



Control Number: 48680



Item Number: 1

Addendum StartPage: 0

THE *Reid* FIRM

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August 27, 2018

VIA UPS DELIVERY

Public Utility Commission of Texas
Attention: Filing Clerk
1701 N. Congress Avenue
Austin, Texas 78711-3326

**Re: *Application for Sale, Transfer, or Merger of a Retail Public Utility
Bluebonnet Hills Water Supply Corporation (Transferor)
City of Cresson, Texas (Transferee)***

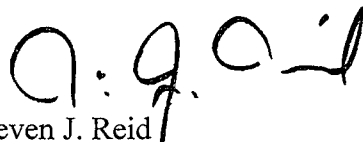
To Whom It May Concern:

Enclosed herein please find an Application for Sale, Transfer, or Merger of a Retail Public Utility, as referenced above between Bluebonnet Hills Water Supply Corporation as Transferor, and the City of Cresson, Texas as Transferee, including the required seven (7) copies with the detailed large-scale map and general location map and seven (7) flash drives. Please process the enclosed Application for Sale, Transfer, or Merger of a Retail Public Utility.

Should you have any questions or require any additional documentation, please contact my office.

Kindest regards.

Very truly yours,


Steven J. Reid
Attorney, City of Cresson, Texas

RECEIVED
2018 SEP 12 AM 10:04
PUBLIC UTILITY COMMISSION
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SJR/sbl
Enclosures

cc: City of Cresson



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

Pursuant to Texas Water Code § 13.301 and 16 Texas Administrative Code § 24.109

Sale, Transfer, or Merger (STM) Application Instructions

- I. **COMPLETE:** In order for the Commission to find the application sufficient for filing, the Applicant should:
 - i. Provide an answer to every question and submit any required attachment applicable to the STM request (i.e., agreements or contracts).
 - ii. Use attachments or additional pages to answer questions as necessary. If you use attachments or additional pages, reference their inclusion in the form.
 - iii. Provide all mapping information as detailed in Part G: Mapping & Affidavits.

- II. **FILE:** Seven (7) copies of the completed application with numbered attachments. One copy should be filed with no permanent binding, staples, tabs, or separators; and 7 copies of the portable electronic storage medium containing the digital mapping data.
 - i. **SEND TO:** Public Utility Commission of Texas, Attention: Filing Clerk, 1701 N. Congress Avenue, P.O. Box 13326, Austin, Texas 78711-3326 (**NOTE: Electronic documents may be sent in advance of the paper copy, however they will not be processed and added to the Commission's on-line Interchange until the paper copy is received and file-stamped in Central Records.**)

- III. The application will be assigned a docket number, and an administrative law judge (ALJ) will issue an order requiring Commission Staff to file a recommendation on whether the application is sufficient. The ALJ will issue an order after Staff's recommendation has been filed:
 - i. **DEFICIENT (Administratively Incomplete):** Applicants will be ordered to provide information to cure the deficiencies by a certain date, usually 30 days from ALJ's order. ***Application is not accepted for filing.***
 - ii. **SUFFICIENT (Administratively Complete):** Applicants will be ordered by the ALJ to give appropriate notice of the application using the notice prepared by Commission Staff. ***Application is accepted for filing.***

- IV. Once the Applicants issue notice, a copy of the actual notice sent and an affidavit attesting to notice should be filed in the docket assigned to the application. Recipients of notice may request a hearing on the merits.

HEARING ON THE MERITS: An affected party may request a hearing within 30 days of notice. In this event, the application may be referred to the State Office of Administrative Hearings (SOAH) to complete this request.

- V. **TRANSACTION TO PROCEED:** at any time following the provision of notice, or prior to 120 days from the last date that proper notice was given, Commission Staff will file a recommendation for the transaction to proceed as proposed or recommend that the STM be referred to SOAH for further investigation. The Applicants will be required to file an **update in the docket to the ALJ every 30 days** following the approval of the transaction. The **transaction must be completed within six (6) months from the ALJ's order** (Note: The Applicants may request an extension to the 6 month provision for good cause).

- VI. **FILE:** Seven (7) copies of completed transaction documents and documentation addressing the transfer or disposition of any outstanding deposits. After receiving all required documents from the Applicants, the application will be granted a procedural schedule for final processing. The Applicants are requested to consent in writing to the proposed maps and certificates, or tariff if applicable.

- VII. **FINAL ORDER:** The ALJ will issue a final order issuing or amending the applicable CCNs.

FAQ:

Who can use this form?

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

Who is required to use this form?

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

Terms

Transferor: Seller

Transferee: Purchaser

CCN: Certificate of Convenience and Necessity

STM: Sale, Transfer, or Merger

IOU: Investor Owned Utility

Application Summary

Transferor: Bluebonnet Hills Water Supply Corporation

(selling entity)

CCN No.s: 12290

- Sale
 Transfer
 Merger
 Consolidation
 Lease/Rental

Transferee: City of Cresson

(acquiring entity)

CCN No.s: _____

- Water
 Sewer
 All CCN
 Portion CCN
 Facilities transfer

County(ies): Parker

Table of Contents

Sale, Transfer, or Merger (STM) Application Instructions	1
Part A: General Information	3
Part B: Transferor Information	3
Part C: Transferee Information	4
Part D: Proposed Transaction Details	6
Part E: CCN Obtain or Amend Criteria Considerations	8
Part F: TCEQ Public Water System or Sewer (Wastewater) Information	9
Part G: Mapping & Affidavits	10
Part H: Notice Information	12
Appendix A: Historical Financial Information (Balance Sheet and Income Schedule)	15
Appendix B: Projected Information	18

Please mark the items included in this filing

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

Land use is all the same. Transferring all CCN to the City of Cresson.

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: Bluebonnet Hills Water Supply Corporation
(individual, corporation, or other legal entity)
 Individual Corporation WSC Other: _____

B. Mailing Address: P.O. Box 632, Cresson, Texas 76035

Phone: (817) 396-4729 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: James McAnear Title: President

Mailing Address: P.O. Box 632, Cresson, Texas 76035

Phone: (817) 602-5802 Email: N/A

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 1, 2016

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

No Yes Application or Docket Number: _____

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

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

- There are no customers that will be transferred
- # of customers without deposits held by the transferor 164
- # of customers with deposits held by the transferor*

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

Part C: Transferee Information

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

6. A. Name: City of Cresson

(individual, corporation, or other legal entity)

- Individual
- Corporation
- WSC
- Other:

B. Mailing Address: P.O. Box 619, Cresson, Texas 76035

Phone: (817) 396-4729 Email: cityofcresson@windstream.net

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: Steven J. Reid Title: Attorney

Address: 1840 Acton Highway, Granbury, Texas 76049

Phone: (817) 573-3718 Email: steve@reidfirmc.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: N/A

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:	<u>W.R. Cornett</u>	Ownership % (if applicable):	<u>0.00%</u>
Position:	<u>Mayor</u>		
Address:	<u>P.O. Box 619, Cresson, Texas 76035</u>		
Phone:	<u>(817) 396-4729</u>	Email:	<u>cityofcresson@windstream.net</u>
Name:	<u>Ron Becker</u>	Ownership % (if applicable):	<u>0.00%</u>
Position:	<u>Mayor Pro-Tem - Place 1</u>		
Address:	<u>P.O. Box 619, Cresson, Texas 76035</u>		
Phone:	<u>(817) 396-4729</u>	Email:	<u>cityofcresson@windstream.net</u>
Name:	<u>Ron Pyles</u>	Ownership % (if applicable):	<u>0.00%</u>
Position:	<u>Council Member - Place 2</u>		
Address:	<u>P.O. Box 619, Cresson, Texas 76035</u>		
Phone:	<u>(817) 396-4729</u>	Email:	<u>cityofcresson@windstream.net</u>
Name:	<u>Jack Farr</u>	Ownership % (if applicable):	<u>0.00%</u>
Position:	<u>Council Member - Place 3</u>		
Address:	<u>P.O. Box 619, Cresson, Texas 76035</u>		
Phone:	<u>(817) 396-4729</u>	Email:	<u>cityofcresson@windstream.net</u>

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.

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: Kenneth Benzenhoferr
Position: Council Member – Place 4 Ownership % (if applicable): 0.00%
Address: P.O. Box 619, Cresson, Texas 76035
Phone: (817) 396-4729 Email: cityofcresson@windstream.net

Name: Pamela Manley
Position: Council Member – Place 5 Ownership % (if applicable): 0.00%
Address: P.O. Box 619, Cresson, Texas 76035
Phone: (817) 396-4729 Email: cityofcresson@windstream.net

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

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

Part D: Proposed Transaction Details

11. A. Proposed Purchase Price: \$ 0.00

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:

N/A

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

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:	\$	140,000.00
Cash:	\$	140,000.00
Notes Payable:	\$	0.00
Mortgage Payable:	\$	0.00
(Proposed) Acquisition Adjustment*:	\$	

*Acquisition Adjustments will be subject to review under 16 TAC § 24 31(d) and (e)

Other (NARUC account name & No.): N/A

Other (NARUC account name & No.): N/A

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 new rate will be the same as the city's existing rate in order to provide uniformity; however, even though the rate formulas are different the net effect of the cost to the typical customer will be the same. By way of illustration please see the following examples:
Bluebonnet Hills Water Rates: Base Rate 0-3000 gal. is \$35, 3001-10,000 gal is \$3.00 per thousand, 20,000 gal and up is \$6.00 per thousand. Maintenance Fee is \$10.00 per month, Environmental Fee is \$2.00 per month, and Upper Trinity Groundwater is \$0.22 per thousand gallons.
City of Cresson Rates: Base Rate is \$35, 0-5000 gal. is \$3.00 per thousand gal., 5001-15,000 is \$3.50 per thousand, 15,000 gal. and up is \$4.00 per thousand, Upper Trinity and Prairieland are 22 centers per thousand gallons.

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

N/A

Part E: CCN Obtain or Amend Criteria Considerations

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

It is anticipated that the quality will initially be the same and will improve over time. Planned upgrades. The City will be improving the water service by updating the wells and the pipes. The City has been applying for grants to help with the cost.

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 City of Cresson has provided water service in the portion referred to as Cresson Proper since May of 2004. The City has dramatically improved that system and maintained it through a duly licensed certified and qualified operator. The operator is SD Systems.

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 impact or disruption.

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

The City is better qualified to maintain and improve the existing water system.

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:

Bourland Field Estates Water Company - CCN 12899
Cresson Crossroads, LLC - CCN 13153
City of Cresson (formed Cresson Water Works) - CCN 11472

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: 1840086 (7 digit ID)

Name of PWS: Bluebonnet Hills Water Supply Corporation

Date of last TCEQ compliance inspection: December 17, 2015 (attach TCEQ letter)

Subdivisions served: Bluebonnet Hills

B. For Sewer service:

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

Name of Wastewater Facility: _____

Name of Permittee: _____

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

Subdivisions served: _____

Date of application to transfer permit submitted to TCEQ: _____

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

Water				Sewer	
	Non-metered		2"		Residential
164	5/8" or 3/4"		3"		Commercial
	1"		4"		Industrial
	1 1/2"		Other		Other
Total Water Connections:			164	Total Sewer Connections:	

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

No Yes

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

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

C. Is there a moratorium on new connections?

No Yes:

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

No Yes: City of Cresson (name of municipality)

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

Water: 164 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
Steve McClanahan		W60009375	Water

Part G: Mapping & Affidavits

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

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

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

Number of customer connections in the requested area: 164

Affected subdivision : Bluebonnet Hills

The closest city or town: City of Cresson

Approximate mileage to closest city or town center: 0

Direction to closest city or town: In the City of Cresson

The requested area is generally bounded on the North by: N/A

on the East by: N/A

on the South by: N/A

on the West by: N/A

31. A copy of the proposed map will be available at: The Post Office, City Hall and City website

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 Parker

I, James McAnear being duly sworn, file this application for sale, transfer, merger, consolidation, acquisition, lease, or rental, as President, Bluebonnet Hills Water Supply Corporation

(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).

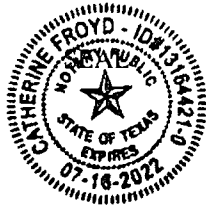
James McAnear

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 17 of August, 2018



Catherine Floyd

NOTARY PUBLIC IN AND FOR THE STATE OF TEXAS

Catherine Floyd

PRINT OR TYPE NAME OF NOTARY

My commission expires: 7/16/2022

Oath for Transferee (Acquiring Entity)

STATE OF Texas

COUNTY OF Hood

I, William R. Cornett being duly sworn, file this application for sale, transfer, merger, consolidation, acquisition, lease, or rental, as Mayor, City of Cresson (owner, member of partnership, title as officer of corporation, or authorized representative)

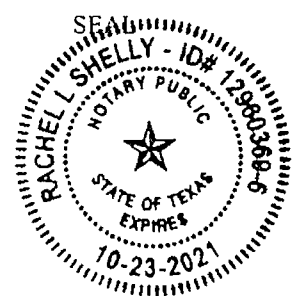
I attest that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth 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.

William R. Cornett 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 10th of August, 2018



Rachel L. Shelly NOTARY PUBLIC IN AND FOR THE STATE OF TEXAS

Rachel L. Shelly PRINT OR TYPE NAME OF NOTARY

My commission expires: 10-23-2021

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

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

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

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

HISTORICAL NET INCOME INFORMATION

(ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
METER NUMBER						
Existing Number of Taps						
New Taps Per Year						
Total Meters at Year End						
METER REVENUE						
Revenue per Meter (use for projections)						
Expense per Meter (use for projections)						
Operating Revenue Per Meter						
GROSS WATER REVENUE						
Revenues- Base Rate & Gallonage Fees						
Other (Tap, reconnect, transfer fees, etc)						
Gross Income						
EXPENSES						
General & Administrative (see schedule)						
Operating (see schedule)						
Interest	0.00					
Other (list)						
NET INCOME						

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

Appendix B: Projected Information

HISTORICAL BALANCE SHEETS (ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
CURRENT ASSETS						
Cash		\$ 23,635.00	\$ 24,817.00	\$ 26,058.00	\$ 27,361.00	\$ 28,729.00
Accounts Receivable		8,163.00	8,571.00	9,000.00	9,450.00	9,923.00
Inventories		2,100.00	2,205.00	2,315.00	2,431.00	2,553.00
Income Tax Receivable		0.00	0.00	0.00	0.00	0.00
Other		0.00	0.00	0.00	0.00	0.00
A. Total Current Assets		\$ 33,898.00	\$ 35,593.00	\$ 37,373.00	\$ 39,242.00	\$ 41,205.00
FIXED ASSETS						
Land		\$ 25,878.00	\$ 27,172.00	\$ 28,531.00	\$ 29,958.00	\$ 31,456.00
Collection/Distribution System		1,114,650.00	1,170,383.00	1,228,902.00	1,290,347.00	1,341,961.00
Buildings		35,000.00	36,750.00	38,588.00	40,517.00	42,543.00
Equipment		68,105.00	71,510.00	75,086.00	78,840.00	82,782.00
Other		0.00	0.00	0.00	0.00	0.00
Less: Accum. Depreciation or Reserves		537,510.00	564,386.00	592,605.00	622,235.00	653,347.00
B. Total Fixed Assets		\$ 706,123.00	\$ 741,429.00	\$ 778,502.00	\$ 817,427.00	\$ 845,395.00
C. TOTAL Assets (A + B)		\$ 740,021.00	\$ 777,022.00	\$ 815,875.00	\$ 856,669.00	\$ 886,600.00
CURRENT LIABILITIES						
Accounts Payable		\$ 3,320.00	\$ 3,486.00	\$ 3,660.00	\$ 3,843.00	\$ 4,035.00
Notes Payable, Current		0.00	0.00	0.00	0.00	0.00
Accrued Expenses		0.00	0.00	0.00	0.00	0.00
Other		3,973.00	4,172.00	4,381.00	4,600.00	4,876.00
D. Total Current Liabilities		\$ 7,293.00	\$ 7,658.00	\$ 8,041.00	\$ 8,443.00	\$ 8,911.00
LONG TERM LIABILITIES						
Notes Payable, Long-term		\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Other		12,799.00	13,439.00	14,111.00	14,817.00	15,558.00
E. Total Long Term Liabilities		\$ 12,799.00	\$ 13,437.00	\$ 14,111.00	\$ 14,817.00	\$ 15,558.00
F. TOTAL LIABILITIES (D + E)		\$ 20,092.00	\$ 21,097.00	\$ 22,152.00	\$ 23,260.00	\$ 24,469.00
OWNER'S EQUITY						
Paid in Capital		\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Retained Equity		1,251,653.00	1,314,236.00	1,379,948.00	1,448,945.00	1,521,392.00
Other		0.00	0.00	0.00	0.00	0.00
Current Period Profit or Loss		8,127.00	8,533.00	8,960.00	9,408.00	9,878.00
G. TOTAL OWNER'S EQUITY		\$ 1,259,780.00	\$ 1,322,769.00	\$ 1,388,908.00	\$ 1,458,353.00	\$ 1,555,739.00
TOTAL LIABILITIES+EQUITY (F + G) = C		\$ 1,279,872.00	\$ 1,343,866.00	\$ 1,411,060.00	\$ 1,481,613.00	\$ 1,580,208.00
WORKING CAPITAL (A - D)						
CURRENT RATIO (A / D)						
DEBT TO EQUITY RATIO (F / G)						

PROJECTED NET INCOME INFORMATION						
(ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
METER NUMBER						
Existing Number of Taps		90	92	96	102	110
New Taps Per Year		2	4	6	8	10
Total Meters at Year End		92	96	102	110	120
METER REVENUE						
Revenue per Meter (use for projections)		\$ 350.00	\$ 368.00	\$ 386.00	\$ 405.00	\$ 425.00
Expense per Meter (use for projections)		262.00	275.00	289.00	303.00	318.00
Operating Revenue Per Meter		\$ 612.00	\$ 643.00	\$ 675.00	\$ 708.00	\$ 743.00
GROSS WATER REVENUE						
Revenues- Base Rate & Gallonage Fees		\$ 69,724.00	\$ 73,210.00	\$ 76,871.00	\$ 80,715.00	\$ 84,751.00
Other (Tap, reconnect, transfer fees, etc)		8,988.00	9,437.00	9,909.00	10,404.00	10,924.00
Gross Income		\$ 78,712.00	\$ 82,647.00	\$ 86,780.00	\$ 91,119.00	\$ 95,675.00
EXPENSES						
General & Administrative (see schedule)		\$ 16,322.00	\$ 17,138.00	\$ 17,995.00	\$ 18,895.00	\$ 19,840.00
Operating (see schedule)		0.00	0.00	0.00	0.00	0.00
Interest		0.00	0.00	0.00	0.00	0.00
Other (list)		34,263.00	35,976.00	37,775.00	39,664.00	41,647.00
NET INCOME		\$ 28,127.00	\$ 29,533.00	\$ 31,010.00	\$ 32,560.00	\$ 34,188.00

PROJECTED EXPENSE DETAIL	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
GENERAL/ADMINISTRATIVE EXPENSES						
Salaries	\$ 12,588.00	\$ 13,217.00	\$ 13,878.00	\$ 14,572.00	\$ 15,301.00	\$ 69,556.00
Office	1,316.00	1,382.00	1,451.00	1,524.00	1,600.00	7,273.00
Computer	0.00	0.00	0.00	0.00	0.00	0.00
Auto	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	0.00	0.00	0.00	0.00	0.00	0.00
Telephone	618.00	649.00	681.00	715.00	751.00	3,414.00
Utilities	1,800.00	1,890.00	1,985.00	2,084.00	2,188.00	9,947.00
Depreciation	0.00	0.00	0.00	0.00	0.00	0.00
Property Taxes	0.00	0.00	0.00	0.00	0.00	0.00
Professional Fees	0.00	0.00	0.00	0.00	0.00	0.00
Interest	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00		0.00	0.00
Total	\$ 16,322.00	\$ 17,138.00	\$ 17,995.00	\$ 18,895.00	\$ 19,840.00	\$ 90,190.00
% Increase Per projected Year	0.00%	5.00%	5.00%	5.00%	5.00%	5.00%
OPERATIONAL EXPENSES						
Salaries	\$ 12,000.00	\$ 12,600.00	\$ 13,230.00	\$ 13,892.00	\$ 14,587.00	\$ 66,309.00
Auto	0.00	0.00	0.00	0.00	0.00	0.00
Utilities	19,063.00	20,016.00	21,017.00	22,068.00	23,171.00	105,335.00
Depreciation	11,150.00	11,708.00	12,293.00	12,908.00	13,553.00	61,612.00
Repair & Maintenance	5,301.00	5,566.00	5,844.00	6,136.00	6,443.00	29,290.00
Supplies	1,456.00	1,529.00	1,605.00	1,685.00	1,769.00	8,044.00
Interest	0.00	0.00	0.00	0.00	0.00	0.00
Other	5,293.00	5,558.00	5,836.00	6,128.00	6,434.00	29,249.00
Total	\$ 54,263.00	\$ 56,977.00	\$ 59,825.00	\$ 62,817.00	\$ 65,957.00	\$ 299,839.00

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

OFFICIAL ZONING MAP

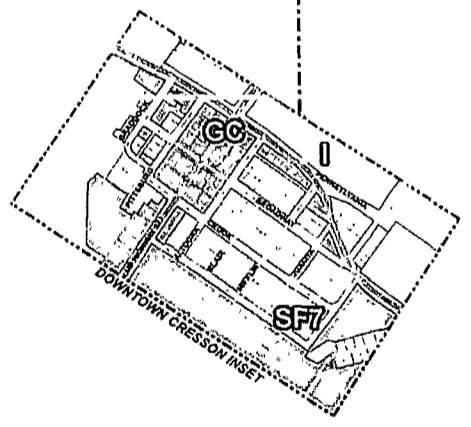
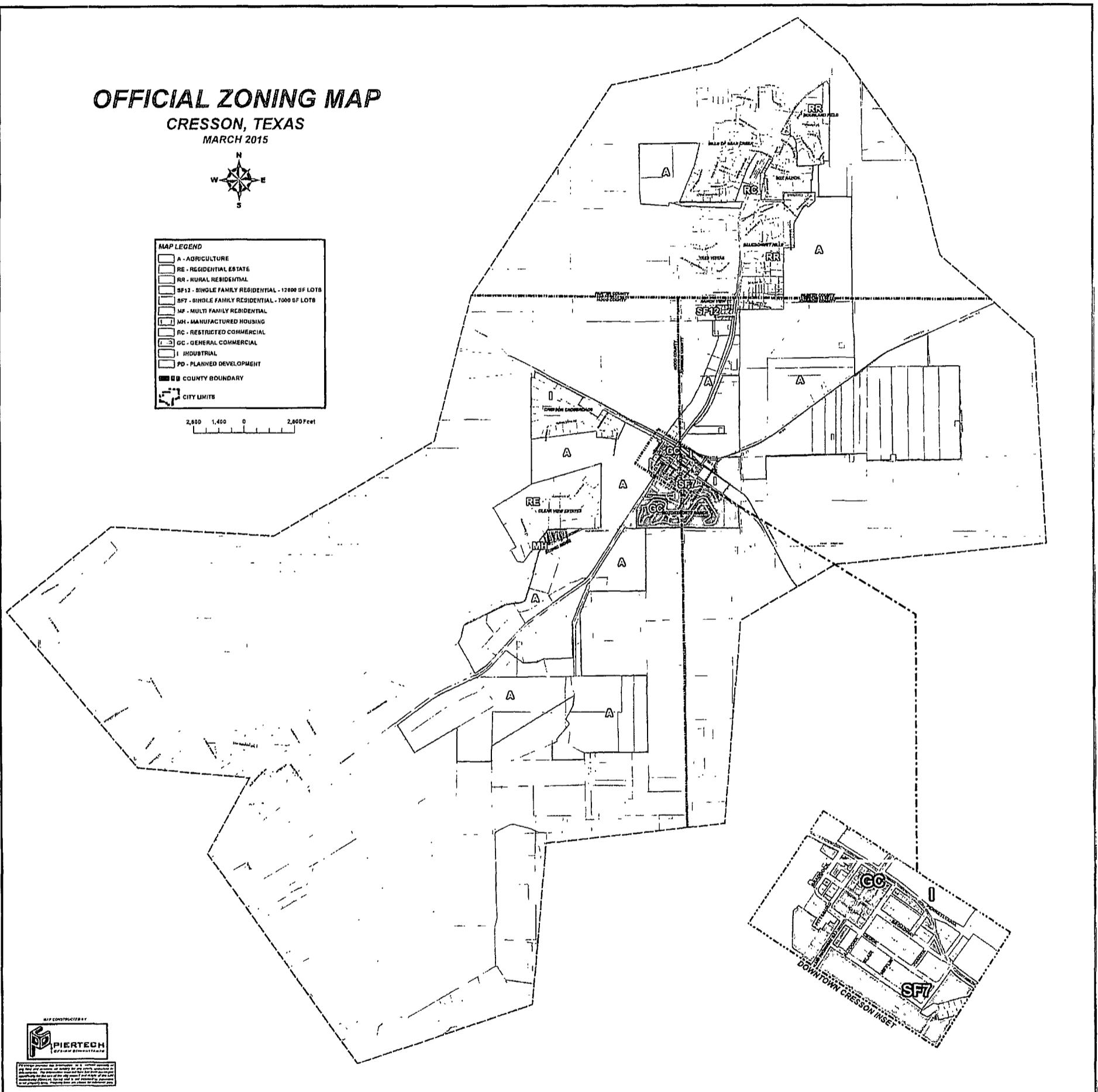
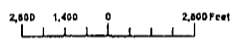
CRESSON, TEXAS

MARCH 2015

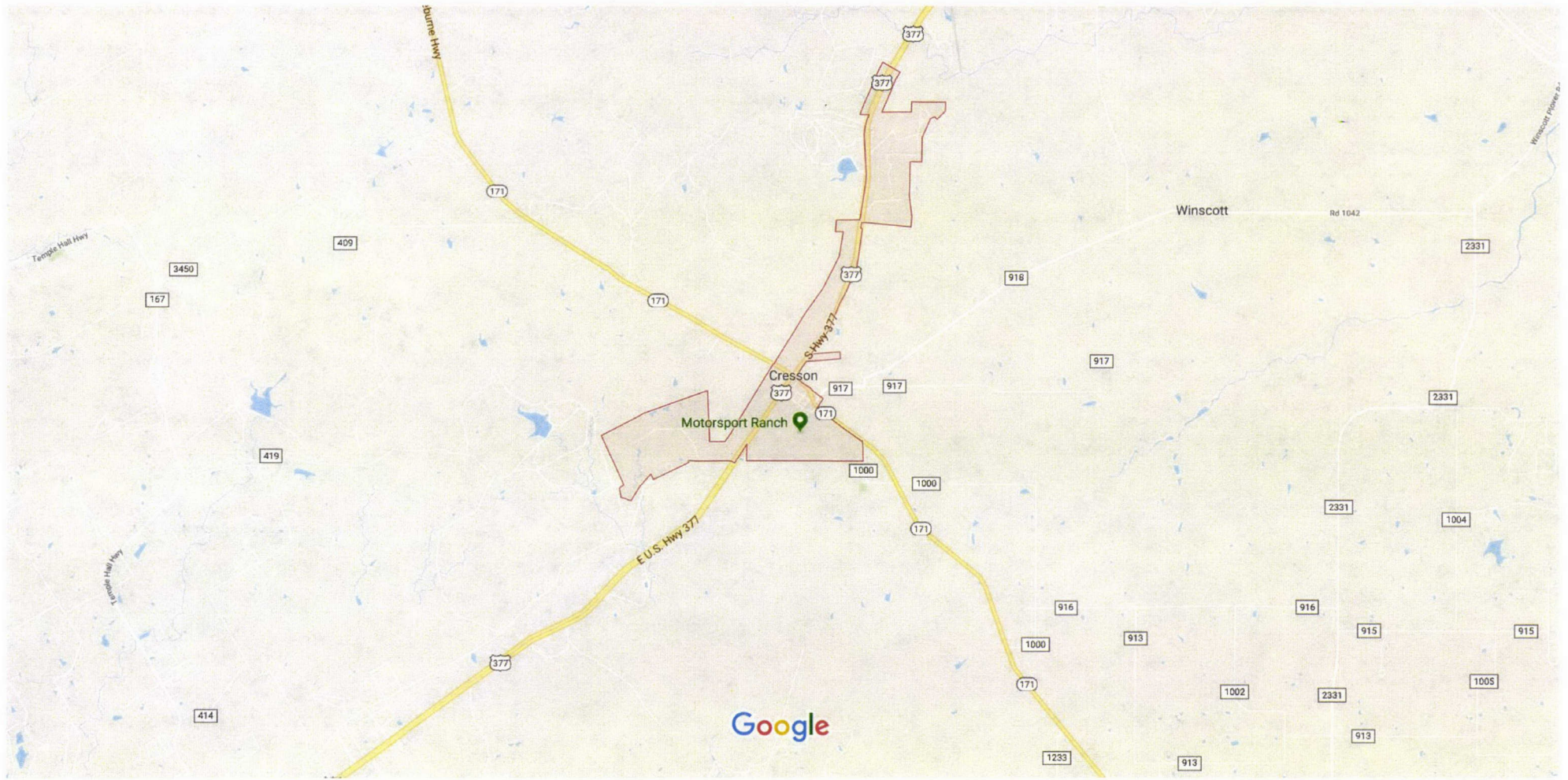


MAP LEGEND

[Symbol]	A - AGRICULTURE
[Symbol]	RE - RESIDENTIAL ESTATE
[Symbol]	RR - RURAL RESIDENTIAL
[Symbol]	SF12 - SINGLE FAMILY RESIDENTIAL - 12000 SF LOTS
[Symbol]	SF7 - SINGLE FAMILY RESIDENTIAL - 7000 SF LOTS
[Symbol]	MF - MULTI FAMILY RESIDENTIAL
[Symbol]	MH - MANUFACTURED HOUSING
[Symbol]	RC - RESTRICTED COMMERCIAL
[Symbol]	GC - GENERAL COMMERCIAL
[Symbol]	I - INDUSTRIAL
[Symbol]	PD - PLANNED DEVELOPMENT
[Symbol]	■■■■ COUNTY BOUNDARY
[Symbol]	--- CITY LIMITS



MAP CONTRACTOR BY
PIERTECH
Engineering & Surveying



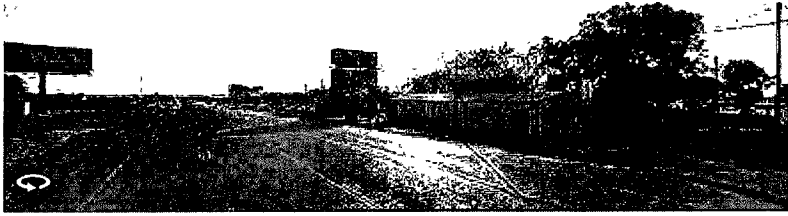




Cresson

Texas 76035

Sunny · 93°F
2:21 PM



Quick facts

Cresson is a city located at the corners of Hood, Johnson, and Parker counties in the U.S. state of Texas. It is located at the intersection of U.S. Highway 377 and State Highway 171, 25 miles southwest of Fort Worth. [Wikipedia](#)



**TRANSFER AGREEMENT
(ASSETS)**

**TRANSFR AGREEMENT
BY AND BETWEEN THE CITY OF CRESSON
AND
BLUEBONNET HILLS WATER SUPPLY CORPORATION
DATED: NOVEMBER 16, 2016**

TABLE OF CONTENTS

INTRODUCTION	6
ARTICLE 1	
SALE	
1.01. Sale of Assets	6
1.02. Consideration for Transfer	7
1.03. Closing.....	8
ARTICLE 2	
COMPANY'S REPRESENTATIONS AND WARRANTIES	8
2.01. Organization	8
2.02. Authorization of Transaction	8
2.03. Non-Contravention.....	8
2.04. Company's Board of Directors.....	8
2.05. Ownership of Other Companies	8
2.06. Taxes.....	9
2.07. Real Property	9
2.08. Inventories	9
2.09. Other Tangible Personal Property	9
2.10. Title to Assets and Properties	10
2.11. Customers and Sale	10
2.12. Contracts.....	10
2.13. Laws and Regulations	11
2.14. Litigation	11
2.15. Employment Contracts.....	11
2.16. Receivables.....	11
2.17. Other Liabilities and Obligations.....	12

2.18. Trade Names, Trademarks, Copyrights, and Patents 12

2.19. Business Operations 12

2.20. Authority..... 12

2.21. Full Disclosure 13

2.22. Brokers..... 13

2.23. Information Required for Bulk Sales Notice..... 13

ARTICLE 3

CRESSON'S REPRESENTATIONS AND WARRANTIES 13

3.01. Authority..... 13

3.02. Broker 13

ARTICLE 4

COVENANTS..... 13

4.01. Business Operations 14

4.02. Maintenance of Assets and Properties..... 14

4.03. Absence of Liens 14

4.04. Preservation of Business 14

4.05. Preservation of Customer Relations 14

4.06. Maintain Insurance 14

4.07. Absence of Contractual Obligations..... 14

4.08. Performance of Obligations 14

4.09. Notification of Litigation 15

4.10. Provide Financial Statements..... 15

4.11. Access to Books and Records 15

4.12. Employee Compensation 15

4.13. Not Solicit..... 15

4.14. Cooperate in Publicity.....	15
4.15. Payment of Liabilities and Waiver of Claims	15
4.16. Maintain Existing Agreements	16
4.17. Obtain Consents	16
4.18. Provide Sales and Use Tax Certificates.....	16
4.19. Provide UCC Clearances	16
4.20. Deliver Title Policies.....	16
ARTICLE 5	
CONDITIONS TO CRESSON'S OBLIGATION TO CLOSE	17
5.01. Representations and Warranties.....	17
5.02. Suit or Proceeding	17
5.03. Government Approvals and Filings.....	17
5.04. Consents of Others	17
5.05. Due Diligence.....	17
ARTICLE 6	
CONDITIONS TO COMPANY'S OBLIGATION TO CLOSE	18
6.01. Government Approvals	18
ARTICLE 7	
PARTIES' OBLIGATIONS AT THE CLOSING	18
7.01. Company's Obligations at the Closing.....	18
7.02. Cresson's Obligations at Closing	18
ARTICLE 8	
COMPANY'S OBLIGATIONS AFTER THE CLOSING	18
8.01. Preservation of Goodwill	18
8.02. Change of Name.....	19
8.03. Access to Records	19
8.04. Application of Sales Proceeds	19

ARTICLE 9	
INDEMNIFICATION	19
9.01. Covenant to Indemnify and Hold Harmless	19
9.02. Income Taxes	19
9.03. Notification and Defense of Claims or Actions	20
9.04. Interest	20
ARTICLE 10	
GENERAL PROVISIONS	20
10.01. Survival of Representations, Warranties, and Covenants	20
10.02. Notices	20
10.03. Assignment of Agreement	21
10.04. Governing Law	21
10.05. Amendments; Waiver	21
10.06. Entire Agreement	21
10.07. Reliance Upon Representations and Warranties	21
10.08. Special Provisions	22
Exhibit "A"	23
Exhibit "B"	24-37
Exhibit "C"	38
Exhibit "D"	39
Exhibit "E"	40
Exhibit "F"	41
Exhibit "G"	42
Exhibit "H"	43

Exhibit "I" 44

**Transfer Agreement
(Asset)**

**TRANSFER AGREEMENT
BY AND BETWEEN CITY OF CRESSON AND
BLUEBONNET HILLS WATER SUPPLY CORPORATION**

This Transfer Agreement ("Agreement") dated the 16th day of November 2016 by and between The City of Cresson, a political subdivision of the State of Texas ("Cresson"), and Bluebonnet Hills Water Supply Corporation, a Texas Non-Profit Corporation ("Company").

INTRODUCTION

Company desires to sell and Cresson desires to purchase all of the assets of the company known as "Bluebonnet Hills Water Supply Corporation" on the terms and conditions set forth in this Agreement.

In consideration of the mutual promises of the parties; in reliance on the representations, warranties, covenants, and conditions contained in this Agreement; and for \$10.00 and other good and valuable consideration, the parties agree as follows:

**ARTICLE 1
SALE
Sale of Assets**

1.01. Company agrees to sell, convey, transfer, assign, and deliver to Cresson, and Cresson agrees to acquire and accept from Company, all of the following assets of Company:

(a) All real property, inventories, raw materials, and supplies including but not limited to those reflected on **Exhibit "A"** appended hereto and incorporated fully into this Agreement.

(b) All of Company's rights and interests in and to the Certificates of Convenience and Necessity ("CCN") issued by the State of Texas including but not limited to CCN Number 12290, contracts, agreements, purchase orders, real property, real estate leases, and personal property leases, including but not limited to those described on **Exhibit "A"** appended hereto, and incorporated fully into this Agreement; and all of Company's deposits; and all rights and claims to refunds and adjustments of any kind owned by Company.

(c) All furniture, fixtures, equipment, supplies, water wells, pumps, transmission lines, meters, pipe and other items described on **Exhibit "A"**, attached to and incorporated fully into this Agreement, and all sundry items of a like character that, although not described on Schedule 2, are owned by Company and are situated on or about the premises of Company or Company's customers or are in transit.

(d) All funds on hand in all bank accounts, including but not limited to operating, checking, savings and other accounts, all deposits (if any) and all accounts receivable of Company.

(e) All right, title, and interest in and to all of the following owned by Company or Company:

(i) The trademarks, service marks, copyrights, patents, patent applications, and trade names listed on **Exhibit "A"**, attached to and incorporated fully into this Agreement.

(ii) All trademarks, service marks, copyrights, and trade names, whether or not listed on **Exhibit "A"**.

(iii) All applications for or registrations of any of these items, promotional designs, concepts, literature, rights against other persons in respect to these items, and other promotional properties.

(f) All right, title, and interest of Company in and to the name Bluebonnet Hills Water Supply Corporation, or any variant of the name.

(g) All papers and records (whether in written or other form) of any kind presently in or in the future coming into the care, custody, or control of Company or Company relating to any of the assets sold to Cresson pursuant to this Agreement or the acquisition or past, present, or future operation of Company, including but not limited to: customer lists, supplier lists, distributor lists, purchase and sales records, blueprints, specifications, personnel and labor relations records, environmental control records, accounting and financial records, maintenance records, operating and management manuals, computer systems and software documentation, blank forms, blank checks, other blank instruments, and plans and designs of products and equipment.

(h) All permits, licenses, franchises, consents, authorities, special authorities, and other similar acts of any government body (federal, state, or local) held by Company or by Company on behalf of Company that may lawfully be assigned or transferred, subject to any action by such body that may be required in connection with such assignment or transfer including the Certificate of Convenience and Necessity.

Consideration for Transfer

1.02. In consideration of the transfer of the assets of Company and the representations, warranties, and covenants of Company set forth in this Agreement, Cresson shall pay to Company \$10.00 and other good and valuable consideration on the Closing Date. Cresson shall assume on the Closing Date only those duties and obligations of Company pursuant to the contracts, agreements, purchase orders, and leases described on Exhibit "A". The parties agree that the purchase price shall be allocated as set forth in Schedule 4 to this Agreement and that the allocation shall be used by the parties in reporting the transaction contemplated by this Agreement for federal and state tax purposes.

Closing

1.03. The parties agree to use their best efforts to consummate this transaction ("Closing"). The Closing shall take place at the offices of Reid & Holder, P.C. located at 1840 Acton Highway, Granbury, Texas 76049 on or before May 1, 2017, or at such other time, date, and place mutually agreed upon in writing by Company and Cresson ("Closing Date"). In either event, all terms and conditions to the Closing of this Agreement shall have been met at least three days' prior to the Closing Date.

ARTICLE 2 COMPANY'S REPRESENTATIONS AND WARRANTIES

Company hereby represents and warrants to Cresson that the following facts and circumstances are and at all times up to the Closing Date will be true and correct:

Organization

2.01. Company is Bluebonnet Hills Water Supply Corporation, a Texas non-profit corporation and has full company power to carry on its business as now being conducted.

Authorization Of Transaction

2.02. Company has full power and authority to execute and deliver this Agreement and to perform its obligations under it. This Agreement constitutes the valid and legally binding obligation of Company.

Non-Contravention

2.03. Neither the execution and delivery of this Agreement by Company, nor the consummation by Company of the transactions contemplated by it will violate any statute, regulation, rule, judgment, order, decree, stipulation, injunction, charge, or other restriction of any government, governmental agency or court to which Company is subject or any provision of the Articles of Incorporation or Bylaws of Company.

Company's Board of Directors

2.04. The Board of Directors (the "Board") of the Company possess the full right to sell or dispose of all of the Company assets as the Board may choose. No other person or persons have any claim, right, title, interest, or lien in, to, or on Company or Company's assets.

Ownership in Other Companies

2.05. Company has no interest in any other corporation, firm, business, or partnership.

Taxes

2.06. All federal, state, local, and foreign income, ad valorem, excise, sales, use, payroll, unemployment, and other taxes and assessments ("Taxes") that are due and payable by Company or by Company on behalf of Company have been properly computed, duly reported, fully paid, and discharged. There are no unpaid Taxes that are or could become a lien on the property or assets of Company or require payment by Company, except for current Taxes not yet due and payable. All current Taxes not yet due and payable by Company have been properly accrued on the balance sheets of Company. Company has not incurred any liability for penalties, assessments, or interest under the Internal Revenue Code. No unexpired waiver executed by or on behalf of Company with respect to any Taxes is in effect.

Real Property

2.07. **Exhibit "B"**, which is attached to this Agreement, contains a complete and accurate legal description of each parcel of real property owned by, leased to, or leased by Company together with either a true and correct survey or a substantially true and correct plat of each parcel, when available; and true, correct, and complete copies of all real property leases. **Exhibit "B"** also contains a description of all buildings, fixtures, and other improvements located on the real property and a list of the policies of title insurance issued to Company or Company for the properties. All of the material real property leases are valid and in full force. There does not exist any default or event that with notice, lapse of time, or both will constitute a default under any of these lease agreements. All the buildings, fixtures, and leasehold improvements used by Company in its business are located on the real property. The zoning of each parcel of property described in **Exhibit "B"** permits the presently existing improvements and the continuation of Company's business presently being conducted on such parcel. Company is not aware of any enacted or proposed changes to such zoning.

Inventories

2.08. All inventories owned by Company ("Inventories") consist of items of a quality and quantity usable and saleable in the ordinary course of business by Company. All items included in the Inventories are the property of Company. No items included in the Inventories have been pledged as collateral or are held by Company on consignment from others. All of the Inventories are substantially free of defects.

Other Tangible Personal Property

2.09. The equipment, furniture, fixtures, and other personal property described in **Exhibit "A"** attached to this Agreement constitute all the items of tangible personal property owned by, in the possession of, or used by Company in connection with Company's business except Inventories. Except as stated in **Exhibit "A"**, no personal property used by Company in connection with its business is held under any lease, security agreement, conditional sales contract, or other title retention or security agreement or is located any place other than in the possession of Company.

Title to Assets and Properties

2.10. Company has good and marketable title to all of its assets and properties, tangible and intangible, that are material to Company's business and future prospects. These assets and properties constitute all of the assets and interests in assets that are used in Company's business. All of these assets are free and clear of mortgages, liens, pledges, charges, encumbrances, equities, claims, easements, rights of way, covenants, conditions, and restrictions, except for the following:

(a) Those disclosed in Company's balance sheets, included in the Financial Statements, or in the Exhibits to this Agreement.

(b) The lien of current Taxes not yet due and payable.

All real property and tangible personal property of Company are in good operating condition and repair, ordinary wear and tear excepted. Company is in possession of all premises leased to Company from others. Except as set forth in the appropriate Exhibit listing such assets, no officer, director, or employee of Company, nor any spouse, child, or other relative of any of these persons owns or has any interest, directly or indirectly, in any of the real or personal property owned by or leased by Company or in any copyrights, patents, trademarks, trade names, or trade secrets licensed by Company. Company does not occupy any real property in violation of any law, regulation, or decree that would materially adversely affect its business or future prospects.

Customers and Sale

2.11. **Exhibit "C"** attached to this Agreement is a correct and current list of all customers of Company.

Contracts

2.12. **Exhibit "D"** attached to this Agreement contains true and correct lists, with copies when available, of all oral and written contracts or arrangements obligating Company, including without limitation, contracts with municipalities, pledges and other security agreements, and copies of standard form customer contracts. There are no other consents or approvals required from any other third party with respect to this transaction. Except as set forth in **Exhibit "D"**, Company is not a party to, nor are Company's assets and properties bound by, any distributor's or manufacturer's representative, agency agreement, output or requirements agreement, agreement not entered into in the ordinary course of business, indenture, mortgage, deed of trust, lease, or any agreement that is unusual in nature, duration, or amount. There is no default or event that with notice, lapse of time, or both will constitute a default by any party to any of the contracts listed in **Exhibit "D"**. Company has not received any notice that any party to any of the contracts listed in **Exhibit "D"** intends to cancel or terminate any of the contracts or to exercise or not exercise any options under any of the contracts. Company is not a party to, nor are Company's assets or properties bound by, any contract that is materially adverse to the business, property, or financial condition of Company.

Laws and Regulations

2.13. Company is not in default or in violation of any law; regulation; court order; or order of any federal, state, municipal, foreign, or other government department, board, bureau, agency, or instrumentality, wherever located, that would materially adversely affect its business or future prospects, except as set forth in that certain correspondence received by Company from TCEQ dated March 18, 2003, a copy of which has been provided to Cresson.

Litigation

2.14. Except as disclosed in **Exhibit "E"** attached to this Agreement, there are no pending, outstanding, or threatened claims; legal, administrative, or other proceedings; or suits, investigations, inquiries, complaints, notices of violation, judgments, injunctions, orders, directives, or restrictions against or involving Company or any of the assets, properties, or business of Company or any of Company's officers, directors or employees, that will materially adversely affect Company, its assets, properties, or business. To the best of Company's and Company's knowledge and belief, after conducting a due diligence investigation, there is no basis for any of these proceedings against any of Company's assets, properties, persons, or entities. Company has furnished or made available to Cresson copies of all relevant court papers and other documents relating to the matters set forth in **Exhibit "E"**. Company is not presently engaged in any legal action to recover moneys due Company or for damages sustained by Company.

Employment Contracts

2.15. **Exhibit "F"** attached to this Agreement contains a complete description and copies of all employment agreements in effect with Company and a complete description of all fringe benefits and perquisites available to Company's officers, directors, and employees (and, if any, furnished to consultants, agents, and independent contractors), whether required by law or otherwise, including but not limited to, pension, profit sharing, life insurance, medical, bonus, incentive and similar plans, use of automobiles, credit cards, expense accounts and allowances, club memberships, sharing of costs or expenses, vacation, and similar benefits, together with the approximate annual cost of each benefit and perquisite. When available, copies of the plans, agreements, or arrangements regarding each benefit are also attached. The provisions and operations of all such programs and plans are in compliance in all material respects with all applicable material laws and government rules and regulations. There are no unfunded pension or similar liabilities regarding any employee of Company. All pension plans have been properly funded as to current and past service costs, have at all times been administered in compliance in all material respects with all applicable requirements of ERISA and any other applicable laws, and Company does not maintain any "pension plan" as defined in ERISA that is unfunded. **Exhibit "F"** also includes all states in which Company has employees and the status of unemployment insurance accounts in each state.

Receivables

2.16. **Exhibit "G"** attached to this Agreement contains a true and correct list of all accounts receivable and notes receivable of Company. All listed accounts and notes receivable of Company, are bona fide receivables, arose in the ordinary course of business by Company, and

require no further performance by Company. No material objection, claim, or offset has been made regarding the receivables and the receivables are current and collectible in the normal course of business within 90 days from the Closing Date without resort to litigation or the retention of collection services.

Other Liabilities and Obligations

2.17. **Exhibit "H"** attached to this Agreement contains a true and correct list of all liabilities and obligations of Company not disclosed elsewhere in this Agreement of any kind, character, and description whether accrued, absolute, contingent, or otherwise, and whether or not required to be disclosed or accrued in the financial statements of Company, that exceed \$250.00 to any one creditor. In the case of liabilities that are not fixed, an estimate of the maximum amount that may be payable is also included.

Trade Names, Trademarks, Copyrights, and Patents

2.18. **Exhibit "A"** attached to this Agreement contains a true and correct list of all trademarks, trademark registrations or applications, service marks, trade names, copyrights, copyright registrations or applications, trade secrets, patents, inventions, industrial models, processes, designs, formulae, and applications for patents (collectively called "Intellectual Properties") owned by Company. These Intellectual Properties are the only ones used and needed by Company in conducting its business. Company has the right and authority to use all of these Intellectual Properties as necessary to enable Company to conduct its business in the manner presently conducted. The use of these Intellectual Properties does not and will not conflict with, infringe, or violate any patent, copyright, or other proprietary right of any person, firm, or corporation, nor is Company now infringing on any right belonging to any person, firm, or corporation. Company is not a party to any license, agreement, or arrangement, whether as a licensee, licensor, or otherwise with respect to the Intellectual Properties. All of the Intellectual Properties are free and clear of any liens, encumbrances, restrictions, or legal or equitable claims of others. Company has taken all necessary security measures to protect the secrecy, confidentiality, and value of these Intellectual Properties.

Business Operations

2.19. The business operations of Company are and have been for the past five years in material compliance with all laws, treaties, rulings, directives, and similar regulations of all government authorities having jurisdiction over such business insofar as failure to comply could materially adversely affect Company's business and future prospects.

Authority

2.20. Company has full power and authority to execute, deliver, and/or consummate this Agreement, subject to the conditions to Closing set forth in this Agreement. All reports and returns required to be filed by each with any government and regulatory agency with respect to this transaction have been properly filed. Except as otherwise disclosed in this Agreement, no notice to or approval by any other person, firm, or entity, including governmental authorities, is required of Company to consummate the transaction contemplated by this Agreement.

Full Disclosure

2.21. No representation, warranty, or covenant made to Cresson in this Agreement nor any document, certificate, exhibit, or other information given or delivered to Cresson pursuant to this Agreement contains or will contain any untrue statement of a material fact, or omits or will omit a material fact necessary to make the statements contained in this Agreement or the matters disclosed in the related documents, certificates, information, or exhibits not misleading.

Brokers

2.22. Company, nor any of Company's officers, directors or employees, has retained, consented to, or authorized any broker, investment banker, or third party to act on Company's behalf, directly or indirectly, as a broker or finder in connection with the transactions contemplated by this Agreement.

Information Required for Bulk Sales Notice

2.23. **Exhibit "I"** attached to this Agreement includes a true, complete, and correct list of all existing creditors of Company, including their business addresses and the amounts of claims by each creditor against Company. **Exhibit "I"** also includes all information required to be furnished by Company to Cresson for purposes of complying with the Texas Business and Commerce Code bulk transfer provisions.

ARTICLE 3 CRESSON'S REPRESENTATIONS AND WARRANTIES

Cresson represents and warrants to Company that:

Authority

3.01. Cresson has full power and authority to execute, deliver, and consummate this Agreement subject to the conditions to Closing set forth in this Agreement.

Broker

3.02. Neither Cresson, nor any of Cresson's officers, directors, or employees, has retained, consented to, or authorized any broker, investment banker, or third party to act on its behalf, directly or indirectly, as a broker or finder in connection with the transactions contemplated by this Agreement.

ARTICLE 4 COVENANTS

Company covenants with Cresson that from and after the date of this Agreement until the Closing Date, Company will and will cause Company to:

Business Operations

4.01. Operate its business and conduct its activities in the normal course of business and not introduce any material new method of management, operation, or accounting.

Maintenance of Assets and Properties

4.02. Maintain all tangible assets and properties of Company in as good a state of operating condition and repair as they are on the date of this Agreement, except for ordinary depreciation, wear, and tear.

Absence of Liens

4.03. Not sell, pledge, lease, mortgage, encumber, dispose of, or agree to do any of these acts regarding any of the assets or properties of Company, other than in the normal course of business, without the prior written approval of Cresson.

Preservation of Business

4.04. Use its best efforts to preserve intact its organization and personnel and to keep available the services of all of its employees, agents, independent contractors, and consultants commensurate with Company's business requirements.

Preservation of Customer Relations

4.05. Use its best efforts to preserve intact the present customers of Company and the goodwill of all customers and others with respect to the business.

Maintain Insurance

4.06. Keep in force all policies of insurance covering the Company's business, properties, and assets, including all insurance listed in this Agreement. If Cresson so requests in writing, to purchase additional insurance as may be reasonably required at Cresson's expense.

Absence of Contractual Obligations

4.07. Not become obligated on any contract or commitment or incur or agree to incur any liability or make any capital expenditures without the prior written consent of Cresson.

Performance of Obligations

4.08. Perform all of its obligations and not make any material amendment to its obligations under all agreements relating to or affecting Company's customers, business, properties, and assets.

Notification of Litigation

4.09. Promptly notify Cresson in writing of any outstanding or threatened claims; legal, administrative, or other proceedings, suits, investigations, inquiries, complaints, notices of violation, or other process; or other judgments, orders, directives, injunctions, or restrictions against or involving Company or its personnel that could adversely affect Company.

Provide Financial Statements

4.10. Provide Cresson with fairly presented monthly financial statements with respect to Company within fifteen days after the end of each month, together with copies of customary monthly management reports.

Access to Books and Records

4.11. Make available to Cresson and its authorized agents and accountants for inspection at reasonable times and under reasonable circumstances the following items with respect to Company: assets; properties; business and financial records; and tax returns, working papers, files, and memoranda of its public accountants and outside legal counsel for the purposes of making an accounting review, a legal audit, and investigation and examination of Company as deemed desirable by Cresson. Company will use its best efforts to cause Company's officers, employees, public accountants, and outside legal counsel to cooperate fully with Cresson's examination and to make a full and complete disclosure to Cresson of all facts regarding the financial condition and business operations of Company.

Employee Compensation

4.12. Not increase the compensation payable to or to become payable to any executive officer, key employee, or agent; make any bonus payment to any such person; and permit Cresson to contact such employees, agents, and officers at all reasonable times for the purpose of discussing with them prospective employment by Cresson on or after the Closing Date. Company shall use its best efforts to encourage all such persons to accept any employment offered by Cresson.

Not Solicit

4.13. Not negotiate with any person or entity, or solicit or entertain any proposal concerning any acquisition in any form of Company.

Cooperate in Publicity

4.14. Coordinate any written publicity regarding this transaction with Cresson.

Payment of Liabilities and Waiver of Claims

4.15. Not do, or agree to do, any of the following acts:

(a) Pay any obligation or liability, fixed (a) or contingent, other than current liabilities.

- (b) Waive or compromise any right or claim.
- (c) Without full payment, cancel any note, loan, or other obligation owing to Company.

Maintain Existing Agreements

4.16. Not modify, amend, cancel, or terminate any of Company's existing contracts or agreements, or agree to do so.

Obtain Consents

4.17. As soon as reasonably practical after the execution of this Agreement and in any event before the Closing Date, obtain the written consents of all persons described in **Exhibit 10** and furnish to Cresson copies of the consents.

Provide Sales and Use Tax Certificates

4.18. Furnish to Cresson clearance certificates from the appropriate agencies in all states where Company is qualified to do business and any related certificates that Cresson may reasonably request as evidence that all sales, use, and other tax liabilities of Company (other than income tax liabilities) accruing before the Closing Date have been fully satisfied or provided for by Company.

Provide UCC Clearances

4.19. Deliver to Cresson a Business and Commerce Code search report issued by the Secretary of State in each state where Company owns personal property and dated as of a date not more than seven days before the Closing Date. The report must indicate that there are no filings under the UCC on file with the Secretary of State that name Company as debtor or otherwise indicate any lien on the assets and properties of Company, except for the liens otherwise disclosed in this Agreement.

Deliver Title Policies

4.20. Deliver to Cresson title insurance policies, dated as of the Closing Date, issued by title insurance companies acceptable to Cresson and at Cresson's expense. The policies shall insure a fee simple title in Cresson to all real property owned by Company, subject only to the following:

- (a) The lien, if any, of current real property taxes, payment of which is not delinquent.
- (b) Liens and encumbrances referred to in the financial statements set forth in the exhibits to this Agreement.
- (c) Objections and exceptions noted in the title insurance policies that have been approved by Cresson in writing.

Liability coverage under the title insurance policies shall be at least equal to or greater than the book value of the real property as reflected in the financial statements of Company.

ARTICLE 5 CONDITIONS TO CRESSON'S OBLIGATION TO CLOSE

The obligation of Cresson to Close under this Agreement is subject to each of the following conditions (any one of which may, at the option of Cresson, be waived in writing by Cresson) existing on the Closing Date, or such earlier date as the context may require.

Representations and Warranties

5.01. Each of the representations and warranties of Company in this Agreement, the disclosures contained in the exhibits to this Agreement, and all other information delivered under this Agreement shall be true in all material respects at and as of the Closing Date as though each representation, warranty, and disclosure were made and delivered at and as of the Closing Date.

5.02. Company and Company shall each comply with and perform all agreements, covenants, and conditions in this Agreement required to be performed and complied with by each of them. All requisite action in order to consummate this Agreement shall be properly taken by Company and Company.

Suit or Proceeding

5.02. No suit or proceeding, legal or administrative, relating to any of the transactions contemplated by this Agreement shall be overtly threatened or commenced that, in the sole discretion of Cresson and its counsel, would make it inadvisable for Cresson to Close this transaction.

Government Approvals and Filings

5.03. All necessary government approvals and filings regarding this transaction shall be received or made prior to the Closing Date in substantially the form applied for to the reasonable satisfaction of Cresson and its counsel, unless waived by Cresson including but not limited to approval by the Public Utility Commission and the Texas Commission on Environmental Quality. Any applicable waiting period for the approvals and filings shall be expired, unless waived by Cresson.

Consents of Others

5.04. Cresson shall receive written consents from all persons listed in **Exhibit 10** to this Agreement.

Due Diligence

5.05. In the event Cresson determines, in the course of performing Cresson's due diligence, for any reason that Cresson does not want to purchase the assets of Company, Cresson may terminate this Agreement.

ARTICLE 6
CONDITIONS TO COMPANY'S OBLIGATION TO CLOSE

The obligation of Company to Close under this Agreement is subject to each of the following conditions (any one of which at the option of Company may be waived in writing by Company) existing on the Closing Date.

Government Approvals

6.01. All necessary government approvals and filings regarding this transaction shall be received or made prior to the Closing Date in substantially the form applied for, including but not limited to approval by the Public Utility Commission and the Texas Commission on Environmental Quality.

ARTICLE 7
PARTIES' OBLIGATIONS AT THE CLOSING
Company's Obligations at the Closing

7.01. At the Closing, Company shall execute, if appropriate, and shall deliver to Cresson:

(a) A bill of sale in a form acceptable to Cresson sufficient to convey to Cresson all rights, title, and interest in and to all of the inventories, fixtures, equipment, and items of personality being sold to Cresson under the terms of this Agreement.

(b) One or more instruments of assignment in a form acceptable to Cresson assigning to Cresson the exclusive rights to: all contract rights, leases, accounts receivable in the name of Company being sold to Cresson under the terms of this Agreement.

(c) All documentation in the possession of Company necessary to operate and to use all assets being sold to Cresson in this Agreement.

Cresson's Obligation at Closing

7.02. At the Closing, Cresson shall deliver to Company against delivery of the items specified in *Paragraph 7.01*, above, an escrow or cashier's check in the amount of \$10.00 and other good and valuable consideration, less any and all offsets and closing costs, payable to Company in federal funds currently available in Texas.

ARTICLE 8
COMPANY'S OBLIGATIONS AFTER THE CLOSING
Preservation of Goodwill

8.01. Following the Closing Date, Company will restrict its activities so that Cresson's reasonable expectations with respect to the goodwill, business reputation, employee relations, and prospects connected with the assets and properties purchased under this Agreement will not be materially impaired.

Change of Name

8.02. Company agrees that, after the Closing Date, it will not use or employ in any manner, directly or indirectly, the name of Company or any variation of the name. Company also agrees that, in order to comply with this covenant, it will take and cause to be taken all necessary action, including filing a withdrawal notice for any assumed name certificate bearing Company's name or any variant of the name, that Company has previously filed.

Access to Records

8.03. From and after the Closing Date, Company shall allow Cresson and its counsel, accountants, and other representatives access to records that are, after the Closing Date, in the custody or control of Company. Company shall give access as Cresson reasonably requires in order to comply with its obligations under law or when reasonably necessary for the business operations of Company.

Application of Sales Proceeds

8.04. Company covenants and warrants on or before the Closing Date all creditors of Company be paid in full.

ARTICLE 9

INDEMNIFICATION

Covenant to Indemnify and Hold Harmless

9.01. Company covenants and agrees to indemnify, defend, and hold harmless Cresson and Company from and against any and all claims, suits, losses, judgments, damages, and liabilities including any investigation, legal, and other expenses incurred in connection with and any amount paid in settlement of any claim, action, suit, or proceeding (collectively called "Losses"), other than those Losses disclosed in this Agreement or any Exhibit delivered pursuant to this Agreement, to which Cresson or Company may become subject, if such Losses arise out of or are based upon any facts and circumstances (or alleged facts and circumstances) that could result in or give rise to a misrepresentation, breach of warranty, or breach of covenant by Company to Cresson in this Agreement. This right to indemnification is in addition to any other right available to Cresson and Company, including the right to sue Company for a misrepresentation, breach of warranty, or breach of covenant under this Agreement.

Income Taxes

9.02. Without limiting the provisions of *Paragraph 9.01*, Company shall indemnify, defend, and hold harmless Cresson and Company from and against any Losses to which Company or Cresson may become subject insofar as such Losses arise out of or are based on any tax on or measured by the net income of Company in any period on or before the Closing Date. The indemnifications provided in this *Paragraph 9.02* and in *Paragraph 9.01*, above, are cumulative and neither provision shall limit or in any other way affect the right of Cresson and Company under the other provision.

Notification and Defense of Claims or Actions

9.03. When Cresson proposes to assert the right to be indemnified under this Article 9 with respect to third-party claims, actions, suits, or proceedings, Cresson shall, within 30 days after the receipt of notice of the commencement of the claim, action, suit, or proceeding, notify Company in writing, enclosing a copy of all papers served or received. On receipt of the notice, Company shall have the right to direct the defense of the matter, but Cresson shall be entitled to participate in the defense and, to the extent that Cresson desires, to jointly direct the defense with Company with counsel mutually satisfactory to Cresson and Company, at Company's expense. Cresson shall also have the right to employ its own separate counsel in any such action. The fees and expenses of Cresson's counsel shall be paid by Cresson unless: (a) the employment of the counsel has been authorized by Company; (b) Cresson has reasonably concluded that there may be a conflict of interest between Company and Cresson in the conduct of the defense of such action; or (c) Company has not, in fact, employed counsel satisfactory to Cresson to assume the defense of the action. In each of these cases, the fees and expenses of Cresson's counsel shall be paid by Company. Neither Company nor Cresson shall be liable for any settlement of any action or claim described in this Article 9 that is effected without their consent.

Interest

9.04. Any indemnification required of Company under this Article 9 shall include interest on the amount of the indemnity from the time incurred to the date of payment at six percent simple interest per annum.

ARTICLE 10 GENERAL PROVISIONS

Survival of Representations, Warranties, and Covenants

10.01. The representations, warranties, covenants, and agreements of the parties contained in this Agreement or contained in any writing delivered pursuant to this Agreement shall survive the Closing Date for the period of time set forth in this Agreement.

Notices

10.02. All notices that are required or that may be given pursuant to the terms of this Agreement shall be in writing and shall be sufficient in all respects if given in writing and delivered personally or by registered or certified mail, return receipt requested, postage prepaid as follows:

If to Cresson: City of Cresson
 P.O. Box 619
 Cresson, Texas 76035-0619

With a copy to: Reid & Holder, P.C.
 Steven J. Reid
 1840 Acton Highway
 Granbury, Texas 76049

If to Company: Bluebonnet Hills Water Supply Corporation
P.O. Box 311
Cresson, Texas 76035-0311

Assignment of Agreement

10.03. This Agreement shall be binding on and inure to the benefit of the parties to this Agreement and their respective successors and permitted assigns. This Agreement may not be assigned by any other party without the written consent of all parties and any attempt to make an assignment without consent is void.

Governing Law

10.04. This Agreement shall be construed and governed by the laws of the State of Texas and shall be performable in Hood County, Texas.

Amendments; Waiver

10.05. This Agreement may be amended only in writing by the mutual consent of all of the parties, evidenced by all necessary and proper corporate authority. No waiver of any provision of this Agreement shall arise from any action or inaction of any party, except an instrument in writing expressly waiving the provision executed by the party entitled to the benefit of the provision.

Entire Agreement

10.06. This Agreement, together with any documents and exhibits given or delivered pursuant to this Agreement, constitutes the entire agreement between the parties to this Agreement. No party shall be bound by any communications between them on the subject matter of this Agreement unless the communication is (a) in writing, (b) bears a date contemporaneous with or subsequent to the date of this Agreement, and (c) is agreed to by all parties to this Agreement. On execution of this Agreement, all prior agreements or understandings between the parties shall be null and void.

Reliance Upon Representations and Warranties

10.07. The parties mutually agree that, notwithstanding any right of Cresson to fully investigate the affairs of Company and notwithstanding any knowledge of facts determined or determinable by Cresson pursuant to the investigation or right to investigate, Cresson may fully rely upon the representations, warranties, and covenants made to Cresson in this Agreement and on the accuracy of any document, certificate, or exhibit given or delivered to Cresson pursuant to this Agreement. Knowledge by an agent of Cresson of any facts not otherwise disclosed in this Agreement or in a document, certificate, or exhibit delivered to Cresson pursuant to this Agreement shall not constitute a defense by Company for indemnification of Cresson under Article 9 or for any claim for misrepresentation or breach of any warranty, agreement, or covenant under this Agreement or any exhibit, certificate, or document delivered under this Agreement.

Special Provisions

10.08. Temporary operations prior to Closing. Effective January 1, 2017, the City of Cresson will assist Bluebonnet Hills Water Supply Corporation with the operation of the water supply corporation as follows:

1. Day to Day operations and maintenance including: meter reading, billing, collections, payments for accounts payable, repairs and maintenance.

The City will be compensated for such services at the rate of \$3,000.00 per month. Beginning January 1, 2017, the City will open a separate account for all Bluebonnet Hills Water Supply Corporation funds held by the City. In the event the transaction does not close, the City of Cresson will return all of the funds belonging to Bluebonnet Hills Water Supply Corporation to Bluebonnet Hills Water Supply Corporation.

Signed on the 16th day of November 2016.

Cresson:

City of Cresson

By: 
W.R. Cornett, Mayor

Company:

Bluebonnet Hills Water Supply Corporation,
a Texas non-profit corporation

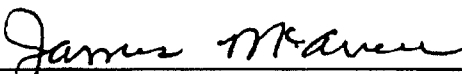
By: 
James McAnear, President

EXHIBIT "A"

A. Inventories of New Materials and Supplies as follows:

All furniture, fixtures, equipment, supplies, water wells, pumps, transmission lines, meters, pipe and other items of personal property used in connection with the business known as Bluebonnet Hills Water Supply including but not limited to Bluebonnet Hills Water Supply Certificate of Convenience and Necessity from the State of Texas.

B. Contracts, Agreements, Purchase Orders, Real Property, Real Property Leases and Personal Property Leases.

C. Furniture, Fixtures, Equipment, Supplies, Water Wells, Pumps, Transmission Lines, Meters, Pipe and other items.

D. Trademarks, Service Marks, Copyrights and Trade Names.

EXHIBIT "B"

1 - Office Building, Legal Description, Lot 14

BEING, the surface estate only of that certain Lot, Tract or Parcel of Land lying and being situated in Parker County, Texas and being Lot 14 in Section 1 of Bluebonnet Hills, a subdivision according to Plat of Record in Volume 362A, Pages 49 thru 51, Plat Records of Parker County, Texas, save and except that portion of Lot 14 described by metes and bounds as:

BEING a part of Lot 14, Section 1, Bluebonnet Hills, also known as a part of the I. & G.N.R.R. Survey, Abstract 1801, Parker County, Texas and Abstract 1259, Johnson County, Texas;

BEGINNING at a point being North 00 deg. 42 min. West 1447.06 feet, and South 89 deg. 18 min. West 523.42 feet from the Southeast corner of the I. & G.N.R.R. Survey;

THENCE South 89 deg. 18 min. West 200.0 feet to a steel pin for corner;

THENCE North 00 deg. 42 min. West at 30.0 feet, passing a steel pin in the North line of Skyline Drive, continuing in all 196.89 feet to a steel pin for corner;

THENCE North 89 deg. 18 min. East 200.0 feet to a steel pin for corner;

THENCE South 00 deg. 42 min. East 196.89 feet to the place of beginning and containing 0.904 acres.

Please see attached Warranty Deed dated January 12, 1990.

EXHIBIT "B"

1 - Office Building, Legal Description, Lot 14
(continued)

19039;

The State of Texas, } Know All Men by These Presents:
 County of HOOD PARKER }

That BETZEL GROUP, INCORPORATED, A TEXAS CORPORATION

of the County of HOOD State of TEXAS for and in consideration
 of the sum of TEN AND 10/100---(\$10.00)-----
 ----- DOLLARS

to it in hand paid by the Grantees,
 as follows:
 Cash and other valuable consideration to the undersigned,
 the receipt of which is hereby acknowledged,

have Granted, Sold and Conveyed, and by these presents do Grant, Sell and Convey unto the said
 Grantee, BLUEBONNET HILLS WATER SUPPLY CORPORATION

of the County of PARKER State of TEXAS all that certain
 real property in PARKER County, Texas to wit:

BEING, the surface estate only of that certain Lot, Tract or Parcel of Land
 lying and being situated in Parker County, Texas and being Lot 14 in Section
 1 of Bluebonnet Hills, a subdivision according to Plat of Record in Volume
 162A, Pages 49 thru 51, Plat Records of Parker County, Texas, save and except
 that portion of Lot 14 described by metes and bounds as BEING a part of Lot
 14, Section 1, Bluebonnet Hills, also known as a part of the I.G.N.R.R. Survey
 Abstract 1801, Parker County, Texas and Abstract 1259, Johnson County, Texas.
 BEGINNING at a point being North 00 deg. 42 min. West 1447.06 feet, and South
 89 deg. 18 min. West 523.42 feet from the Southeast corner of the I.G.N.R.R.
 Survey; THENCE South 89 deg. 18 min. West 200.0 feet to a steel pin for corner
 THENCE North 00 deg. 42 min. West at 30.0 feet, passing a steel pin in the
 North line of Skyline Drive, continuing in all 196.89 feet to a steel pin for
 corner; THENCE North 89 deg. 18 min. East 200.0 feet to a steel pin for corner
 THENCE South 00 deg. 42 min. East 196.89 feet to the place of beginning and
 containing 0.904 acres.

Conveyance made herein subject to all restrictions, easements, covenants and
 conditions of record, if any, relating to the hereinabove described property.

TO HAVE AND TO HOLD the above described premises, together with all and singular the
 rights and appurtenances thereto in anywise belonging unto the said Grantee, their
 heirs and assigns forever and does she hereby bind Grantees, their
 heirs, executors and administrators, to Warrant and Forever Defend, all and singular the said premises
 unto the said Grantee, their
 heirs and assigns, against every person whomsoever lawfully claiming, or to claim the same, or any
 part thereof.

WITNESS my hand at Granbury, Hood County, Texas
 this 12TH day of JANUARY 1990

Witnesses at Request of Grantor

BETZEL GROUP, INCORPORATED
 BY: *W. A. Suckel*
 W. A. Suckel, President

BOOK 1470 PAGE 1914

EXHIBIT "B"

2 - Well Site #1 and Well Site #4, Legal Description

BEING, Well Site #1, (100' x 200') bounded by lots 21-B and 22 in Section 1, Bluebonnet Hills, a subdivision filed of record in Volume 362-A, Page 60 in Parker County, Texas.

Tract 22-1 Sanitary Control Easement

BEING a tract of land in the I. & G.N.R.R. Survey, Abstract No. 1801, Parker County, Texas and being a part of Lot 22, Section One, Bluebonnet Hills, as per plat recorded in Volume 362-A, Page 60, Plat Records of Parker County, Texas.

BEGINNING at a point in the north line of, and North 89 degrees 18 minutes East, 126.28 feet from the Northwest corner of Lot 22, Section One, Bluebonnet Hills.

THENCE, North 89 degrees 18 minutes East, 100.0 feet to a point for a corner;

THENCE, South 0 degrees 42 minutes East, 50.0 feet to a point for corner;

THENCE, North 89 degrees 18 minutes East, 191.42 feet to a point for corner;

THENCE, along a curve to the right having a radius of 150.0 feet, a central angle of 160 degrees 31 minutes 44 seconds, and a chord bearing North 80 degrees 57 minutes 52 seconds West, 295.68 feet, a distance of 420.26 feet to the place of beginning and containing 0.585 acres of land.

Tract 21-B-1 Sanitary Control Easement

BEING a tract of land in the I. & G.N.R.R. Survey, Abstract No. 1801, Parker County, Texas and being a part of Lot 21-B, Section One, Bluebonnet Hills as per plat recorded in Volume 362-A, Page 60, Plat Records of Parker County, Texas.

BEGINNING at a point in the south line of and North 89 degrees 18 minutes East, 126.28 feet from the southwest corner of Lot 21-B, Section One, Bluebonnet Hills;

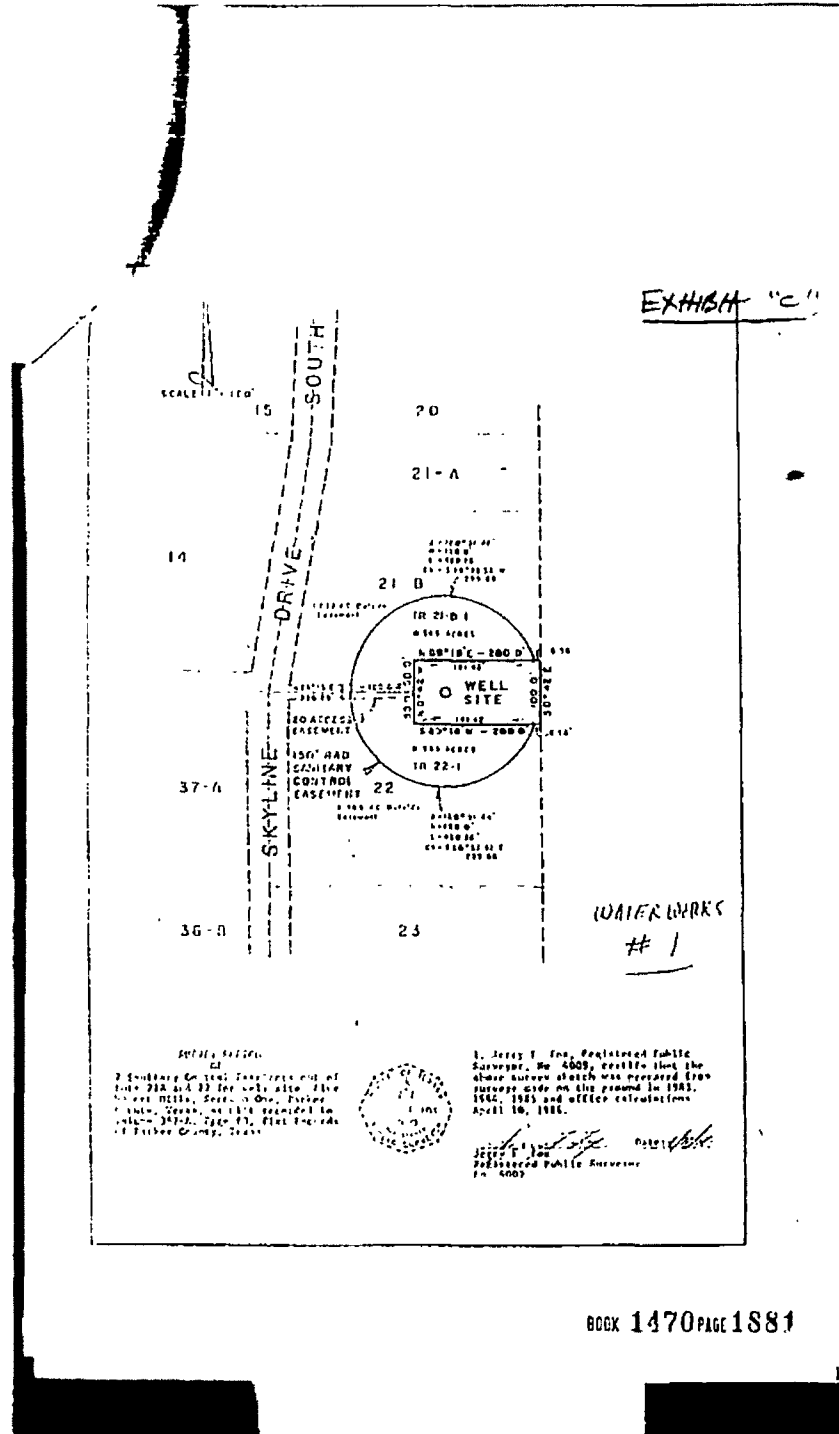
THENCE, along a curve to the right having a radius of 150.0 feet, a central angle of 160 degrees 31 minutes 44 seconds, and a chord bearing North 79 degrees 33 minutes 52 seconds East, 295.68 feet, a distance of 420.26 feet to a point for a corner;

THENCE, South 89 degrees 18 minutes West, 191.42 feet to a point for a corner;

THENCE, South 0 degrees 42 minutes East, 50.0 feet to a point for a corner;

THENCE, South 89 degrees 18 minutes West, 100.0 feet to the place of beginning and containing 0.585 acres.

EXHIBIT "B"
 2 - Well Site #1 and Well Site #4, Legal Description
 (continued)



Please see attached Warranty Deed dated January 12, 1990.

EXHIBIT "B"

Purchase and Sale Agreement (Assets) - 10-25-16 - Page 30 of 47

2 - Well Site #1 and Well Site #4, Legal Description
(continued)

190361, Know All Men by These Presents:

The State of Texas, }
County of HOOD PARKER }

THAT BETZEL GROUP, INC

of the County of HOOD State of TEXAS for and in consideration
of the sum of TEN AND NO/100---(\$10.00)-----
DOLLARS
to it in hand paid by The Grantees,
as follows
Cash and other valuable consideration to the undersigned, the receipt
of which is hereby acknowledged,

have Granted, Sold and Conveyed, and by these presents do Grant, Sell and Convey unto the said
Grantee, BLUBONNET HILLS WATER SUPPLY CORPORATION-----
P. O. Box 311, Cresson, Texas 76035-----
of the County of PARKER State of TEXAS all that certain
real property in PARKER County, Texas to wit:

BEING, Well site #1, (100' X 200') bounded by lots 21-B and 22 in
Section 1, Bluebonnet Hills, a subdivision filed of record in
Volume 362-A, Page 60 in Parker County, Texas. Exhibit "A", "B" & "C"
attached and made a part hereof.
Conveyance made herein subject to all restrictions, easements,
assessments, reservations and covenants of record, if any, affecting
and relating to the hereinabove described property.

TO HAVE AND TO HOLD the above described premises, together with all and singular the
rights and appurtenances thereto in anywise belonging unto the said Grantees, their
heirs and assigns forever and ~~doe~~ do hereby bind itself, its successors
heirs, executors and administrators, to Warrant and Forever Defend, all and singular the said premises
unto the said
heirs and assigns, against every person whomsoever lawfully claiming, or to claim the same, or any
part thereof.

WITNESS my hand at Granbury, Hood County, Texas
this 12TH day of JANUARY 1996.
Witnesses at Request of Grantor:

BETZEL GROUP, INC
BY: *[Signature]*
H. A. Roberts, President

May 14 70 PM 18 '77

EXHIBIT "B"

2 - Well Site #1 and Well Site #4, Legal Description

Purchase and Sale Agreement (Assets) - 10-25-16 - Page 31 of 47

(continued)

Mailing address of grantor

Name
Address

(Acknowledgment)

STATE OF TEXAS
COUNTY OF Hood

This instrument was acknowledged before me on the 14th day of January, 1990
by W.C. Betzel, President, Bludonnet Hills Water Supply Corp.
My commission expires 12-18-92
Notary Public, State of Texas
Notary's printed name: Mary G. Cassel

(Acknowledgment)

STATE OF TEXAS
COUNTY OF

This instrument was acknowledged before me on the _____ day of _____, 19____
by _____
My commission expires _____
Notary Public, State of Texas
Notary's printed name: _____

(Acknowledgment)

STATE OF TEXAS
COUNTY OF

This instrument was acknowledged before me on the _____ day of _____, 19____
by _____
My commission expires _____
Notary Public, State of Texas
Notary's printed name: _____

Warranty Book		FROM		TO	
BETZEL GROUP, INC.		BLUDONNET HILLS WATER SUPPLY CORPORATION		FILED FOR RECORD	
This copy of	A.D. 18	at	o'clock	M	County Clerk
By	Notary Public	By	Notary Public	County Recorder	County Clerk
RECORDED		A.D. 18		County Recorder	
in Book		Page		County Clerk	
Recording fees		This instrument should be filed immediately with the County Clerk for record		WHEN RECORDED RETURN TO	
William H. Cantrell		Attorney at Law		209 Trinity Street	
Weatherford, Texas 76086					

BOOK 1470 PAGE 1878

EXHIBIT "B"

2 - Well Site #1 and Well Site #4, Legal Description
(continued)

Purchase and Sale Agreement (Assets) - 10-25-16 - Page 32 of 47

CHILDRESS and REGER
ENGINEERING and SURVEYING

EXHIBIT A

CLARENCE E. CHILDRESS, JR.
Registered Professional Engineer
CLARENCE E. REGER
Registered Public Surveyor

128 S. BROADWAY
CLEBURNE, TEXAS 76031
TELEPHONE
817 443 9661
817 443 9642

FIELD NOTES FOR BETZEL GROUP, INC.
TRACT 22-1 SANITARY CONTROL EASEMENT

BEING a tract of land in the I. & G.N.R.R. Survey, Abstract No. 1801, Parker County, Texas and being a part of Lot 22, Section One, Bluebonnet Hills, as per plat recorded in Volume 162-A, Page 60, Plat Records of Parker County, Texas.

BEGINNING at a point in the north line of, and North 89 degrees 18 minutes East, 126.28 feet from the Northwest corner of Lot 22, Section One, Bluebonnet Hills.

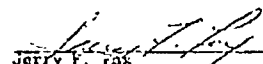
THENCE, North 89 degrees 18 minutes East, 100.0 feet to a point for a corner;

THENCE, South 0 degrees 47 minutes East, 50.0 feet to a point for corner;

THENCE, North 89 degrees 18 minutes East, 191.62 feet to a point for a corner;

THENCE, along a curve to the right having a radius of 150.0 feet, a central angle of 160 degrees 31 minutes 44 seconds, and a chord bearing North 80 degrees 57 minutes 52 seconds West, 295.68 feet, a distance of 420.26 feet to the place of beginning and containing 0.585 acres of land.

I, Jerry F. Fox, Registered Public Surveyor, No. 4009, certify that the above field notes were prepared from surveys made on the ground in 1983, 1984, 1985 and office calculations April 10, 1986.


Jerry F. Fox
Registered Public Surveyor
No. 4009

Date: 4/10/86



BOOK 1470 PAGE 1879

EXHIBIT "B"

2 - Well Site #1 and Well Site #4, Legal Description
(continued)

CHILDRESS and RECER
ENGINEERING and SURVEYING

EXHIBIT "B"

1001 E. COLLETS ST.
EAGLE PASS, TEXAS 76031
CHILDRESS and RECER
REGISTERED PUBLIC SURVEYORS

170 E. RIDGEWAY
CLEBURNE, TEXAS 76031
TELEPHONE
817 645 9641
817 645 9642

FIELD NOTES FOR BETZEL GROUP, INC.
TRACT 21-B-1 SANITARY CONTROL EASEMENT

BEING a tract of land in the I. & G.H.R.R. Survey, Abstract No. 1801, Parker County, Texas and being a part of Lot 21-B, Section One, Bluebonnet Hills as per plat recorded in Volume 362-A, Page 60, Plat Records of Parker County, Texas.

BEGINNING at a point in the south line of and North 89 degrees 18 minutes East, 126.28 feet from the southwest corner of Lot 21-B, Section One, Bluebonnet Hills.

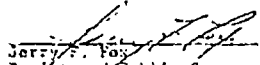
THENCE, along a curve to the right having a radius of 150.0 feet, a central angle of 160 degrees 31 minutes 44 seconds, and a chord bearing North 79 degrees 33 minutes 52 seconds East, 295.68 feet, a distance of 420.26 feet to a point for a corner;

THENCE, South 89 degrees 18 minutes West, 191.42 feet to a point for a corner;

THENCE, South 0 degrees 42 minutes East, 50.0 feet to a point for a corner;

THENCE, South 89 degrees 18 minutes West, 100.0 feet to the place of beginning and containing 0.585 acres.

I, Jerry F. Fox, Registered Public Surveyor, No. 4009, certify that the above field notes were prepared from surveys made on the ground in 1983, 1984, 1985 and office calculations April 10, 1986.


Jerry F. Fox
Registered Public Surveyor
No. 4009

Date: 



BOOK 1470 PAGE 1880

EXHIBIT "B"

2 - Well Site #1 and Well Site #4, Legal Description
(continued)

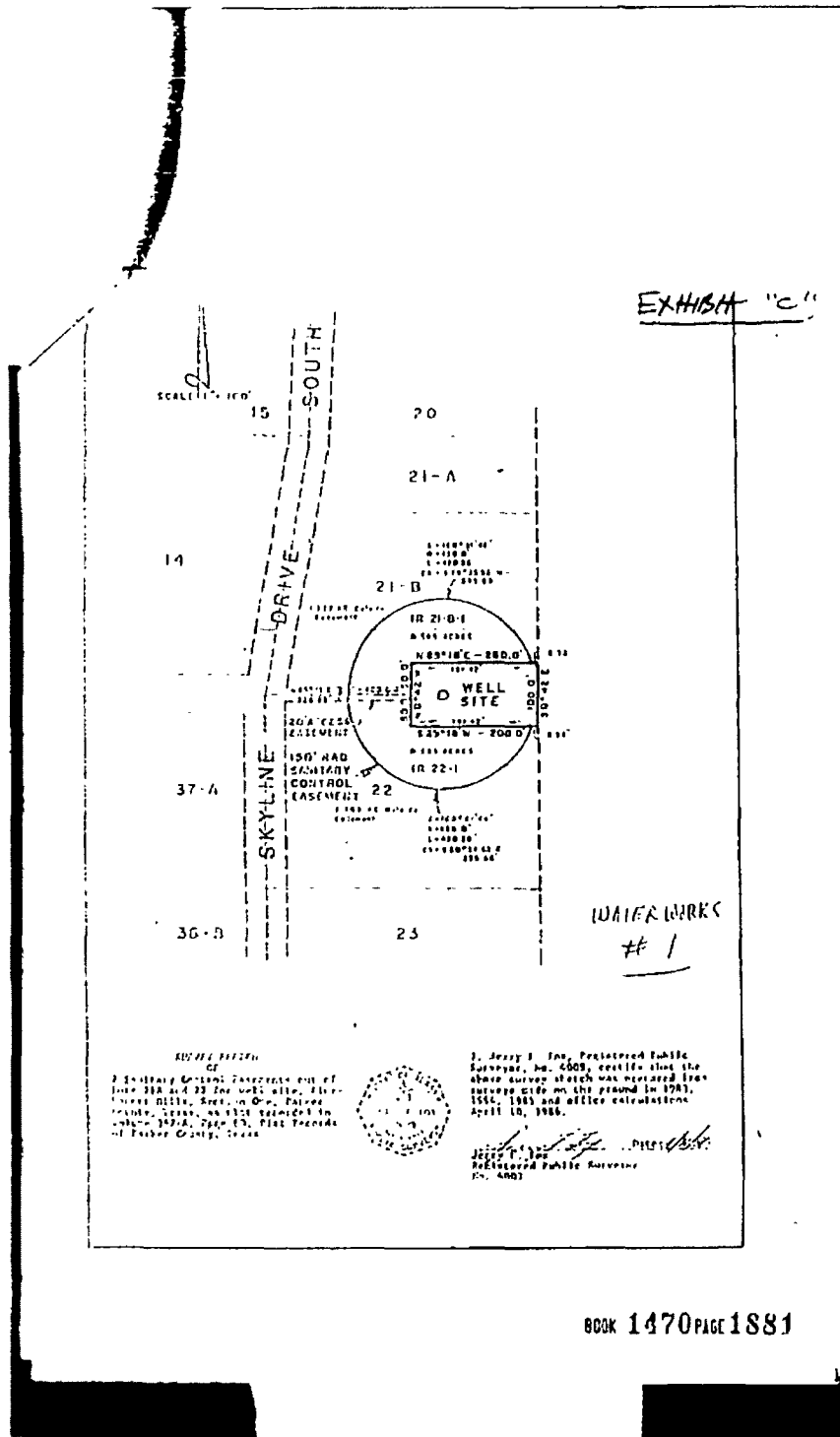


EXHIBIT "B"
 2 - Well Site #1 and Well Site #4, Legal Description
 (continued)

1990

RECEIVED AND PAID

APR 12 9:43

[Handwritten signature]

[Handwritten signature]

NOT RECORDED IN THE PUBLIC RECORDS OF THE STATE OF TEXAS, COUNTY OF PARKER, TEXAS, BECAUSE OF DEFECTIVE INSTRUMENTAL RECORDATION OF THE INSTRUMENT.

STATE OF TEXAS COUNTY OF PARKER

I hereby certify that this instrument was filed as the duty and been stamped herein by me and was duly recorded in the volume and page of the official records of Parker County as indicated hereon by me.

APR 12 1990



[Handwritten signature]
County Clerk, Parker County, Tex.

BOOK 1470 PAGE 1882

EXHIBIT "B"

3 - Well Site #2, Legal Description

EXHIBIT "B"

4 - Well Site #3, Legal Description, Lot 24

BEING, the surface estate only of that certain Lot, Tract or Parcel of Land lying and being situated in Parker County, Texas and being Lot 24 in Section 3 of Bluebonnet Hills, a subdivision of Parker County, Texas according to Plat of Record in Volume 362A, Pages 49 thru 51, Plat Records of Parker County, Texas.

Please see attached Warranty Deed dated January 12, 1990.

EXHIBIT "B"

4 - Well Site #3, Legal Description, Lot 24

190394

The State of Texas, } **Know All Men by These Presents:**
County of HOOD PARKER }

That **BETZEL GROUP, INC.**

of the County of **HOOD** State of **TEXAS** for and in consideration
of the sum of **TEN AND NO/100----(\$10.00)-----**
----- **DOLLARS**

to it in hand paid by the Grantees,
as follows
Cash and other valuable consideration to the undersigned, the receipt
of which is hereby acknowledged.

have Granted, Sold and Conveyed and by these presents do Grant Sell and Convey unto the said
Grantee, **BLUONNET HILLS WATER SUPPLY CORPORATION-----**
----- **P. O. Box 311, Cresson, Texas 76035**

of the County of **PARKER** State of **TEXAS** all that certain
real property in **PARKER** County, Texas to wit:

**BEING, the surface estate only of that certain Lot, Tract or
Parcel of Land lying and being situated in Parker County, Texas
and being Lot 24 in Section 3 of Bluebonnet Hills, a subdivision
of Parker County, Texas according to Plat of Record in Volume
362A, Pages 49 thru 51, Plat Records of Parker County, Texas.**

Conveyance made herein subject to all restrictions, easements,
assessments, reservations and covenants of record, if any, affecting
and relating to the hereinabove described property.

TO HAVE AND TO HOLD the above described premises, together with all and singular the
rights and appurtenances thereto in anywise belonging unto the said Grantees, their
heirs and assigns forever and ~~do~~ ~~do hereby~~ bind itself, its successors
heirs, executors and administrators, to Warrant and Forever Defend, all and singular the said premises
unto the said
heirs and assigns, against every person whomsoever lawfully claiming, or to claim the same, or any
part thereof

WITNESS my hand at Granbury, Hood County, Texas
this **12TH** day of **JANUARY** 1990.

Witnesses at Request of Grantor:

BETZEL GROUP, INC.
BY: *[Signature]*
W. A. Betzel, President

BOOK 1470 PAGE 1902

EXHIBIT "B"

4 - Well Site #3, Legal Description, Lot 24

Mailing address of grantee
Name
Address

(Acknowledgment)
STATE OF TEXAS
COUNTY OF Hood

This instrument was acknowledged before me on the 12th day of January, 1993
by W.C. Boyd, President of Boyd's Assoc. Inc.
My commission expires 12-12-93
Notary Public, State of Texas
Notary's printed name: Martha G. Cook

(Acknowledgment)
STATE OF TEXAS
COUNTY OF

This instrument was acknowledged before me on the _____ day of _____, 19____
by _____
My commission expires: _____
Notary Public, State of Texas
Notary's printed name: _____

(Acknowledgment)
STATE OF TEXAS
COUNTY OF

This instrument was acknowledged before me on the _____ day of _____, 19____
by _____
My commission expires: _____
Notary Public, State of Texas
Notary's printed name: _____

190391 RECEIVED FILED FROM BETZEL GROUP, INC. TO BLOOMHORN HILLS WATER SUPPLY CORPORATION
APR 12 4:48 PM '93
FILED FOR RECORD
This day of _____ A.D. 19____
at _____ in _____ County, State of _____
By _____ Notary Public
My Commission Expires _____
Notary's printed name: _____
When Recorded Return To
William H. Cantrell
Attorney at Law
209 Trinity Street
Weatherford, Texas 76086

STATE OF TEXAS COUNTY OF FORT BEND
I hereby certify that this instrument was filed on the date and hour stamped herein by me and was duly recorded in the volume and page of the official records of Fort Bend County as stamped hereon by me.
APR 12 1993
SEAL
County Clerk Fort Bend County, Texas

PROVISION HEREIN WHICH RESTRICTS THE SALE, RENTAL, OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF RACE OR COLOR IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW.

BOOK 1470 PAGE 1903

EXHIBIT "C"

Customer List

To be provided prior to Closing

EXHIBIT "D"

Current Contracts

NONE

EXHIBIT "E"

Pending Litigation

NONE

EXHIBIT "8"

Employment Agreements

NONE

CITY OF CRESSON
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2010

WILLSHER & ASSOCIATES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Bob Cornett
Members of the City Council
City of Cresson
Cresson, Texas

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Cresson, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements. These basic financial statements are the responsibility of the City of Cresson, Texas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Cresson, Texas, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2010, on our consideration of the City of Cresson, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise City of Cresson's basic financial statements.



December 23, 2010

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2010
(Unaudited)

As management of the City of Cresson, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010.

FINANCIAL HIGHLIGHTS

- The assets of the City of Cresson exceeded its liabilities at the close of the most recent fiscal year by \$1,271,064 (Net Assets). Of this amount \$387,531 (Unrestricted Net Assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$88,314.
- As of the close of the current fiscal year, the City of Cresson's governmental fund reported an ending fund balance of \$845,510.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected sales taxes).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by sales taxes and intergovernmental revenues (governmental

activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration and highways and streets. The business-type activity of the City consists of water and sanitation operations.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains the general governmental fund. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General fund, which is considered to be a major fund.

Proprietary Funds – Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sanitation operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Department, which is considered to be a major fund of the City.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the City of Cresson, assets exceeded liabilities by \$1,271,064 as of September 30, 2010.

The largest portion of the City's net assets (68%) reflects its investments in capital assets (e.g., equipment and infrastructure). The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending.

CITY OF CRESSON'S NET ASSETS

As of September 30, 2010, the City is able to report positive balances in three categories of net assets: for the government as a whole (\$1,271,064) and separately for the General fund (\$845,510) and Enterprise fund (\$425,554).

Analysis of the City's Operations - Governmental activities increased the City's net assets by \$11,164, accounting for 13% of the total growth in net assets. Business-type activities increased the City's net assets by \$77,150, accounting for 87% of the total growth in net assets.

CAPITAL ASSETS

The City of Cresson's investment in capital assets for its governmental and business-type activities as of September 30, 2010, amounts to \$861,178 (net of accumulated depreciation). This investment in capital assets includes land, equipment and infrastructure.

Additional information on the City's capital assets can be found in Note 3 of this report.

ECONOMIC FACTORS

Revenue for sanitation services were collected by the City of Cresson during the fiscal year. Revenue for water and sanitation services is \$163,664 at September 30, 2010, an increase of \$36,039 or 22% over the prior year.

Sales tax revenue increased 6% from the prior year and is expected to increase 5% to 10% in 2010-2011.

Expenditures decreased 8% from the prior year, but expenditures are projected to increase 10% to 15% in 2010-2011.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the City of Cresson, at P. O. Box 619, Cresson, Texas 76035, or call (817) 396-4729.

CITY OF CRESSON
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 400,393	\$ 11,459	\$ 411,852
Receivables, net of allowance	8,061	8,997	17,058
Total current assets	<u>408,454</u>	<u>20,456</u>	<u>428,910</u>
Restricted Assets:			
Cash for tourism	22,355		22,355
Total restricted assets	<u>22,355</u>	-	<u>22,355</u>
Capital assets:			
Land	-	25,878	25,878
Depreciable, net	451,000	384,300	835,300
	<u>451,000</u>	<u>410,178</u>	<u>861,178</u>
Total assets	<u>881,809</u>	<u>430,634</u>	<u>1,312,443</u>
LIABILITIES			
Current liabilities:			
Accounts payable	6,730	4,009	10,739
Fees and sales taxes payable	1,325	1,071	2,396
Deferred revenue	28,244	-	28,244
Total current liabilities	<u>36,299</u>	<u>5,080</u>	<u>41,379</u>
NET ASSETS			
Invested in capital assets, net of related debt	451,000	410,178	861,178
Restricted for tourism	22,355	-	22,355
Unrestricted net assets	372,155	15,376	387,531
Total net assets	<u>\$ 845,510</u>	<u>\$ 425,554</u>	<u>\$ 1,271,064</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CRESSON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Expenses</u>	<u>Program revenues</u>
		Charges for Services
Primary Government:		
Governmental Activities		
General government	\$ (257,921)	\$ 19,037
Judicial	-	200
Streets	(54,916)	-
Total governmental	(312,837)	19,237
Business-type activities:		
Water Department	(160,323)	163,664
Total business-type	(160,323)	163,664
Total Activity	\$ (473,160)	\$ 182,901

General revenues

- Sales taxes
- Franchise taxes
- Hotel/motel tax
- Miscellaneous revenue
- Investment earnings
- Transfers
- Gain (loss) on capital assets

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

The notes to the financial statements are an integral part of this statement

Net (Expense) Revenue and
Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (238,885)	\$ -	\$ (238,885)
200	-	200
(54,916)	-	(54,916)
(293,601)	-	(293,601)
	3,341	3,341
-	3,341	3,341
(293,601)	3,341	(290,259)
296,978	-	296,978
46,270	-	46,270
22,355	-	22,355
476	13,956	14,431
746	-	746
(59,853)	59,853	-
(2,207)	-	(2,207)
304,764	73,809	378,573
11,164	77,150	88,314
834,346	348,404	1,182,750
\$ 845,510	\$ 425,554	\$ 1,271,064

CITY OF CRESSON
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 400,395	\$ 400,395
Receivables	8,061	8,061
Cash restricted for tourism	<u>22,355</u>	<u>22,355</u>
Total assets	<u><u>\$ 430,811</u></u>	<u><u>\$ 430,811</u></u>
 LIABILITIES		
Accounts payable	\$ 6,730	\$ 6,730
Inspection fees payable	1,325	1,325
Deferred revenue	<u>28,244</u>	<u>28,244</u>
Total liabilities	<u>36,299</u>	<u>36,299</u>
 FUND BALANCES		
Restricted for tourism	22,355	22,355
Unassigned	<u>372,157</u>	<u>372,157</u>
Total fund balances	<u>394,512</u>	<u>394,512</u>
Total liabilities and fund balances	<u><u>\$ 430,811</u></u>	<u><u>\$ 430,811</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF CRESSON
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2010

Total Fund Balances - Governmental Funds	\$	394,512
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 \$633,358 and the accumulated depreciation was \$182,808. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net assets.		450,550
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2010 capital outlays is to increase net assets		36,870
The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(34,215)
The City disposed of old software with a cost of \$6,620, less accumulated depreciation of \$4,413. The net effect is a decrease of net assets.		(2,207)
Net Assets of Governmental Activities	\$	845,510

The notes to the Financial Statements are an integral part of this statement.

CITY OF CRESSON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Total Governmental Funds
Revenues:		
Franchise taxes	\$ 46,270	\$ 46,270
Sales taxes	296,978	296,978
Hotel/motel taxes - restricted	22,355	22,355
Licenses and permits	19,037	19,037
Fines	200	200
Investment earnings	746	746
Other sources	476	476
Total revenues	386,061	386,061
Expenditures:		
General government	255,003	255,003
Streets and highways	23,619	23,619
Capital outlay	36,870	36,870
Total expenditures	315,492	315,492
Net change in fund balance before transfers	70,569	70,569
Transfers out	(59,853)	(59,853)
Net change in fund balance	10,716	10,716
Fund balance - beginning of year	383,796	383,796
Fund balance - end of year	\$ 394,512	\$ 394,512

The notes to the financial statements are an integral part of this statement.

CITY OF CRESSON
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

Total Net Change in Fund Balances - Governmental Funds	\$	10,716
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2010 capital outlays is to increase net assets.		36,870
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(34,215)
The loss on capital assets is not recognized in the governmental funds since it does not require the use of current financial resources. The net effect of the loss is to decrease net assets.		(2,207)
 Change in Net Assets of Governmental Activities	 \$	 11,164

The notes to the Financial Statements are an integral part of this statement.

CITY OF CRESSON
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2010

	Business-type Activities
	Water and Sewer Revenue Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 11,459
Accounts receivable, net of uncollectible allowance	8,997
Total current assets	20,456
Noncurrent assets:	
Capital assets:	
Land and improvements	25,878
Machinery and equipment, net	384,300
Total noncurrent assets	410,178
Total assets	430,634
 LIABILITIES	
Current liabilities:	
Accounts payable	4,009
Sales tax payable	1,071
Total liabilities	5,080
 NET ASSETS	
Invested in capital assets, net of related debt	410,178
Unrestricted net assets	15,376
Total net assets	\$ 425,554

The notes to the financial statements are an integral part of this statement.

CITY OF CRESSON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business-type Activities
	Water and Sewer Revenue Fund
<hr/>	
OPERATING REVENUES	
Charges for water services	\$ 96,788
Charges for sanitation services	66,876
Other revenue	13,956
Total operating revenues	177,620
OPERATING EXPENSES:	
Personnel services - salaries and wages	20,584
Purchased professional and technical services	25,488
Purchased property services	59,880
Other operating services	29,028
Supplies	12,541
Depreciation	12,802
Total operating expenses	160,323
Income before transfers	17,297
Non-operating transfer in	59,853
Change in net assets	77,150
Total net assets - beginning	348,404
Total net assets - ending	\$ 425,554

The notes to the financial statements are an integral part of this statement.

CITY OF CRESSON
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2010

	Business Type Activities
	Water and Sewer Revenue Fund
Cash flows from operating activities:	
Cash received from customers	\$ 177,301
Cash payments to suppliers for goods and services	(126,495)
Cash payments to employees for services	(20,712)
Net cash provided by operating activities	30,094
Cash flows from capital and related financing activities:	
Capital asstes purchased or constructed	(7,148)
Repayments to governmental fund	(28,182)
Net cash provided (used) by capital and related financing activities	(35,330)
Net increase (decrease) in cash	(5,236)
Cash - beginning of year	16,695
Cash - end of year	\$ 11,459
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income	\$ 17,297
Adjustments to reconcile operating income to net cash provided by operations:	
Depreciation	12,802
Changes in assets and liabilites	
(Increase) decrease in accounts receivable	(321)
Increase (decrease) in accounts payable	316
Net cash provided by operating activities	\$ 30,094

See accompanying notes to the basic financial statements.

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2010

Note 1 - Summary of Significant Accounting Policies

Introduction

The financial statements of the City of Cresson, Texas (City) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Cresson, Texas.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2010.

Financial Reporting Entity

The City is a municipal corporation operating under the applicable laws and regulations of the State of Texas. It has a Mayor – Council form of government with the mayor and five council members elected by registered voters of the City. The mayor and council have the authority to make decisions, appoint administrators and managers and significantly influence operations. They also have the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Council ("GASB") in its Statement No. 14, "The Financial Reporting Entity." The accompanying financial statements include the accounts of all City operations. There are no component units included within the reporting entity.

Basis of Presentation - Government - Wide Statements

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, is removed from these statements. Governmental activities, which normally are supported by taxes and governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statement of city component units 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

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2010

revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met. The City of Cresson assessed no property taxes and did not receive any Federal grant monies during the year ended September 30, 2010.

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 City 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, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, hotel/motel taxes, property taxes, franchise taxes (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 City's policy to use restricted resources first, then unrestricted resources as needed.

Governmental Funds

Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds.

Major Governmental Fund

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Other Governmental Fund

Special Revenue Fund

Special revenue funds are used in governmental reporting to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. There is no special revenue fund presented.

Capital Project Fund

Capital project funds are used in governmental reporting to account for financial resources to be used for the acquisition or construction of major capital facilities. There is no capital project fund presented.

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2010

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow.

All assets and liabilities are included on the Statement of Net Assets.

The City has presented its only proprietary fund - the Water Department Fund.

Budgets, Budgetary Accounting and Control

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Formal budgetary integration is employed as a management control device during the year for the General Fund.
- b. The budget for the general fund operations is prepared on the cash basis. Revenues are budgeted in the year receipt is expected and by source. Expenditures are budgeted in the year that the applicable invoices are expected to be paid.

The City of Cresson prepares its annual budget on a basis (budget basis) which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Budgetary Comparison.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments, including restricted assets, with a maturity of three months or less, when purchased, to be cash equivalents.

Cash and cash equivalents for the proprietary fund in the amount of \$11,459 is unrestricted.

Capital Assets and Depreciation

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in the fund financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of one thousand or more and with a useful life of two years 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, in years, for depreciable assets are as follows:

Buildings and infrastructure	20
Improvements, other than buildings	10-50
Machinery, and equipment	7-20

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2010

Estimates

The preparation of general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general purpose financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Deposits

Deposits are stated at cost.

At year-end, the carrying amount of the City's deposits, presented as cash equivalents (checking accounts) are unrestricted funds of \$411,852, and the bank balances total \$452,451. The bank balance was fully covered by federal depository insurance and pledged securities.

The City's deposits are categorized to give an indication of level of risk assumed by the City at year-end. Category 1 includes those that are insured or registered or for which the City or its agent in the City's name holds the securities. Category 2 includes both uninsured and unregistered for which the counterparts trust department or agent in the City's name holds the securities. Category 3 includes both uninsured and unregistered for which the securities are held by the counterparts trust department or agent, but not in the City's name. All deposits are considered to be Category 1.

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2010

Note 3 - Changes In Capital Assets

	Capital Assets Depreciated			Capital Assets Not Depreciated		Totals
	Equipment, Furniture & Software	Infrastructure	Water System	Land	Construction In Progress	
Governmental Activities						
Balance, September 30, 2009	\$ 11,285	\$ 622,073	\$ -	\$ -	\$ -	\$ 633,358
Increases	6,814	30,056	-	-	-	36,870
Decreases	(6,620)	-	-	-	-	(6,620)
Balance, September 30, 2010	<u>11,479</u>	<u>652,129</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>663,608</u>
Accumulated Depreciation:						
Balance, September 30, 2009	6,419	176,389	-	-	-	182,808
Increases	1,041	31,518	-	-	-	32,559
Decreases	(2,758)	-	-	-	-	(2,758)
Balance, September 30, 2010	<u>4,702</u>	<u>207,907</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>212,609</u>
Capital assets, net	<u>\$ 6,778</u>	<u>\$ 444,223</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 450,999</u>
Business-Type Activities						
Balance, September 30, 2009	\$ 18,953	\$ -	\$ 384,432	\$ 25,878	\$ -	\$ 429,263
Increases	-	-	7,148	-	-	7,148
Decreases	-	-	-	-	-	-
Balance, September 30, 2010	<u>18,953</u>	<u>-</u>	<u>391,580</u>	<u>25,878</u>	<u>-</u>	<u>436,411</u>
Accumulated Depreciation:						
Balance, September 30, 2009	503	-	12,928	-	-	13,431
Increases	2,567	-	10,236	-	-	12,803
Decreases	-	-	-	-	-	-
Balance, September 30, 2010	<u>3,070</u>	<u>-</u>	<u>23,164</u>	<u>-</u>	<u>-</u>	<u>26,234</u>
Capital assets, net	<u>\$ 15,883</u>	<u>\$ -</u>	<u>\$ 368,416</u>	<u>\$ 25,878</u>	<u>\$ -</u>	<u>\$ 410,177</u>
Primary Government						
Capital assets, net	<u>\$ 22,661</u>	<u>\$ 444,223</u>	<u>\$ 368,416</u>	<u>\$ 25,878</u>	<u>\$ -</u>	<u>\$ 861,176</u>

Depreciation expense is charged as direct expense to programs of the primary government as follows:

Governmental activities:

General government and administration	\$ 1,041
Roads and streets	31,518
Total depreciation expense-Governmental activities	<u>\$ 32,559</u>

Business-type activities:

Water	\$ 12,803
Total depreciation expense-Business-type activities	<u>\$ 12,803</u>

CITY OF CRESSON, TEXAS
Notes to Basic Financial Statements
For the year ended September 30, 2010

Note 4 - Interfund and Transfers

The following is a summary of interfund transfers at September 30, 2010:

Transfers from General Fund	Transfers to Water Department
<u>\$ 59,853</u>	<u>\$ 59,853</u>

The purpose of the transfers was:

The General Fund to the Water Department for operating costs.

Note 5 – Insurance in Force

An umbrella policy is issued by TML-Municipal Liability Joint Self Insurance fund. The policy renewed October 1, 2009.

<u>Coverage</u>	<u>Limit per Occurrence</u>	<u>Deductible</u>
General Liability	\$5,000,000	None
Errors & Omissions Liability	\$1,000,000	\$1,000

The cost for insurance coverage for the year ended September 30, 2010 is \$2,228.

Note 6 – Deferred Revenues

The amount of \$28,244 at September 30, 2010 is for sales tax revenue. The Texas State Comptroller is unable to verify the accuracy of the revenue payments.

Note 7 – Intergovernmental Payable

The intergovernmental payable at September 30, 2010 in the amount of \$1,071 is for sales tax payable to the Texas State Comptroller's Office.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GRESSBORO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL FUND
YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance Positive (Negative)
	Original	Final		
Revenues:				
Franchise taxes	45,000	46,000	46,270	270
Sales taxes	267,500	238,500	296,978	58,478
Hotel/motel taxes - restricted	-	-	22,355	22,355
Licenses and permits	18,000	23,500	19,037	(4,464)
Fines	-	-	200	200
Investment earnings	1,000	500	746	246
Other sources	-	-	476	476
Total Revenues	<u>331,500</u>	<u>308,500</u>	<u>386,061</u>	<u>77,561</u>
Expenditures:				
General government	198,870	216,270	255,003	(38,733)
Streets and highways	91,000	71,000	23,619	47,381
Capital outlay	-	-	36,870	(36,870)
Total Expenditures	<u>289,870</u>	<u>287,270</u>	<u>315,492</u>	<u>(28,222)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	<u>41,630</u>	<u>21,230</u>	<u>70,569</u>	<u>49,339</u>
Other financing sources (uses)				
Transfers out (use)	-	-	(59,853)	(59,853)
Total other financing	<u>-</u>	<u>-</u>	<u>(59,853)</u>	<u>(59,853)</u>
Fund balance - beginning of year	<u>383,796</u>	<u>383,796</u>	<u>383,796</u>	<u>-</u>
Fund balance - end of year	<u>\$ 425,426</u>	<u>\$ 405,026</u>	<u>\$ 394,512</u>	<u>\$ (10,514)</u>

The notes to the financial statements are an integral part of this statement.

WILLSHER & ASSOCIATES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Bob Cornett
Members of the City Council
City of Cresson
Cresson, Texas

We have audited the financial statements of the City of Cresson as of and for the year ended September 30, 2010, and have issued our report thereon dated December 23, 2010. 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.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Cresson's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the City's management, mayor and city council members and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

December 23, 2010



CITY OF CRESSON
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2011

CITY OF CRESSON, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2011
(Unaudited)

As management of the City of Cresson, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the City of Cresson exceeded its liabilities at the close of the most recent fiscal year by \$1,378,061 (Net Assets). Of this amount \$471,869 (Unrestricted Net Assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$107,000.
- As of the close of the current fiscal year, the City of Cresson's governmental fund reported an ending fund balance of \$948,343.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected sales taxes).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by sales taxes and intergovernmental revenues (governmental

activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration and highways and streets. The business-type activity of the City consists of water and sanitation operations.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains the general governmental fund. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General fund, which is considered to be a major fund.

Proprietary Funds – Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sanitation operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Department, which is considered to be a major fund of the City.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the City of Cresson, assets exceeded liabilities by \$1,378,061 as of September 30, 2011.

The largest portion of the City's net assets (45%) reflects its investments in capital assets (e.g., equipment and infrastructure). The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending.

CITY OF CRESSON'S NET ASSETS

As of September 30, 2011, the City is able to report positive balances in three categories of net assets: for the government as a whole (\$1,378,061) and separately for the General fund (\$948,343) and Enterprise fund (\$429,719).

Analysis of the City's Operations - Governmental activities increased the City's net assets by \$102,835, accounting for 96% of the total growth in net assets. Business-type activities increased the City's net assets by \$4,165, accounting for 4% of the total growth in net assets.

CAPITAL ASSETS

The City of Cresson's investment in capital assets for its governmental and business-type activities as of September 30, 2011, amounts to \$849,845 (net of accumulated depreciation). This investment in capital assets includes land, equipment and infrastructure.

Additional information on the City's capital assets can be found in Note 3 of this report.

ECONOMIC FACTORS

Revenue for sanitation services were collected by the City of Cresson during the fiscal year. Revenue for water and sanitation services is \$195,389 at September 30, 2011, an increase of \$31,725 or 19% over the prior year.

Sales tax revenue increased 25% from the prior year and is expected to increase 5% to 10% in 2011-2012.

Expenditures increased 14% from the prior year, and expenditures are projected to increase 10% to 15% in 2011-2012.