href="mailto:ebdillard@hotmail.com">ebdillard@hotmail.com</a>
Nancy Henderson	Council member	625 Cherry	Buffalo Gap TX 79508	325.572.3323	<a href="mailto:nanhend@gmail.com">nanhend@gmail.com</a>



**TOWN OF BUFFALO GAP**

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FINANCIAL STATEMENTS  
and  
INDEPENDENT AUDITORS' REPORT

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YEAR ENDED SEPTEMBER 30, 2017

TOWN OF BUFFALO GAP

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## **FINANCIAL SECTION**



# Merritt, McLane & Hamby, P.C.

401 Cypress Street, Suite 303  
Abilene, TX 79601

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the Town Council  
Town of Buffalo Gap, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Buffalo Gap, Texas as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### ***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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the remaining fund information of the Town of Buffalo Gap, Texas, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison-general fund information on pages 3 through 8 and 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Buffalo Gap, Texas' basic financial statements. The budgetary comparison – utility fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison – utility fund has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017, on our consideration of the Town of Buffalo Gap, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Buffalo Gap, Texas' internal control over financial reporting and compliance.

*Merritt, McLane & Hamby, P.C.*

**MERRITT, MCLANE & HAMBY, P.C.**

Abilene, Texas  
December 22, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**TOWN OF BUFFALO GAP  
709 LITEL  
P. O. BOX 506  
BUFFALO GAP, TX 79508  
(325) 572-3347**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Town of Buffalo Gap's annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal year that ended on September 30, 2017. Please read it in conjunction with the Town's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The Town's total net position decreased \$20,700 from prior year. Net position of our business-type activities increased \$21,391 (or .8%). Net position of our governmental activities decreased \$42,091 (or 9.3%).
- During the year, the Town's expenses, including transfers, were \$42,091 more than the \$347,104 generated in taxes and other revenues for governmental programs.
- In the Town's business-type activities, revenues were \$517,731, including transfers, while expenses were \$496,3401.
- The total cost of the Town's programs was \$825,570.
- The general fund reported fund balance of \$241,577.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

Management's Discussion and Analysis introduces the Town's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Town also includes in this report additional information to supplement the basic financial statements.

***Government-wide Financial Statements***

The Town's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the Town's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the Town-wide statement of financial position presenting information that includes all of the Town's assets and liabilities, with the difference reported as *Net Position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town as a whole is improving or deteriorating. Evaluation of the overall economic health of the Town would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of the Town infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities* which reports how the Town's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the Town's distinct activities or functions on revenues provided by the Town's taxpayers.



Both government-wide financial statements distinguish governmental activities of the Town that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government. Business-type activities include water, sewer, and trash collection.

The Town's financial reporting entity includes the funds of the Town (primary government) and organizations for which the Town is accountable (component units). Buffalo Gap Economic Development Corporation provides services directly to the citizens though the Town remains accountable for their activities. The Economic Development Corporation is reported separately from the primary government though included in the Town's overall reporting entity.

### ***Fund Financial Statements***

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Town uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The Town has two kinds of funds:

*Governmental funds* are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the Town's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

A budgetary comparison statement for the general fund can be found in required supplementary information, and a budgetary comparison statement for the proprietary fund can be found in other supplementary information. These statements demonstrate compliance with the Town's adopted and final revised budget. The Town increased their General Fund budget by approximately 2%. Repair and maintenance fees increased.

*Proprietary funds* are required in the fund financial statements and generally report services for which the Town charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the Town such as the water utilities. Internal service funds provide services and charge fees to customers within the Town organization such as equipment services (repair and maintenance of Town vehicles) and the print shop (mail and printing services for Town departments). The Town has no internal service funds.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements.

**Notes to the Financial Statements**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information which includes budgetary comparison statements.

**Financial Analysis of the Town as a Whole**

**Net Position.** As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the Town as a whole.

The Town's net position at fiscal year-end is \$3,205,265. This is a \$20,700 decrease over last year's net position of \$3,225,965. The following Table A-1 provides a summary of the Town's net position at September 30, 2017.

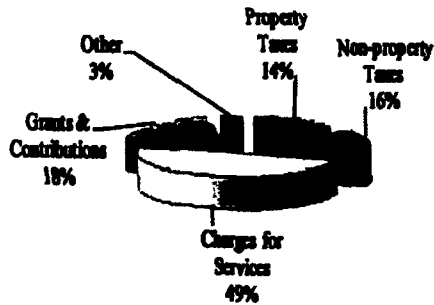
**Table A-1**  
**City of Buffalo Gap's Net Position**

	Governmental		Business-type		Totals	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 263,527	\$ 311,654	\$ 365,869	326,955	\$ 629,396	\$ 638,609
Capital and Non-Current Assets	163,413	151,501	5,357,194	5,415,783	5,520,607	5,567,284
<b>Total Assets</b>	<b>426,940</b>	<b>463,155</b>	<b>5,723,063</b>	<b>5,742,738</b>	<b>6,150,003</b>	<b>6,205,893</b>
Current Liabilities	18,557	12,681	98,167	100,858	116,724	113,539
Long Term Liabilities			2,828,014	2,866,389	2,828,014	2,866,389
<b>Total Liabilities</b>	<b>18,557</b>	<b>12,681</b>	<b>2,926,181</b>	<b>2,967,247</b>	<b>2,944,738</b>	<b>2,979,928</b>
<b>Net Position</b>						
Net investment in capital assets	163,413	150,536	2,495,073	2,503,903	2,658,486	2,654,439
Restricted		7,438	84,163	56,245	84,163	63,683
Unrestricted	244,970	292,500	217,646	215,343	462,616	507,843
<b>Total Net Position</b>	<b>\$ 408,383</b>	<b>\$ 450,474</b>	<b>\$ 2,796,882</b>	<b>\$ 2,775,491</b>	<b>\$ 3,205,265</b>	<b>\$ 3,225,965</b>

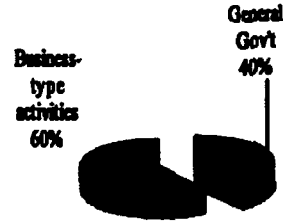
Net position in the Town's governmental activities decreased 9.3% to \$408,383 while business-type activities increased .8% to \$2,796,882. In our business-type activities, \$2,495,073 of the net position is invested in capital assets (distribution and collection system, equipment, etc), and \$84,163 is restricted. Consequently, unrestricted net position was \$217,646 at the end of this year.

**Changes in Net Position.** The Town's total revenues were \$804,870. Nearly half (49%) of the Town's revenues come from fees charged for services, and 30 cents of every dollar raised comes from some type of tax. In addition, 18% of the Town's revenue came from grants and contributions for the current year. (See Figure A-1).

**Figure A-1**  
City Sources of Revenue for Fiscal Year 2017



**Figure A-2**  
City Functional Expenses for Fiscal Year 2017



The total cost of all programs and services was \$825,570. The Town's expenses cover a range of services, with sixty percent relating to business-type activities. (See Figure A-2).

#### Governmental Activities

Revenues for the Town's governmental activities were \$347,104, while total expenses were \$389,195, including transfers. The Town is increasing its tax base by bringing in new business and the increasing property values should increase property tax revenue. The increase of new business adds revenue through two avenues; 1) property tax, and 2) sales tax.

**Table A-2**  
Changes in City of Buffalo Gap, Texas' Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 33,283	\$ 42,588	\$ 360,776	\$ 317,396	\$ 394,059	\$ 359,984
Grants & Contributions	72,213	46,187	74,340	1,202,171	146,553	1,248,358
<b>General Revenues</b>						
Sales tax	108,485	111,303			108,485	111,303
Property tax	108,357	104,346			108,357	104,346
Right of way	9,857	9,873			9,857	9,873
Mixed beverage tax	11,086	10,726			11,086	10,726
Investment earnings	61	325	248	90	309	415
Miscellaneous income	3,762	942	22,402	21,509	26,164	22,451
Transfers	(59,965)		59,965			
<b>Total Revenues</b>	<b>287,139</b>	<b>326,290</b>	<b>517,731</b>	<b>1,541,166</b>	<b>804,870</b>	<b>1,867,456</b>
<b>Expenses</b>						
General government	329,230	358,619			329,230	358,619
Water utilities			496,340	348,682	496,340	348,682
<b>Total Expenses</b>	<b>329,230</b>	<b>358,619</b>	<b>496,340</b>	<b>348,682</b>	<b>825,570</b>	<b>707,301</b>
<b>Increase (decrease) in net position</b>	<b>\$ (42,091)</b>	<b>\$ (32,329)</b>	<b>\$ 21,391</b>	<b>\$ 1,192,484</b>	<b>\$ (20,700)</b>	<b>\$ 1,160,155</b>

**Governmental Funds**

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. Governmental funds reported ending fund balances of \$241,577.

The total ending fund balance of governmental funds shows a decrease of \$56,154 over the prior year.

**Proprietary Funds**

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

**Major Proprietary Funds**

The Town’s major proprietary fund consists of the Utility Fund. Total net position at the end of the year was \$2,796,882. The Water Fund’s net position had an increase of \$21,391.

**General Fund Budgetary Highlights**

The Town Council budgeted expenditures in the General Fund for fiscal year 2017 at \$219,582. The budget was amended during the year for an additional \$3,500. Total expenditures were over the budgeted amounts by \$122,525 mainly due to street expense, repair and maintenance, and fire department operations.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The Town’s investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of September 30, 2017, was \$163,413 and \$5,357,194, respectively. See Table A-3 for additional information about changes in capital assets during the fiscal year.

**Table A-3  
City's Capital Assets**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 28,886	28,886	\$		\$ 28,886	28,886
Buildings and improvements	241,250	241,250			241,250	241,250
Distribution and collection system			5,739,600	5,682,304	5,739,600	5,682,304
Furniture & equipment	445,296	415,752	35,255	35,255	480,551	451,007
Total at historical cost	715,432	685,888	5,774,855	5,717,559	6,490,287	6,403,447
Total accumulated depreciation	552,019	534,387	417,661	301,776	969,680	836,163
Net capital assets	\$ <u>163,413</u>	<u>151,501</u>	\$ <u>5,357,194</u>	<u>5,415,783</u>	\$ <u>5,520,607</u>	<u>5,567,284</u>



### Long-term Debt

At year-end, the Town had \$2,636,000 in certificates of obligations less \$119,729 discount, and \$320,000 on a USDA Loan.

**Table A-4**  
**City's Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Note payable	\$	965	\$ 320,000	\$ 324,000	\$ 320,000	\$ 324,965
Certificate of Obligation			2,516,271	2,561,620	2,516,271	2,561,620
Total	\$	965	\$ 2,836,271	\$ 2,885,620	\$ 2,836,271	\$ 2,886,585

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Town's budgeted expenditures for the General Fund for 2018 will decrease \$71,173 from 2017 actual expenditures excluding the fire department:

- Appraised value used for the 2018 budget will remain consistent with 2017. The property tax rate is to increase for maintenance & operations to \$.2066 per \$100 property valuation.
- Utility rates are expected to remain the same for fiscal year 2018.

These indicators were taken into account when adopting the general fund budget for 2018.

Expenditures for the General Fund are budgeted at \$213,305, which is a decrease of \$128,802 from current year actual expenditures including the fire department.

If these estimates are realized, the Town's budgetary general fund fund balance is expected to remain approximately the same.

### CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town of Buffalo Gap's Mayor at P. O. Box 506, Buffalo Gap, Texas 79508.

## **BASIC FINANCIAL STATEMENTS**

TOWN OF BUFFALO GAP, TEXAS

STATEMENT OF NET POSITION

September 30, 2017

	Primary Government			Economic Development Corporation
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$ 153,277	\$ 242,286	\$ 395,563	\$ 49,722
Restricted cash		84,163	84,163	
Investments	56,522		56,522	
Due from other funds	12,542	(12,542)		
Receivables:				
Property tax	4,460		4,460	
Allowance for uncollectible tax	(1,067)		(1,067)	
Accounts receivables, net	12,076	51,962	64,038	
Right of way	2,735		2,735	
Mixed beverage tax	2,760		2,760	
Sales tax	20,222		20,222	
Total current assets	<u>263,527</u>	<u>365,869</u>	<u>629,396</u>	<u>49,722</u>
Non-current Assets				
Capital assets:				
Land	28,886		28,886	33,775
Buildings and improvements, net	89,788		89,788	
Distribution and collection system, net		5,354,908	5,354,908	
Furniture and equipment, net	44,739	2,286	47,025	2,614
Total non-current assets	<u>163,413</u>	<u>5,357,194</u>	<u>5,520,607</u>	<u>36,389</u>
Total Assets	<u>426,940</u>	<u>5,723,063</u>	<u>6,150,003</u>	<u>86,111</u>
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable	9,146	15,844	24,990	
Due to Economic Development Corporation	2,528		2,528	(2,528)
Sales tax payable		951	951	
Payroll liability	6,883	6,096	12,979	
Accrued interest payable		25,850	25,850	
Current portion - long term debt		49,429	49,429	
Total current liabilities	<u>18,557</u>	<u>98,170</u>	<u>116,727</u>	<u>(2,528)</u>
Non-current Liabilities				
Utility deposits		41,169	41,169	
Long term debt		2,786,842	2,786,842	
Total non-current liabilities		<u>2,828,011</u>	<u>2,828,011</u>	
Total Liabilities	<u>18,557</u>	<u>2,926,181</u>	<u>2,944,738</u>	<u>(2,528)</u>
<b>NET POSITION</b>				
Net investment in capital assets	163,413	2,495,073	2,658,486	
Restricted		84,163	84,163	
Unrestricted	244,970	217,646	462,616	88,639
Total Net Position	<u>\$ 408,383</u>	<u>\$ 2,796,882</u>	<u>\$ 3,205,265</u>	<u>\$ 88,639</u>

The accompanying notes are an integral part of this statement.

**TOWN OF BUFFALO GAP, TEXAS**

**STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government</b>			
Governmental Activities:			
General government	\$ 266,681	\$ 30,865	\$ 72,213
Public safety	62,549	2,418	
Total governmental activities	<u>329,230</u>	<u>33,283</u>	<u>72,213</u>
Business-type Activities:			
Water utilities	496,340	360,776	74,340
Total business-type activities	<u>496,340</u>	<u>360,776</u>	<u>74,340</u>
Total Primary Government	<u>\$ 825,570</u>	<u>\$ 394,059</u>	<u>\$ 146,553</u>
Economic Development Corporation	<u>\$ 55,156</u>	<u>\$ 47,900</u>	<u>\$</u>

Taxes:  
Sales tax  
Property tax  
Right of way  
Mixed beverage tax  
Investment Earnings  
Miscellaneous Income  
Transfers  
Total General Revenues and Transfers

**Change in Net Position**

Net Position - Beginning

Net Position - Ending

*The accompanying notes are an integral part of this statement.*

<u>Net (Expense) Revenue and Changes in Net Position</u>			
<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>	<u>Economic</u>
<u>Activities</u>	<u>Activities</u>		<u>Development</u>
			<u>Corporation</u>
\$ (163,603)	\$	\$ (163,603)	
<u>(60,131)</u>		<u>(60,131)</u>	
<u>(223,734)</u>		<u>(223,734)</u>	
	<u>(61,224)</u>	<u>(61,224)</u>	
	<u>(61,224)</u>	<u>(61,224)</u>	
<u>(223,734)</u>	<u>(61,224)</u>	<u>(284,958)</u>	
			\$ <u>(7,256)</u>
108,485		108,485	13,440
108,357		108,357	
9,857		9,857	
11,086		11,086	
61	248	309	
3,762	22,402	26,164	
<u>(59,965)</u>	<u>59,965</u>		
<u>181,643</u>	<u>82,615</u>	<u>264,258</u>	<u>13,440</u>
(42,091)	21,391	(20,700)	6,184
<u>450,474</u>	<u>2,775,491</u>	<u>3,225,965</u>	<u>82,455</u>
<u>\$ 408,383</u>	<u>\$ 2,796,882</u>	<u>\$ 3,205,265</u>	<u>\$ 88,639</u>

**GOVERNMENTAL FUND FINANCIAL STATEMENTS**

**TOWN OF BUFFALO GAP, TEXAS**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

September 30, 2017

	General Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 153,277	\$	\$ 153,277
Investments	56,522		56,522
Receivables:			
Property tax	2,704	1,756	4,460
Allowance for uncollectible tax	(647)	(420)	(1,067)
Right of way	2,735		2,735
Sales tax	20,222		20,222
Mixed beverage tax	2,760		2,760
Accounts receivable	12,076		12,076
Other receivables			
Due from other funds	12,542		12,542
Total Assets	\$ 262,191	\$ 1,336	\$ 263,527
<b>LIABILITIES</b>			
Accounts payable	\$ 9,146	\$	\$ 9,146
Payroll liabilities	6,883		6,883
Due to Economic Development Corporation	2,528		2,528
Total Liabilities	18,557		18,557
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property tax	2,057	1,336	3,393
Total Deferred Inflows of Resources	2,057	1,336	3,393
<b>FUND BALANCE</b>			
Unassigned	241,577		241,577
Total Fund Balance	241,577		241,577
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 262,191	\$ 1,336	\$ 263,527

*The accompanying notes are an integral part of this statement.*

**TOWN OF BUFFALO GAP, TEXAS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**

September 30, 2017

Total fund balances - governmental funds balance sheet	\$ 241,577
Amounts reported for governmental activities in the statement of net position (SNP) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$685,888 and the accumulated depreciation was \$534,387.	151,501
Capital asset additions are recorded as expenditures in the fund financial statements and as capital assets in the statement of net position.	29,544
Long-term debt are not recorded in governmental funds.	(965)
Long-term debt principal payments are expenditures in the fund financial statements, but are shown as increases in capital assets in the statement of net position.	965
Recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.	3,393
Depreciation expense decreases net assets in SNP.	<u>(17,632)</u>
Net position of governmental activities - statement of net position	<u>\$ 408,383</u>

*The accompanying notes are an integral part of this statement.*



**TOWN OF BUFFALO GAP, TEXAS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2017**

	General Fund	Debt Service Fund	Total Governmental Funds
<b>REVENUES</b>			
Sales tax	\$ 108,485	\$	108,485
Property tax	54,644	52,527	107,171
Right of way	9,857		9,857
Mixed beverage tax	11,086		11,086
License and permits	2,418		2,418
Building rental	3,950		3,950
Maintenance and clearing	26,915		26,915
Volunteer Fire Department donations	72,213		72,213
Miscellaneous income	3,762		3,762
Total Revenues	293,330	52,527	345,857
<b>EXPENDITURES</b>			
Current:			
General government	283,513		283,513
Public safety	57,629		57,629
Debt service	965		965
Total Expenditures	342,107		342,107
Excess of Revenues over Expenditures	(48,777)	52,527	3,750
<b>OTHER FINANCING SOURCES (USES)</b>			
Interest income	61		61
Transfer out		(59,965)	(59,965)
Total other financing sources (uses)	61	(59,965)	(59,904)
Net Change in Fund Balance	(48,716)	(7,438)	(56,154)
Fund Balance - Beginning	290,293	7,438	297,731
Fund Balance - Ending	\$ 241,577	\$	241,577

*The accompanying notes are an integral part of this statement.*

**TOWN OF BUFFALO GAP, TEXAS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2017

Total change in fund balances - total governmental funds	\$	(56,154)
Amounts reported for governmental activities in the statement of activities (SOA) are different because:		
Depreciation expense decreases net position in SOA.		(17,632)
Capital asset additions are recorded as expenditures in the fund financial statements and as capital assets in the statement of net position.		29,544
Long-term debt principal payments are expenditures in the fund financial statements, but are shown as increases in capital assets in the statement of net position.		965
Various other reclassifications and eliminations including recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.		<u>1,186</u>
Change in net position of governmental activities - statement of activities	\$	<u><u>(42,091)</u></u>

*The accompanying notes are an integral part of this statement*

**PROPRIETARY FUND FINANCIAL STATEMENTS**

**TOWN OF BUFFALO GAP, TEXAS**

**STATEMENT OF FUND NET POSITION - PROPRIETARY FUND**

September 30, 2017

	Utility Fund	Total Enterprise Funds
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Current:		
Cash and cash equivalents	\$ 242,286	\$ 242,286
Restricted cash	84,163	84,163
Receivables, net	51,962	51,962
Total current	<u>378,411</u>	<u>378,411</u>
Non current:		
Distribution and collection system, net of depreciation	5,357,194	5,357,194
Total non current	<u>5,357,194</u>	<u>5,357,194</u>
<b>TOTAL ASSETS</b>	<u>5,735,605</u>	<u>5,735,605</u>
<b>LIABILITIES</b>		
Current:		
Accounts payable	15,844	15,844
Sales tax payable	951	951
Payroll liability	6,096	6,096
Accrued interest payable	25,850	25,850
Due to other funds	12,542	12,542
Current portion - long-term debt	49,429	49,429
Total current	<u>110,712</u>	<u>110,712</u>
Non current:		
Utility deposits	41,169	41,169
Long-term debt	2,786,842	2,786,842
Total non current	<u>2,828,011</u>	<u>2,828,011</u>
<b>TOTAL LIABILITIES</b>	<u>2,938,723</u>	<u>2,938,723</u>
<b>NET POSITION</b>		
Net investment in capital assets	2,495,073	2,495,073
Restricted	84,163	84,163
Unrestricted	217,646	217,646
<b>TOTAL NET POSITION</b>	<u>\$ 2,796,882</u>	<u>\$ 2,796,882</u>

*The accompanying notes are an integral part of this statement.*

**TOWN OF BUFFALO GAP, TEXAS**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET POSITION - PROPRIETARY FUND  
 For the Year Ended September 30, 2017

	Utility Fund	Total Enterprise Funds
Operating Revenues:		
Charges for services		
Water sales and fees	\$ 120,478	\$ 120,478
Trash collection	58,139	58,139
Sewer sytem fees	104,097	104,097
Maintenance fees	78,062	78,062
Miscellaneous	22,402	22,402
Total operating revenues	383,178	383,178
Operating Expenses:		
Water department	437,380	437,380
Total operating expenses	437,380	437,380
Net operating income	(54,202)	(54,202)
Non operating income/expenses		
Interest income	248	248
Transfer in	59,965	59,965
Interest expense	(58,960)	(58,960)
Grant proceeds	74,340	74,340
Total non operating income/expenses	75,593	75,593
Net income	21,391	21,391
Net Position - Beginning of Year	2,775,491	2,775,491
Net Position - End of Year	\$ 2,796,882	\$ 2,796,882

*The accompanying notes are an integral part of this statement.*

**TOWN OF BUFFALO GAP, TEXAS**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
For the Year Ended September 30, 2017

	<u>Utility Fund</u>	<u>Total Enterprise Funds</u>
<u>Cash flows from operating activities:</u>		
Cash received from customers	\$ 365,772	\$ 365,772
Cash received from miscellaneous sources	22,402	22,402
Cash payments to employees for employment services	(54,208)	(54,208)
Cash payments to suppliers for goods and services	(258,594)	(258,594)
Net cash provided by operating activities	75,372	75,372
 <u>Cash flows from noncapital financing activities:</u>		
Advances from/to other funds	65,605	65,605
Net cash provided by noncapital financing activities	65,605	65,605
 <u>Cash flows from capital and related financing activities:</u>		
Acquisition of property and equipment	(57,296)	(57,296)
Principal paid on bonds	(49,349)	(49,349)
Interest paid on long term debt	(59,370)	(59,370)
Net cash used in capital and related financing activities	(166,015)	(166,015)
 <u>Cash flows from investing activities</u>		
Grant proceeds	74,340	74,340
Interest income	248	248
Net cash provided in investing activities	74,588	74,588
 Net Increase in Cash	49,550	49,550
Cash at Beginning of Year	276,899	276,899
 Cash at End of Year	\$ 326,449	\$ 326,449
 <u>Reconciliation of operating income to net cash provided by operating activities:</u>		
Operating loss	\$ (54,202)	\$ (54,202)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	115,885	115,885
(Increase) decrease in operating assets		
Receivables	4,996	4,996
Increase (decrease) in operating liabilities		
Accounts payable	(252)	(252)
Sales tax payable	397	397
Utility deposits	3,400	3,400
Payroll liabilities	5,148	5,148
Net cash provided by operating activities	\$ 75,372	\$ 75,372

*The accompanying notes are an integral part of this statement.*

## TOWN OF BUFFALO GAP, TEXAS

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting framework and the more significant accounting principles and practices of the Town of Buffalo Gap, Texas (Town) are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures of the Town's financial activities for the fiscal year ended September 30, 2017.

#### Financial Reporting Entity – Basis of Presentation

The Town operates under the Aldermanic form of government in accordance with Chapters 1 through 11 of Title 28, V.T.C.S. Using the Council – Mayor System, the Town provides the following basic services: streets, solid waste, water and general administrative services. In June 2010, the council approved changing to a Type A general law municipality.

The Town has oversight responsibility for the Buffalo Gap Economic Development Corporation, Inc. The Town is financially accountable for the development corporation since the Town Council appoints a voting majority of their board and the Town is able to impose its will on the development corporation. The development corporation is a discretely presented component unit.

#### Government-wide and Fund Financial Statements

##### *Government-wide financial statements*

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Town as a whole. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Town's services; and (2) operating grants and contributions which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

##### *Fund financial statements*

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the Town are prepared in accordance with generally accepted accounting principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting which, generally include the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to

**TOWN OF BUFFALO GAP, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued***

expenses. Proprietary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, right of way (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed.

**Fund Types and Major Funds**

*Governmental funds*

The Town reports the following major governmental funds:

General Fund – reports as the primary fund of the Town. This fund is used to account for all financial resources not reported in other funds.

Debt Service Fund – accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

*Proprietary funds*

The Town reports the following major enterprise funds:

Utility Fund – reports for revenues and expenses associated with water services, sewer services, and trash collection for the citizens of the Town.

**Assets, Liabilities, and Net Position or Equity**

*Cash and cash investments*

The Town reporting entity considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.



TOWN OF BUFFALO GAP, TEXAS

NOTES TO FINANCIAL STATEMENTS

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value.

*Inventory*

The costs of inventory items are recorded as expenditures when purchased (purchase method).

*Capital assets, depreciation, and amortization*

The Town's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their respective fund financial statements. Donated assets are stated at fair value on the date donated. The Town generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

Water lines	50 years
Buildings	30 years
Equipment	10 years
Vehicles	5 years

*Long-term debt*

In the government-wide and proprietary fund financial statements, outstanding debt is reported as a liability.

*Fund balance classification*

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

**Nonspendable** – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Town had \$0 classified as nonspendable at September 30, 2017.

**Restricted** – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the revenue note and are restricted through debt covenants. The Town had \$0 classified as restricted at September 30, 2017.

**Committed** – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Town Council. These amounts cannot be used for any other purpose unless the Council removes or changes the

**TOWN OF BUFFALO GAP, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued***

specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Town classified \$0 as committed fund balance at September 30, 2017.

Assigned – This classification includes amounts that are constrained by the Town Council’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Council or through the Council delegating this responsibility to management through the budgetary process. The Town has \$0 classified as assigned at September 30, 2017.

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Town would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

**NOTE 2: *STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY***

**Budgetary Information**

*Budget policy and practice*

The Mayor submits an annual budget to the Town Council in accordance with specific state statutes. The budget is presented to the Town Council for review, and public hearings are held to address priorities and the allocation of resources. In September, the Town Council adopts the annual fiscal year budgets for Town operating funds. Once approved, the Town Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

*Basis of budgeting*

Each fund’s appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by class as follows: general governmental services, public safety and water utilities.

Budgets for the fund operations are prepared on the modified accrual basis of accounting. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the expenditure is incurred. The budget and actual financial statements are reported on these bases.

**NOTE 3: *DEPOSITS AND INVESTMENTS***

It is the Town’s policy for cash deposits to be 100% secured by collateral valued at market, less the amount of the Federal Deposit Insurance Corporation insurance. The Town’s deposits were entirely secured as of September 30, 2017.

**TOWN OF BUFFALO GAP, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DEPOSITS AND INVESTMENTS - continued**

The carrying amount and bank balance of cash at September 30, 2017, were as follows:

	Book Balance	Bank Balance
Primary Government:		
Cash in bank	\$ 479,726	\$ 482,221

**Investments**

The Town is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the Town adhered to the requirements of the Act.

The Act determines the types of investments which are allowable for the Town. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas. (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The Town's investments at September 30, 2017 are as follows:

	Fair Value	Weighted Average Maturity Days
Certificates of deposit	\$ 56,522	5
Total Certificates of deposit	\$ 56,522	

**Investment Accounting Policy**

The Town's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

**Public Funds Investment Pools**

Public funds investment pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the Act), Chapter 2256 of the Texas

**TOWN OF BUFFALO GAP, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: DEPOSITS AND INVESTMENTS – continued**

Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

**Analysis of Specific Deposit and Investment Risks**

- Credit Risk – the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the Town was not significantly exposed to credit risk.
- Custodial Credit Risk – Deposits and investments are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution’s trust department or agent but not in the Town’s name. At September 30, 2017, the Town’s deposits and investments were entirely collateralized and therefore, not exposed to custodial credit risk.
- Concentration of Credit Risk – the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Town’s policy is to diversify its investments by security type and institution. The Town is invested only in certificates of deposit at year end. At September 30, 2017, the Town was not exposed to concentration of credit risk.
- Interest Rate Risk – the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Town manages its exposure to declines in fair values by limiting the maturity of investments to less than one year. The Town monitors the interest rates to minimize the exposure to interest rate risk.
- Foreign Currency Risk – the risk that exchange rates will adversely affect the fair value of an investment. As of September 30, 2017, the Town was not exposed to foreign currency risk.

**NOTE 4: RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNAVAILABLE REVENUE**

**Enterprise Fund Receivables**

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within one year. The allowance for uncollectible accounts is based on historical trends and aging of the accounts. Therefore, the Town’s receivables are reported at net receivables. Receivables at September 30, 2017 are shown as follows:

**TOWN OF BUFFALO GAP, TEXAS**

NOTES TO FINANCIAL STATEMENTS

**NOTE 4: RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNAVAILABLE REVENUE-continued**

Primary government:	
Governmental receivables	\$ 12,076
Water fund gross receivables	83,067
Less allowance for uncollectible accounts	<u>(31,105)</u>
Total primary government	<u>\$ 64,038</u>

Property Taxes Receivable, Unavailable Revenue, and Property Tax Calendar

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which tax is imposed. On June 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible taxes receivable within the General Fund are based upon historical experience in collecting property taxes. Uncollectible property taxes are periodically reviewed and written off, but the town is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

In the governmental fund financial statements, property taxes receivable are recorded in the General Fund. At fiscal year-end, the receivables represent delinquent taxes. If the receivables are not paid within 60 days of year-end, they are recorded as unavailable revenue.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the Town regardless of when cash is received. Over time, substantially all property taxes are collected.

**NOTE 5: CAPITAL ASSETS**

The following schedule provides a summary of changes in capital assets:

<u>Governmental activities:</u>	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Capital assets not being depreciated:				
Land	\$ 28,886	\$ _____	\$ _____	\$ 28,886
Total capital assets not being depreciated	28,886			28,886
Capital assets being depreciated				
Buildings and improvements	241,250			241,250
Furniture and equipment	415,752	29,544		445,296
Total capital assets being depreciated	657,002	29,544		686,546
Less accumulated depreciation for:				
Buildings and improvements	(142,396)	(9,066)		(151,462)
Furniture and equipment	(391,991)	(8,566)		(400,557)
Total accumulated depreciation	(534,387)	(17,632)		(552,019)
Total capital assets being depreciated, net	122,615	11,912		134,527
Governmental activities capital assets, net	<u>\$ 151,501</u>	<u>\$ 11,912</u>	<u>\$ _____</u>	<u>\$ 163,413</u>

**TOWN OF BUFFALO GAP, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5: CAPITAL ASSETS - continued**

Business-type Activities:

Capital assets being depreciated			
Distribution and collection system	\$ 5,682,304	\$ 57,296	\$ 5,739,600
Equipment	<u>35,255</u>		<u>35,255</u>
Total capital assets being depreciated	5,717,559	57,296	5,774,855
Less accumulated depreciation for:			
Distribution and collection system	(269,951)	(114,741)	(384,692)
Equipment	<u>(31,825)</u>	<u>(1,144)</u>	<u>(32,969)</u>
Total accumulated depreciation	(301,776)	(115,885)	(417,661)
Total capital assets being depreciated, net	<u>5,415,783</u>	<u>(58,589)</u>	<u>5,357,194</u>
Business-type activities capital assets, net	<u>\$ 5,415,783</u>	<u>\$ (58,589)</u>	<u>\$ 5,357,194</u>
Total Primary Government	<u>\$ 5,567,284</u>	<u>\$ (46,677)</u>	<u>\$ 5,520,607</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:	
General government	12,712
Public safety	<u>4,920</u>
Total Governmental Activities	<u>17,632</u>
Business-type Activities:	
Water utilities	<u>115,885</u>
Total Business-type Activities	<u>115,885</u>
Total depreciation expense	<u>\$ 133,517</u>

**NOTE 6: LONG-TERM DEBT**

Business-type Activities:

On October 11, 2011, the Town issued Combination Tax & Revenue Certificates of Obligation, Series 2011 in the amount of \$400,000. The Certificates of Obligation are at 0.0% interest rate. However, imputed interest rate is 3.289%. The Certificates of Obligation mature in October 2041 and are secured by tax revenue and water revenue. Initial discount on the certificates of obligation due to imputed interest was \$158,708, and will be amortized over the life of the loan. The unamortized discount at September 30, 2017 was \$119,729.

During the year ended September 30, 2016, the Town issued Combination Tax & Revenue Certificates of Obligation, Series 2014 in the amount of \$2,329,000. The Certificates of Obligation are at 1.88%. The Certificates of Obligation mature on November 15, 2053 and are secured by tax and water revenue.

On November 11, 2015, the Town entered into an agreement with USDA for a project of acquisition, construction, enlargement, or capital improvement of a water/waste system at a cost of \$565,000. The Town was approved a grant in the amount of \$241,000 and a loan in the amount of \$324,000. The loan is payable in annual principal installments on November 15 of each year, and interest payments on May 15 and November 15 of each year at a rate of 3.25%. The loan matures on November 15, 2054.

**TOWN OF BUFFALO GAP, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6: LONG-TERM DEBT - continued**

Debt service for long-term notes and bonds are as follows:

	Balance at 9/30/2016	Additions	Deletions	Balance at 9/30/2017	Due in One Year
<b>Governmental Activities</b>					
Notes payable	\$ 965	\$	\$ 965	\$ -	\$
<b>Total Governmental Activities</b>	<u>965</u>	<u>-</u>	<u>965</u>	<u>-</u>	<u>-</u>
<b>Business-type Activities</b>					
Certificate of Obligation, Series, 2011	360,000		10,000	350,000	10,000
Certificate of Obligation, Series, 2014	2,329,000		43,000	2,286,000	43,000
Bond Discount	(127,380)		(7,651)	(119,729)	(7,651)
USDA Loan	324,000		4,000	320,000	4,000
<b>Total Business-type Activities</b>	<u>2,885,620</u>	<u>-</u>	<u>49,349</u>	<u>2,836,271</u>	<u>49,349</u>
<b>Total Primary Government</b>	<u>\$ 2,886,585</u>	<u>\$ -</u>	<u>\$ 50,314</u>	<u>\$ 2,836,271</u>	<u>\$ 49,349</u>

Long-term debt maturities are as follows:

	Principal	Interest	Total
2018	\$ 49,429	\$ 58,486	\$ 107,915
2019	51,503	57,485	108,988
2020	52,589	56,452	109,041
2021	53,674	55,381	109,055
2022	54,762	54,290	109,052
2023-2027	314,932	252,760	567,692
2028-2032	351,296	217,505	568,801
2033-2037	392,954	177,888	570,842
2038-2042	440,132	133,210	573,342
2043-2047	411,000	88,028	499,028
2048-2052	455,000	45,591	500,591
2053-2055	209,000	6,056	215,056
	<u>\$ 2,836,271</u>	<u>\$ 1,203,132</u>	<u>\$ 4,039,403</u>

**NOTE 7: RISK MANAGEMENT – CLAIMS AND JUDGEMENTS**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and through the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool for the benefit of 1,901 individual governmental units located within the state. TML Intergovernmental Risk Pool (Pool) is considered a self-sustaining risk pool that provides coverage for its members. The Town's contributions to the Pool are limited to the amount of premiums as calculated at the beginning of each fund year. The Pool's liability is limited to the coverage that the Town elects as stated in the Pool's Declaration of Coverage for that fund year. Settled claims have not exceeded insurance coverage limits for the past three years.

**TOWN OF BUFFALO GAP, TEXAS**

NOTES TO FINANCIAL STATEMENTS

**NOTE 8: WATER CONTRACT**

The Town of Buffalo Gap has a 20 year contract with Steamboat Mountain Water Supply Corporation expiring September 14, 2025. The Town agrees to purchase water at a rate of \$6.34 per 1,000 gallons. Rate adjustments will be assessed depending upon the demand to cover all reasonable, actual, and expected costs.

**NOTE 9: DEFERRED INFLOWS OF RESOURCES**

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported in the governmental funds for unavailable revenues total \$3,393.

**NOTE 10: INTERFUND BALANCES AND ACTIVITIES**

Interfund activity results from loans, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities.

Balances due to and from other funds at September 30, 2017 consisted of the following:

Fund	Due to	Due from
General Fund	\$ 12,542	\$
Water Fund		12,542
	\$ 12,542	\$ 12,542

All amounts due are scheduled to be repaid within one year and are to reimburse costs.

Fund	Transfers Out	Transfers In
Debt Service Fund	\$ 59,965	\$
Water Fund		59,965
	\$ 59,965	\$ 59,965

The transfers to the Water Fund are to aid in debt payments as revenue from interest and sinking funds are generated.

**NOTE 11: UNFAVORABLE BUDGET VARIANCES**

During the year ended September 30, 2017, the Town had the following unfavorable budget variances:

General Fund:		
General services	\$	67,031
Public safety		54,529
Debt service		965



TOWN OF BUFFALO GAP, TEXAS

NOTES TO FINANCIAL STATEMENTS

**NOTE 11: UNFAVORABLE BUDGET VARIANCES - continued**

The Town amended their budget for an increase of \$3,500 during the year, but did not budget for the fire department expenditures related to grants and donations. The fire department does not budget for contributions since these vary from year to year. Debt payments were not budgeted. The Town Council approves all expenditures before they are paid. The Town had adequate funds to pay expenditures.

**NOTE 12: NEW ACCOUNTING PRONOUNCEMENTS**

In June 2015, the GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement supersedes Statement No. 55 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The City implemented this statement in the current year.

In August 2015, the GASB issued Statement No. 77 *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City has determined there is no impact upon its financial position, results of operations or cash flows upon adoption.

In December 2015, the GASB issued Statement No. 78 *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan.) This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for

**TOWN OF BUFFALO GAP, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 12: *NEW ACCOUNTING PRONOUNCEMENTS - continued***

pensions that have the characteristics described above. The requirements of this Statement are effective for reporting periods after December 15, 2015. The City has determined there is no impact upon its financial position, results of operations or cash flows upon adoption.

In December 2015, the GASB issued Statement No. 79 *Certain External Investment Pools and Pool Participants*. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The City has determined there is no impact upon its financial position, results of operations or cash flows upon adoption.

In January 2016, the GASB issued Statement No. 80 *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The City has determined there is no impact upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 81 *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 82 *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, No. 68, and No. 73. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The City has determined there is no impact upon its financial position, results of operations or cash flows upon adoption.

In November 2016, the GASB issued Statement No. 83 *Certain Asset Retirement Obligations*. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible

**TOWN OF BUFFALO GAP, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

***NOTE 12: NEW ACCOUNTING PRONOUNCEMENTS - continued***

capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2017, the GASB issued Statement No 84 *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement is effective for reporting periods beginning after December 15, 2018. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF BUFFALO GAP, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - GENERAL FUND**  
For the Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property tax	\$ 53,118	\$ 53,118	\$ 54,644	\$ 1,526
Building rental	3,600	3,600	3,950	350
License and permits	3,300	3,300	2,418	(882)
Right of way	12,500	12,500	9,857	(2,643)
Maintenance & clearing	30,000	30,000	26,915	(3,085)
Mixed beverage tax	10,000	10,000	11,086	1,086
Miscellaneous	1,000	1,000	3,762	2,762
Volunteer fire department donations			72,213	72,213
Sales tax	102,564	102,564	108,485	5,921
Total Revenues	<u>216,082</u>	<u>216,082</u>	<u>293,330</u>	<u>77,248</u>
<b>EXPENDITURES</b>				
General government				
General services:				
Salaries and wages	76,131	76,131	81,603	(5,472)
Payroll taxes	6,776	6,776	8,385	(1,609)
Health insurance	6,131	6,131	6,112	19
Automotive expenses	8,000	8,000	10,822	(2,822)
Utilities	30,000	30,000	28,558	1,442
Repair & maintenance	5,600	9,100	28,202	(19,102)
Insurance	13,304	13,304	10,766	2,538
Office supplies	3,000	3,000	6,176	(3,176)
Contract labor	15,500	15,500	11,554	3,946
Professional fees	23,000	23,000	10,462	12,538
Economic Development Corporation	12,436	12,436	13,440	(1,004)
Miscellaneous expenses	616	616	6,696	(6,080)
Capital outlay	12,488	12,488	29,544	(17,056)
Street expenses			31,193	(31,193)
Total general government	<u>212,982</u>	<u>216,482</u>	<u>283,513</u>	<u>(67,031)</u>
Public safety:				
Fire department				
Operational expenses	3,100	3,100	57,629	(54,529)
Total public safety	<u>3,100</u>	<u>3,100</u>	<u>57,629</u>	<u>(54,529)</u>
Debt service:				
Debt - principal			965	(965)
Total debt service			965	(965)
Total expenditures	<u>216,082</u>	<u>219,582</u>	<u>342,107</u>	<u>(122,525)</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures		(3,500)	(48,777)	(45,277)
<b>OTHER FINANCING SOURCES (USES)</b>				
Interest income			61	61
Total other financing sources (uses)			61	61
Net Change in Fund Balance		(3,500)	(48,716)	(45,216)
Fund Balance - Beginning	290,293	290,293	290,293	
Fund Balance - Ending	<u>\$ 290,293</u>	<u>\$ 286,793</u>	<u>\$ 241,577</u>	<u>\$ (45,216)</u>

**OTHER SUPPLEMENTARY INFORMATION**

**TOWN OF BUFFALO GAP, TEXAS**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -  
BUDGET AND ACTUAL - UTILITY FUND  
 For the Year Ended September 30, 2017

	Budgeted Amounts	
	Original	Final
<b>OPERATING REVENUES:</b>		
Water sales	\$ 119,700	\$ 119,700
Trash collection	53,247	53,247
Sewer system fee	90,400	90,400
Maintenance fees	72,000	72,000
Miscellaneous	1,286	1,286
Total Operating Revenues	336,633	336,633
<b>OPERATING EXPENSES:</b>		
Water purchases	90,000	90,000
Trash collection	76,071	76,071
Salaries and wages	42,107	42,107
Payroll taxes	3,872	3,872
Health insurance	6,131	6,131
Professional fees	5,000	5,000
Water sample analysis	1,800	1,800
Utilities	10,000	10,000
Repairs and maintenance	15,282	15,282
Water department supplies	7,500	7,500
Office supplies	3,000	3,000
Right of way lease	500	500
Other expenses	1,000	1,000
Depreciation expense		
Total Operating Expenses	262,263	262,263
Net operating income	74,370	74,370
<b>NON OPERATING INCOME/EXPENSES</b>		
Interest income		
Transfer in		
Interest expense	(14,098)	(14,098)
Grant revenue		
Total Non Operating Income/Expenses	(14,098)	(14,098)
Net income	60,272	60,272
Net Position - Beginning of Year	2,775,491	2,775,491
Net Position - End of Year	\$ 2,835,763	\$ 2,835,763

	Actual Amounts		Variance with Final Budget Positive (Negative)
	GAAP Basis	Adjustments to Budgetary Basis	
\$ 120,478		\$ 120,478	\$ 778
58,139		58,139	4,892
104,097		104,097	13,697
78,062		78,062	6,062
22,402		22,402	21,116
<u>383,178</u>		<u>383,178</u>	<u>46,545</u>
113,224		113,224	(23,224)
45,642		45,642	30,429
55,655		55,655	(13,548)
3,701		3,701	171
6,112		6,112	19
21,433		21,433	(16,433)
1,481		1,481	319
24,620		24,620	(14,620)
28,615		28,615	(13,333)
2,778		2,778	4,722
2,623		2,623	377
1,045		1,045	(545)
14,566		14,566	(13,566)
115,885	(115,885)		
<u>437,380</u>	<u>(115,885)</u>	<u>321,495</u>	<u>(59,232)</u>
(54,202)	115,885	61,683	(12,687)
248		248	248
59,965		59,965	59,965
(58,960)	44,862	(14,098)	
74,340		74,340	74,340
<u>75,593</u>	<u>44,862</u>	<u>120,455</u>	<u>134,553</u>
21,391	160,747	182,138	121,866
<u>2,775,491</u>		<u>2,775,491</u>	<u>-</u>
\$ <u>2,796,882</u>	\$ <u>160,747</u>	\$ <u>2,957,629</u>	\$ <u>121,866</u>



**OTHER INFORMATION REQUIRED BY GAO**

# Merritt, McLane & Hamby, P.C.

401 Cypress Street, Suite 303  
Abilene, TX 79601

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the Town Council  
Town of Buffalo Gap, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and the discretely presented component unit of the Town of Buffalo Gap, Texas as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 22, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Buffalo Gap, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Buffalo Gap, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Buffalo Gap, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, identified as 2017-001 and 2017-002. The findings are not material to the financial statements.

**Town of Buffalo Gap, Texas' Response to Finding**

The Town of Buffalo Gap, Texas' response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Merritt McLane & Hamby, P.C.*

**MERRITT, MCLANE & HAMBY, P.C.**

Abilene, Texas  
December 22, 2017

**TOWN OF BUFFALO GAP, TEXAS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED SEPTEMBER 30, 2017**

**I. Summary of the Auditor's Results:**

- a. The type of report issued on the financial statements of the Town of Buffalo Gap, Texas, was an unqualified opinion.
- b. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters required by the GAO's *Government Auditing Standards*.
- c. Instances of noncompliance, not considered to be material to the financial statements of the Town of Buffalo Gap, Texas, were disclosed during the audit.

**II. Findings Relating to the Financial Statements**

**2017-001 Noncompliance with debt reserve requirements**

- Criteria: The Town of Buffalo Gap, Texas is required to deposit monthly, into a reserve account, an amount equal to one-twelfth of the annual debt requirement and one-twelfth of \$4,000. The monthly amount required to be deposited was \$437; however, the Town only deposited \$137 monthly.
- Effect: The Town's annual debt reserve amount was under deposited by \$3,600.
- Cause: The Town miscalculated the amount to be deposited monthly into the debt reserve account.
- Recommendation: It is recommended that the Town calculate the amount required to be deposited annually.
- Corrective Action: The Town will recalculate the monthly amount. In addition, the Town will "catch up" the amount that should be deposited into the debt reserve account for 2017.

**2017-002 Noncompliance with budgeting requirements**

- Criteria: Governmental entities are required to approve and amend the budget before expending funds.
- Effect: The Town's expenditures exceeded their budget in the General Fund.
- Cause: The Town did not budget for the fire department expenditures or for debt service.
- Recommendation: It is recommended that the Town monitor and amend their budget during the year as the need arise.
- Corrective Action: The Town will monitor these areas and budget appropriately.

Contact: David Perry, Mayor  
325-572-3347