



Control Number: 49283



Item Number: 11

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49283

**APPLICATION FOR SALE, TRANSFER, OR  
MERGER OF A RETAIL PUBLIC UTILITY**

**TO: MOUNTAIN PEAK  
SPECIAL UTILITY DISTRICT**

**FROM: SARDIS-LONE ELM  
WATER SUPPLY CORPORATION**

**ELLIS COUNTY, TEXAS**

17040

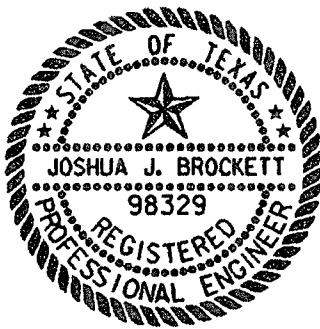
PREPARED BY:



**CHILDRESS ENGINEERS**  
ENGINEERS & CONSULTANTS

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Josh J. Brockett, P.E.

7/18/2019

Date

11

APPLICATION FOR SALE, TRANSFER OR  
MERGER OF A RETAIL PUBLIC UTILITY

TO: MOUNTAIN PEAK SPECIAL UTILITY DISTRICT

FROM: SARDIS-LONE ELM WATER SUPPLY CORPORATION

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

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

## 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:** Sardis-Lone Elm W.S.C.  
(selling entity)

**CCN No.s:** 10058

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

**Transferee:** Mountain Peak S.U.D.  
(acquiring entity)

**CCN No.s:** 10908

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

**County(ies):** Ellis

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

<input checked="" type="checkbox"/> Contract, Lease, Purchase, or Sale Agreement	Part A: Question 1
<input 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 checked="" type="checkbox"/> Financial Audit	Part C: Question 10
<input type="checkbox"/> Application Attachment A & B	Part C: Question 10
<input type="checkbox"/> Disclosure of Affiliated Interests	Part C: Question 10
<input type="checkbox"/> Capital Improvement Plan	Part C: Question 10
<input type="checkbox"/> List of Assets to be Transferred	Part D: 11.B
<input type="checkbox"/> Developer Contribution Contracts or Agreements	Part D: 11.D
<input type="checkbox"/> Enforcement Action Correspondence	Part E: Question 18 (Part D: Q12)
<input checked="" type="checkbox"/> TCEQ Compliance Correspondence	Part F: Question 22
<input type="checkbox"/> TCEQ Engineering Approvals	Part F: Question 24
<input checked="" 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:

Mountain Peak S.U.D. and Sardis-Lone Elm W.S.C. have agreed to transfer several areas along their common boundary in order to better serve those areas. This will also eliminate uncertificated areas between them. Approximately 562 acres will be transferred to Sardis-Lone Elm W.S.C. and approximately 126 acres will be transferred to Mountain Peak S.U.D.. See attachment 1 for the agreement.

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: Sardis-Lone Elm W.S.C.

(individual, corporation, or other legal entity)

☐ Individual
 ☐ Corporation
 ☒ WSC
 ☐ Other: \_\_\_\_\_

- B. Mailing Address: 6681 W. Highland Rd., Midlothian TX 76065

Phone: (972) 775-3114

Email: Paul@sardiswater.com

- 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: Josh Brockett, P.E., C.F.M.

Title: Engineer

Mailing Address: 211 N. Ridgeway Dr., Cleburne, TX 76033

Phone: (817) 645-1118

Email: joshb@childress-engineers.com

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

A. Effective date for most recent rates: \_\_\_\_\_

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 \_\_\_\_\_

☐ # 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: Mountain Peak S.U.D.

(individual, corporation, or other legal entity)

☐ Individual

☐ Corporation

☐ WSC

☒ Other: Special Utility District

B. Mailing Address: 5671 Waterworks Rd., Midlothian TX 76065

Phone: (972) 775-5034

Email: randelkirk@mtpeakwater.com

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

Name: Josh Brockett, P.E., C.F.M.

Title: Engineer

Address: 211 N. Ridgeway Dr., Cleburne TX 76033

Phone: (817) 645-1118

Email: joshb@childress-engineers.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: \_\_\_\_\_

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: **See attachment 2**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10. **Financial Information** See attachment 3

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

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

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

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

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

**Part D: Proposed Transaction Details**

11. A. Proposed Purchase Price: \$ 0.00

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:

In each of the areas transferred, the transferee has existing facilities and either currently serves all customers in the areas or serves all new customers in the areas.

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

Utility Plant in Service: \$ \_\_\_\_\_

Accumulated Depreciation of Plant: \$ \_\_\_\_\_

Cash: \$ \_\_\_\_\_

Notes Payable: \$ \_\_\_\_\_

Mortgage Payable: \$ \_\_\_\_\_

(Proposed) Acquisition Adjustment\*: \$ \_\_\_\_\_

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

Other (NARUC account name & No.): \_\_\_\_\_

Other (NARUC account name & No.): \_\_\_\_\_

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

There will be no billing changes.

**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:

In all cases, the transferee has better facilities in the areas to be transferred. The quality of the service in the areas will be increased.

- 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.

Mountain Peak S.U.D. owns and operates PSW0700042. The utility employs a full-time staff and appropriately licensed operators. The system is considered a superior public water system in the State of Texas

- 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 not be any impacts to the enviromental integrity of the land due to the proposed transaction.

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

The transaction will eliminate confusion over service areas, will eliminated gaps between service areas and will remove service area boundaries that split individual properties.

- 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:

Buena Vista - Bethel SUD  
City of Midlothian  
City of Waxahachie

## 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: 0700034 (7 digit ID)

See attachment 4

Name of PWS: Sardis Lone Elm WSC

Date of last TCEQ compliance inspection: December 15, 2017 (attach TCEQ letter)

Subdivisions served: Lakegrove, Stonebrook Est, Hillcreek Est,

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

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

☒ No ☐ Yes

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

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

**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: Midlothian, TX (name of municipality)

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

Water: 0 Sewer: 0



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. **See attachment 5**

Capacity is purchased from: City of Midlothian, Rockett S.U.D.

Water: 501 gpm

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:	501.00	28.00%
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: **See attachment 6**

Name (as it appears on license)	Class	License No.	Water or Sewer

### 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: **See sheet 12a**

The total acreage of the requested area is approximately: \_\_\_\_\_

Number of customer connections in the requested area: \_\_\_\_\_

Affected subdivision : \_\_\_\_\_

The closest city or town: \_\_\_\_\_

Approximate mileage to closest city or town center: \_\_\_\_\_

Direction to closest city or town: \_\_\_\_\_

The requested area is generally bounded on the North by: \_\_\_\_\_

on the East by: \_\_\_\_\_

on the South by: \_\_\_\_\_

on the West by: \_\_\_\_\_

31. A copy of the proposed map will be available at: Sardis-Lone Elm and Mountain Peak S.U.D. Offices

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

### 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 a.** 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 outenmost boundary of the requested area:

The total acreage of the requested area is approximately: 96.38

Number of customer connections in the requested area: 0

Affected subdivision : Midlothian Towne Crossing, Hawkins Meadows

The closest city or town: Midlothian

Approximate mileage to closest city or town center: 1 mile

Direction to closest city or town: North

The requested area is generally bounded on the North by: Hwy 281

on the East by: S Midlothian Parkway

on the South by: Midlothian athletic complex

on the West by : FM 663

- 30 b.** 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 outenmost boundary of the requested area:

The total acreage of the requested area is approximately: 29.65

Number of customer connections in the requested area: 0

Affected subdivision : Mission Hills

The closest city or town: Midlothian

Approximate mileage to closest city or town center: 4 miles

Direction to closest city or town: Northwest

The requested area is generally bounded on the North by: Skinner Road

on the East by: Skinner Road

on the South by: Brads Way and Unnamed Creek

on the West by : Plainview Road

# **Oath for Transferor (Transferring Entity)**

STATE OF Texas

COUNTY OF Ellis

I, Paul Tischler being duly sworn, file this application for sale, transfer,


merger, consolidation, acquisition, lease, or rental, as

**Manager**

(owner, member of partnership, title as officer of corporation, or authorized representative)

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

I further state that I have 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).

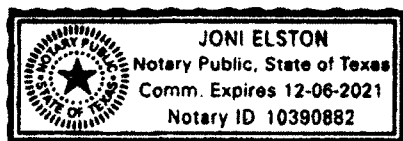
  
**AFFIANT**  
 (Utility's Authorized Representative)


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 12th of July, 2019

SEAL



  
 NOTARY PUBLIC IN AND FOR THE  
 STATE OF TEXAS  
Joni Elston  
 PRINT OR TYPE NAME OF NOTARY

My commission expires:

12-06-2021

## Oath for Transferee (Acquiring Entity)

STATE OF Texas

COUNTY OF Ellis

I, Randel Kirk being duly sworn, file this application for sale, transfer, merger, consolidation, acquisition, lease, or rental, as Manager  
(owner, member of partnership, title as officer of corporation, or authorized representative)

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

I further state that I have been provided with a copy of the 16 TAC § 24.109 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.



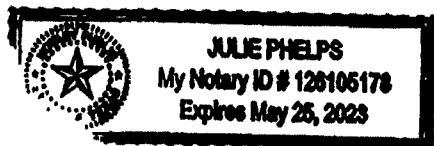
**AFFIANT**

(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 18th of July, 2019

SEAL



Julie Phelps  
 NOTARY PUBLIC IN AND FOR THE  
 STATE OF TEXAS

Julie Phelps  
 PRINT OR TYPE NAME OF NOTARY

My commission expires: May 26, 2023

**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)*

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

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

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



<b>HISTORICAL EXPENSE INFORMATION (ENTER DATE OF YEAR END )</b>	<b>CURRENT(A) ( - - )</b>	<b>A-1 YEAR ( - - )</b>	<b>A-2 YEAR ( - - )</b>	<b>A-3 YEAR ( - - )</b>	<b>A-4 YEAR ( - - )</b>	<b>A-5 YEAR ( - - )</b>
<b>GENERAL/ADMINISTRATIVE EXPENSES</b>						
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						
<b>Total General Admin. Expenses (G&amp;A)</b>						
<b>% Increase Per Year</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>OPERATIONS &amp; MAINTENANCE EXPENSES</b>						
Salaries & Benefits (Employee, Management)						
Materials & Supplies						
Utilities Expense-office						
Contract Labor						
Transportation Expense						
Depreciation Expense						
Other(describe)						
<b>Total Operational Expenses (O&amp;M)</b>						
<b>Total Expense (Total G&amp;A + O&amp;M)</b>						
<b>Historical % Increase Per Year</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>ASSUMPTIONS</b>						
Interest Rate/Terms						
Depreciation Schedule (attach)						
Other assumptions/information (List all)						

## Appendix B: Projected Information

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

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 ( - - )
<b>METER NUMBER</b>						
Existing Number of Taps						
New Taps Per Year						
<b>Total Meters at Year End</b>						
<b>METER REVENUE</b>						
Revenue per Meter (use for projections)						
Expense per Meter (use for projections)						
<b>Operating Revenue Per Meter</b>						
<b>GROSS WATER REVENUE</b>						
Revenues- Base Rate & Gallonage Fees						
Other (Tap, reconnect, transfer fees, etc)						
<b>Gross Income</b>						
<b>EXPENSES</b>						
General & Administrative (see schedule)						
Operating (see schedule)						
Interest						
Other (list)						
<b>NET INCOME</b>						

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

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

# **ATTACHMENT 1**

## **Service Area Transfer Agreement**

## RETAIL WATER SERVICE AREA AGREEMENT BETWEEN SARDIS-LONE ELM WATER SUPPLY CORPORATION AND MT. PEAK SPECIAL UTILITY DISTRICT

**THIS AGREEMENT** is made between the Sardis-Lone Elm Water Supply Corporation ("Sardis") and the Mt Peak Special Utility District ("Mt Peak"), collectively the "Parties", pursuant to the following conditions:

**WHEREAS**, Sardis is a retail water service provider within Ellis County, Texas, under Certificate of Convenience and Necessity ("CCN") No 10058; and

**WHEREAS**, Mt Peak is a retail water service provider within Ellis County, Texas, under CCN No 10908; and

**WHEREAS**, based on the ability of the Parties to better serve specific areas within the others CCN, the Parties wish to transfer certain areas within their respective CCNs.

**NOW THEREFORE**, the Parties, pursuant to the foregoing considerations, agree as follows:

1. Term. This agreement shall remain valid and enforceable until superseded by subsequent written agreement.
2. Property Subject to the Agreement. The Property that is subject of this Agreement is the CCN Property described in Exhibit "A", "B", and "C".
3. Transfer of Water Utility Service.
  - 3.1 Sardis agrees to transfer a portion of its CCN to Mt Peak as shown in Exhibit "A" and Exhibit "B" which is attached and made a part of this agreement.
  - 3.2 Mt Peak agrees to transfer a portion of its CCN to Sardis as shown in Exhibit "C" which is attached and made a part of this agreement.
  - 3.3 The Parties agree that any existing retail water customers within the transfer areas shall have the right to remain with the current water service provider as long as the property remains as a single-family use. However, upon redevelopment of the property from a single-family use to any other type of use, the water service provider shall become the current CCN holder.
4. Public Utility Commission of Texas (PUCT) Approval. Within one hundred and eighty (180) days following the execution of this Agreement, Sardis and Mt Peak will file the appropriate documents requesting approval of this retail water service area agreement pursuant to Section 13.248 of the Texas Water Code. The Parties will fully cooperate with each other and not take any action to directly or indirectly oppose this application. Each party will pay their respective costs relating to the application.
5. Effective Date. This Agreement is enforceable among the parties following the execution of this Agreement. The CCN transfers contemplated by this Agreement will be effective upon approval by the PUCT.
6. Applicable Texas Law. This Agreement will be governed by and construed and enforced under the laws of the State of Texas.
7. Venue. The sole and exclusive venue for any disputes arising out of or related to this Agreement shall be in Ellis County, Texas.

8. Successors and Assigns. This Agreement shall be binding on and inure to the benefit of the Parties hereto and their respective successors and assigns.
9. Entire Agreement. This Agreement contains the entire agreement of the Parties with respect to the subject matter of the Agreement. This Agreement supersedes any and all prior agreements, arrangements, or understandings between the Parties. Any amendments to this Agreement must be in writing and signed by the Parties.

EXECUTED by Sardis-Lone Elm Water Supply Corporation on this 31 day of July, 2018.

Sardis-Lone Elm Water Supply Corporation

By: Bill Brandon  
Bill Brandon, President

ATTEST:

Paul Tischler  
Paul Tischler, General Manager

EXECUTED by Mt Peak Special Utility District on this 26th day of September, 2018.

Mt Peak Special Utility District

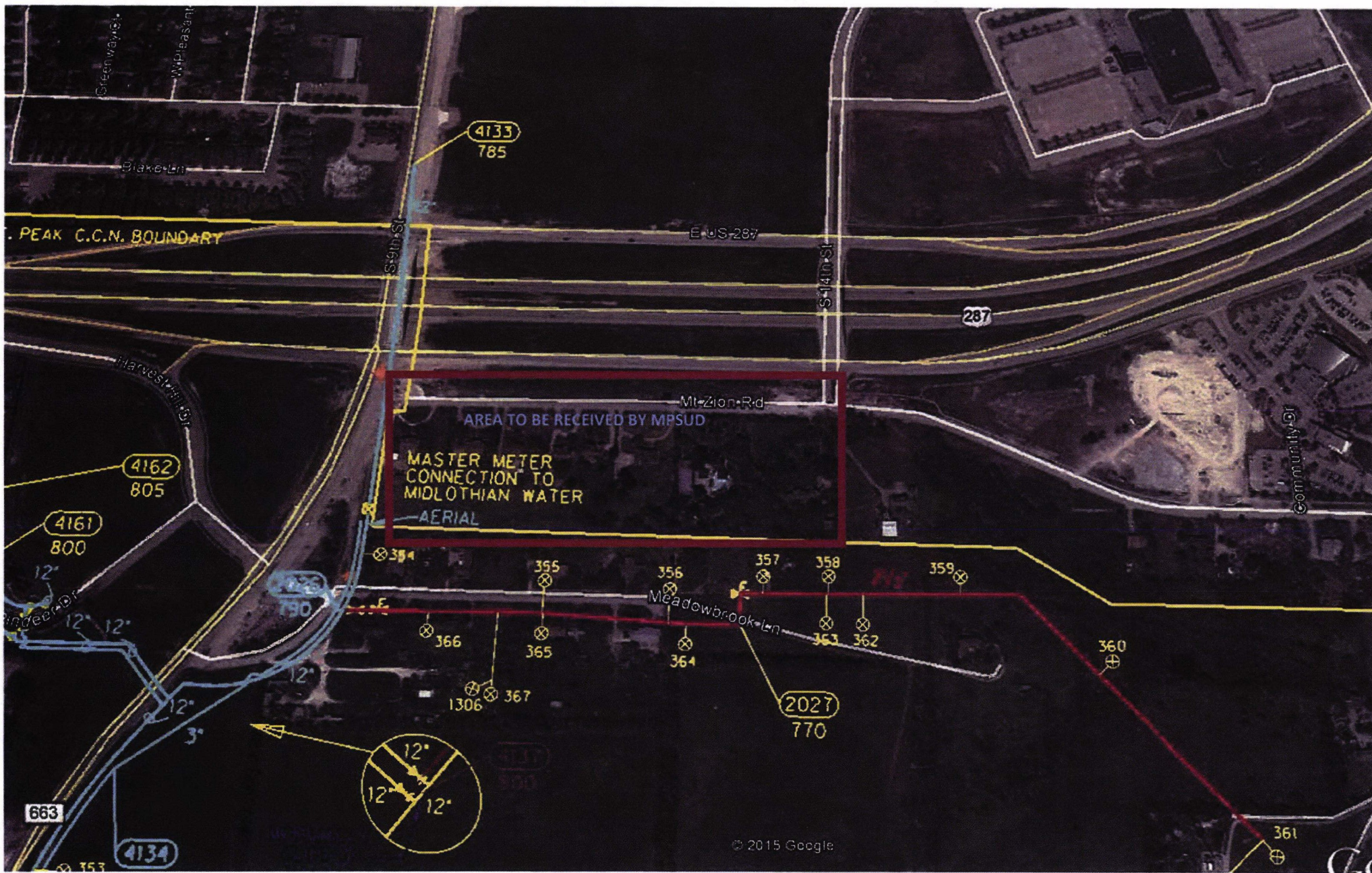
By: Clyde Bryant  
Clyde Bryant, President

ATTEST:

Randal Kirk  
Randal Kirk, General Manager



## EXHIBIT "A"





## EXHIBIT "B"





## Exhibit "C"





**ATTACHMENT 2**  
**Mountain Peak S.U.D.**  
**Board Members**

**Mountain Peak Water Special Utility District**

<b>Position, Board Member</b>	<b>Address</b>	<b>Phone</b>
President of the Board: <b>Clyde Bryant</b>	5671 Waterworks Rd., Midlothian TX 76065	(972) 775-5034
Vice-President: <b>Mike Cull</b>	5672 Waterworks Rd., Midlothian TX 76065	(972) 775-5034
Secretary/Treasurer: <b>Ann Major</b>	5673 Waterworks Rd., Midlothian TX 76065	(972) 775-5034
Board Member: <b>Dale Knott</b>	5674 Waterworks Rd., Midlothian TX 76065	(972) 775-5034
Board Member: <b>Doug Clark</b>	5675 Waterworks Rd., Midlothian TX 76065	(972) 775-5034
Board Member: <b>Sam Hartson</b>	5676 Waterworks Rd., Midlothian TX 76065	(972) 775-5034
Board Member: <b>Donna Mullins</b>	5677 Waterworks Rd., Midlothian TX 76065	(972) 775-5034

**ATTACHMENT 3**  
**Mountain Peak S.U.D.**  
**Financials**

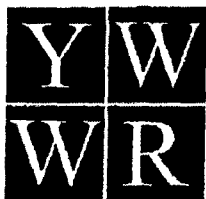
***MOUNTAIN PEAK SPECIAL UTILITY DISTRICT***

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

**For the Year Ended December 31, 2017**

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# YELDELL, WILSON, WOOD & REEVE, P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

Greer Yeldell, CPA | Glen Wilson, CPA | Tracie Wood, CPA | Joyce Reeve, CPA  
Glenda Valek, CPA | Caitlyn Keller, CPA

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Mountain Peak Special Utility District  
Midlothian, Texas

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

We have audited the accompanying financial statements of the business-type activities of Mountain Peak Special Utility District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Mountain Peak Special Utility District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Board of Directors of  
Mountain Peak Special Utility District  
Page Two

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Mountain Peak Special Utility District, as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Mountain Peak Special Utility District's basic financial statements. The supplementary financial data is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Board of Directors of  
Mountain Peak Special Utility District  
Page Three

The supplementary financial data is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary financial data is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2018, on our consideration of Mountain Peak Special Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mountain Peak Special Utility District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mountain Peak Special Utility District's internal control over financial reporting and compliance.

*Yeldell, Wilson, Wood & Reeve, P.C.*

Yeldell, Wilson, Wood & Reeve, P.C.  
Certified Public Accountants

Waxahachie, Texas  
May 3, 2018

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Mountain Peak Special Utility District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2017.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the District exceeded its liabilities at the close of the most recent fiscal year by \$19,145,565 (net position). Of this amount, \$6,857,709 (unrestricted net position) may be used to meet the government's ongoing obligations to customers and creditors.
- The District's total net position increased by \$2,735,975.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's financial statements are comprised of two components: 1) fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

**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 District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District maintains one type of proprietary fund. The enterprise fund is used to report the functions that are intended to recover all of their costs through user fees and charges. The District uses the enterprise fund to account for its operations.

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

The Statement of Revenues, Expenses, and Change in Net Position shows the revenue sources and expenses and reflects the net change in position for the fiscal year. This statement can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

The Statement of Cash Flows provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities.

The fund financial statements can be found on pages 8-10 of this report.

**Notes to Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to financial statements can be found on pages 11-21 of this report.

#### **FINANCIAL ANALYSIS OF THE DISTRICT**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$19,145,565 as of December 31, 2017.

A large portion of the District's net position (59%) reflects its investments in capital assets (e.g., land, construction in progress, buildings, system improvements, and machinery and equipment). The District uses these capital assets to provide service to customers; consequently these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### **MOUNTAIN PEAK SPECIAL UTILITY DISTRICT'S NET POSITION**

	<b>2017</b>	<b>2016</b>
Current and other assets	\$ 8,863,574	\$ 7,232,514
Capital assets	14,653,353	13,790,412
Total assets	<u>23,516,927</u>	<u>21,022,926</u>
Deferred Outflows of Resources	<u>115,218</u>	<u>126,739</u>
Long term liabilities	3,449,266	3,711,420
Other liabilities	1,037,314	1,028,655
Total liabilities	<u>4,486,580</u>	<u>4,740,075</u>
Net position:		
Net investment in capital assets	11,356,163	10,293,748
Restricted	931,693	892,746
Unrestricted	6,857,709	5,223,096
Total net position	<u>\$19,145,565</u>	<u>\$16,409,590</u>

Certain reclassifications have been made to the prior year data to conform with the current year presentation and reflect adjustments to prior year data.

An additional portion of the District's net position (5%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$5,223,096, may be used to meet the District's ongoing obligation to customers and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net position.

The following table provides a summary of the District's operations. The District's operations increased net position by \$2,735,975 in the current year.

### MOUNTAIN PEAK SPECIAL UTILITY DISTRICT'S CHANGE IN NET POSITION

	2017	2016
Revenues:		
Operating	\$ 4,185,993	\$ 3,576,174
Nonoperating	32,494	26,831
Total revenues	<u>4,218,487</u>	<u>3,603,005</u>
Expenses:		
Depreciation and amortization	677,631	627,702
Other operating	3,052,452	2,840,890
Nonoperating	152,129	148,331
Total expenses	<u>3,882,212</u>	<u>3,616,923</u>
Income before capital contributions	336,275	(13,918)
Capital contributions	<u>2,399,700</u>	<u>1,082,750</u>
Changes in net position	2,735,975	1,068,832
Net position - beginning	16,409,590	15,340,758
Net position - ending	<u>\$ 19,145,565</u>	<u>\$ 16,409,590</u>

### CAPITAL ASSETS

The District's investment in capital assets as of December 31, 2017 amounts to \$14,653,353 (net of accumulated depreciation).

Major capital asset events during the current fiscal year included the following:

- Approximately \$87,400 of machinery and equipment was added.
- Approximately \$197,600 of construction in progress was incurred.

### Capital Assets at Year-End Net of Accumulated Depreciation

	2017	2016
Land	\$ 330,601	\$ 286,496
Construction in progress	413,358	1,147,846
Buildings and building improvements	225,693	247,103
System improvements	13,531,014	12,006,340
Machinery and equipment	152,687	102,627
Total	<u>\$ 14,653,353</u>	<u>\$ 13,790,412</u>

Additional information on the District's capital assets can be found in note 3.D on page 17 of this report.

## LONG TERM DEBT

At the end of the current fiscal year, the District had a total bonded debt and note payable of \$3,532,067. The District's bond's are secured solely by the revenues of the District.

### Outstanding Debt at Year End Bonds and Note Payable

	2017	2016
Revenue bonds	\$ 3,510,000	\$ 3,775,000
Note payable	22,067	40,902
	<u>\$ 3,532,067</u>	<u>\$ 3,815,902</u>

Additional information on the District's long term-debt can be found in note 3.I on pages 19-21 of this report.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the 2018 Budget, operating revenues are budgeted to increase by 8.64% from the 2017 budget year with water sales making up about 89% of budgeted revenues. The District's water rates are reviewed by staff and the Board of Directors on an annual basis and were last adjusted in July of 2011.

## REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mountain Peak Special Utility District, 5671 Waterworks Road, Midlothian, Texas 76065.

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**STATEMENT OF NET POSITION**  
December 31, 2017

**ASSETS**

## Current assets:

Cash and cash equivalents	\$ 6,659,064
Restricted cash and cash equivalents	19,024
Investments	660,904
Receivables (net of allowance for uncollectibles)	504,836
Inventory	71,049
Prepaid items	29,921
Total current assets	<u>7,944,798</u>

## Noncurrent assets:

Restricted cash and cash equivalents	918,776
Capital assets:	
Non-depreciable	743,959
Depreciable (net of accumulated depreciation)	<u>13,909,394</u>
Total noncurrent assets	<u>15,572,129</u>
Total assets	<u>23,516,927</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred amount on refunding	<u>115,218</u>
Total deferred outflows of resources	<u>115,218</u>

**LIABILITIES**

## Current liabilities:

Accounts payable	467,254
Accrued payroll payable	12,284
Accrued interest payable	4,665
Compensated absences	36,860
Customer deposits payable	436,294
Due to other governments	110,710
Current portion of long-term debt	276,881
Current liabilities payable from restricted assets:	
Accrued interest payable	6,107
Current portion of long-term debt	<u>12,917</u>
Total current liabilities payable from restricted assets	<u>19,024</u>
Total current liabilities	<u>1,363,972</u>

Long-term debt	<u>3,122,608</u>
Total liabilities	<u>4,486,580</u>

**NET POSITION**

Net investment in capital assets	11,356,163
Restricted for debt service	931,693
Unrestricted	<u>6,857,709</u>
Total net position	<u>\$ 19,145,565</u>

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

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**  
**For the Year Ended December 31, 2017**

**OPERATING REVENUES**

Water sales	\$ 3,612,372
Connection fees	188,559
Miscellaneous	131,872
Late charges	92,052
Prairie/land GCD fees	161,138
Total operating revenues	<u>4,185,993</u>

**OPERATING EXPENSES**

Contract services	30,708
Dues and subscriptions	14,166
Insurance-employee	119,381
Fuel/auto/equipment	69,562
Repairs and maintenance - system	702,743
Repairs and maintenance - office	25,379
Uniforms	5,254
Water samples	12,133
Insurance-liability/property	40,018
Miscellaneous	27,539
Postage	19,608
Legal	184,294
Accounting	21,785
Office	18,747
Telephone	52,779
Payroll	570,244
Employee retirement plan	23,191
Payroll taxes	42,632
Seminars, meetings and training	4,022
Water purchases	441,844
Utilities	508,771
Prairie/land GCD fees	117,652
Depreciation	677,631
Total operating expenses	<u>3,730,083</u>

**OPERATING INCOME** 455,910

**NONOPERATING REVENUES (EXPENSES)**

Interest	32,494
Interest and fiscal charges	(152,129)
Total nonoperating revenue (expenses)	<u>(119,635)</u>

**INCOME BEFORE CONTRIBUTIONS** 336,275

**Capital contributions** 2,399,700

**CHANGE IN NET POSITION** 2,735,975

**TOTAL NET POSITION, BEGINNING** 16,409,590

**TOTAL NET POSITION, ENDING** \$ 19,145,565

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



**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2017

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 4,156,667
Payments to suppliers	(2,302,452)
Payments to employees	(563,650)
Net cash provided by (used for) operating activities	<u>1,290,565</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition and construction of capital assets	(587,628)
Contributed capital from customers	1,273,975
Principal paid on capital debt	(283,835)
Interest and fiscal charges paid on capital debt	(139,475)
Net cash provided by (used for) capital and related financing activities	<u>263,037</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on cash and cash equivalents	32,494
Proceeds from maturity of investments	656,240
Purchase of investments	(660,904)
Net cash provided by investing activities	<u>27,830</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 1,581,432

Cash and cash equivalents January 1 (including \$899,342 reported in restricted accounts) 6,015,432

Cash and cash equivalents December 31 (including \$937,800 reported in restricted accounts) \$ 7,596,864

**Reconciliation of operating income to net cash provided by (used for) operating activities:**

Operating income	\$ 455,910
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation and amortization	677,631
(Increase) decrease in accounts receivable	(83,751)
(Increase) decrease in inventory	41,198
(Increase) decrease in prepaid items	(2,411)
Increase (decrease) in accounts payable and accrued expenses	111,398
Increase (decrease) in accounts payroll payable	1,547
Increase (decrease) in due to other governments	29,571
Increase (decrease) in compensated absences	5,047
Net increase in customer deposits	54,425
Total adjustments	<u>834,655</u>
Net cash provided by (used for) operating activities	<u>\$ 1,290,565</u>

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

Capital assets purchased on account	<u>\$ 72,368</u>
Capital assets contributed from developers	<u>\$ 1,125,725</u>

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

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

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

**A. Reporting entity**

Pursuant to a petition filed, Mountain Peak Special Utility District (the "District") was created by order of the Texas Water Commission, dated December 18, 2002, pursuant to, and operating under, the provisions of Chapter 65, Texas Water Code. Creation of the District was confirmed at an election held within the boundaries of the District on November 4, 2003.

The District is a political sub-division organized for the purpose of furnishing a water supply for the District CCN number 10908. The authorized service area lies primarily in the northern part of Ellis County, with a portion extending into the eastern part of Johnson County.

The financial statements are prepared on the basis of Governmental Accounting Standards Board (GASB) Statement Number 34, Financial Statements, Management Discussion and Analysis for State and Local Governments and related standards. This statement provides significant changes in terminology, a presentation of net position, as well as an inclusion of a management discussion and analysis.

Accounting principles generally accepted in the United States of America require that this financial statement present the District (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both the following criteria; the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board) and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. The District does not have any component units that meet these criteria.

**B. Measurement focus, basis of accounting, and basis of presentation**

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, deferred outflows of resources, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees charged from the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation and debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation and debt service).

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Measurement focus, basis of accounting, and basis of presentation (continued)**

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets; restricted for debt service; and unrestricted components.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operation. The principal operating revenues are charges to customers for sales and services and connection fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**C. Assets, liabilities, and net position**

**1. Cash and cash equivalents**

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

**2. Investments**

Investments maturing more than three months from the date acquired are classified as investments held to maturity. Investments for the District are reported at fair value.

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Assets, liabilities, and net position (continued)**

**3. *Restricted assets***

Certain proceeds of the District's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue bond debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond reserve" account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. The "notes payable reserve" account is used to report resources set aside to make payments on the notes when operating resources are not sufficient to make the required payments.

**4. *Receivables***

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of sixty days comprise the trade accounts receivable allowance for uncollectibles.

**5. *Inventory and prepaid items***

All inventories are valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**6. *Capital assets***

Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Assets, liabilities, and net position (continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period. The total interest expense incurred during the current fiscal year was \$151,944. The District capitalized \$14,721 of interest as part of the cost of capital assets under construction.

Property and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Capital asset classes</u>	<u>Lives</u>
Buildings and building improvements	20
System improvements	10-50
Machinery and equipment	3-7

**7. Deferred outflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**8. Compensated absences**

It is the District's policy to permit employees to accumulate earned but unused sick pay benefits. All sick pay is accrued when incurred.

**9. Long-term liabilities**

Bonds payable are reported at face value, net of applicable discounts and deferred loss on refunding. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Losses occurring from advance refunding of debt are deferred and amortized as interest expense over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter.

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Assets, liabilities, and net position (continued)**

**10. Net position**

Net position comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position are classified in the following three components:

*Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted* – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* – This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

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

**A. Budgetary information**

**1. Budgetary basis of accounting**

The District's annual budget is adopted on a budgetary basis of accounting. The legal level of budgetary control is the fund level.

**2. Compliance with finance related legal and contractual provisions.**

The District has no material violations of finance related legal and contractual provisions, including the Texas Public Funds Investment Act.

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES**

**A. Deposits and investments**

**1. Deposits**

*Custodial credit risk-deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. At year end the bank balance of the District's deposits was \$8,364,299, of which \$1,048,020 was covered by federal depository insurance. Of the remaining uninsured balance of \$7,316,279, \$6,551,726 was covered by collateral pledged in the District's name by the safekeeping department of the pledging bank's agent. The District had an uninsured, uncollateralized balance of \$764,553.

**2. Investments**

Public funds of the District may be invested in obligations of the United States of America, its agencies and instrumentalities; direct obligations of the State of Texas and agencies thereof; other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas or the United States of America; obligations of the States, agencies thereof, Counties, Cities, Districts and other political subdivisions; repurchase agreements; certificates of deposit; and joint pools of political subdivisions in the State of Texas or other investments authorized by the covenants contained in the proceedings authorizing the issuance of bonds, notes or other obligations.

The District's investments carried at fair value as of December 31, 2017 are:

	<b>Category of Risk</b>	<b>Fair Value</b>
Certificates of deposit	N/A	\$ 660,904

**B. Restricted assets**

The balances of the restricted asset accounts are as follows:

Revenue bond debt service account	\$ 524,970
Revenue bond and note payable reserve account	297,032
Note payable reserve account	115,798
	<u>\$ 937,800</u>

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES (continued)**

**C. Receivables**

Receivables as of year end, including the applicable allowances for uncollectible accounts, are as follows:

**Receivables:**

Accounts	\$ 535,474
Other	64,075
Less: allowance for uncollectibles	<u>(94,713)</u>
Net total receivables	<u><u>\$ 504,836</u></u>

**D. Capital assets**

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 286,496	\$ 44,105	\$ -	\$ 330,601
Construction in progress	1,147,846	197,619	(932,107)	413,358
Total capital assets not being depreciated	<u>1,434,342</u>	<u>241,724</u>	<u>(932,107)</u>	<u>743,959</u>
Capital assets being depreciated:				
Buildings and building improvements	423,740	-	-	423,740
System improvements	17,252,800	2,143,545	-	19,396,345
Machinery and equipment	520,121	87,410	-	607,531
Total capital assets being depreciated	<u>18,196,661</u>	<u>2,230,955</u>	<u>-</u>	<u>20,427,616</u>
Less accumulated depreciation for:				
Buildings and building improvements	(176,637)	(21,410)	-	(198,047)
System improvements	(5,246,460)	(618,871)	-	(5,865,331)
Machinery and equipment	(417,494)	(37,350)	-	(454,844)
Total accumulated depreciation	<u>(5,840,591)</u>	<u>(677,631)</u>	<u>-</u>	<u>(6,518,222)</u>
Total capital assets being depreciated, net	<u>12,356,070</u>	<u>1,553,324</u>	<u>-</u>	<u>13,909,394</u>
Capital assets, net	<u><u>\$ 13,790,412</u></u>	<u><u>\$ 1,795,048</u></u>	<u><u>\$ (932,107)</u></u>	<u><u>\$ 14,653,353</u></u>

Certain reclassifications have been made to the prior year data to conform with the current year presentation and reflect adjustments to prior year data.

The construction in progress consists of system improvements.

**E. Construction commitments**

The District has construction projects outstanding as of December 31, 2017. These projects consist of system improvements and are evidenced by contractual commitments with \$1,614,884 spent to date and \$1,982,899 of commitment remaining.



**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES (continued)**

**F. Other significant commitments**

The District has renewed a contract with City of Midlothian whereby the City agrees to sell treated water to the District. The contract requires the District to purchase a minimum amount of water on an annualized basis whether or not the District actually takes and utilizes said water amount. The contract is for a period of twenty years ending in 2037.

A schedule of future minimum payments due under the contract at the current rate is shown below:

<u>Year Ending December 31</u>	<u>Annual Payment</u>
2017	\$ 291,314
2018	291,314
2019	291,314
2020	291,314
2021	291,314
Thereafter	4,369,710
	<u>\$ 5,826,280</u>

Actual payments for the year ended December 31, 2017 were \$441,844.

**G. Retirement plan**

The District participates in a defined contribution Salary Reduction Simplified Employee Pension Plan (SARSEP), which is administered by Lincoln National Life Insurance Company. Under the terms of the plan, qualifying employees may elect to contribute to the plan a percentage of their compensation which is partially matched by the District. The cost to the District, including administration fees and included in employee retirement plan expense for the year ended December 31, 2017 totaled \$23,191. The amount contributed by employees for the year ended December 31, 2017 totaled \$24,323.

**H. Risk management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not materially exceeded this commercial coverage in any of the past three fiscal years.

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES (continued)**

**I. Long-term liabilities**

Revenue Bonds

The District issues bonds where the District pledges income derived from the acquired or constructed assets to pay debt service. The bonds were issued to finance the acquisition and construction of major capital facilities and to provide funds for the refunding of prior revenue bonds. Revenue bonds outstanding at year end are as follows:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2008 - Refunding	\$ 2,555,000	12/1/2027	3.95%-5.14%	\$ 1,875,000
2009	1,500,000	12/1/2029	1.65%-5.85%	1,040,000
2009A	995,000	12/1/2029	0.00%	595,000
				<u>\$ 3,510,000</u>

Note Payable

Note payable currently outstanding and reported as a liability of the District is:

Loan agreement with USDA - Rural Development dated March 30, 1980 - The \$348,000 note is a forty year term note with monthly installments of \$1,704 including interest at the rate of 5% per annum. The note is secured by all assets of the District and matures on March 20, 2020. The accumulated amount of funds to be repaid at December 31, 2017 totaled \$22,067. The amount due within one year totals \$19,798.

Long-term liability activity for the year ended December 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Revenue bonds	\$ 3,775,000	\$ -	\$ (265,000)	\$ 3,510,000	\$ 270,000
For issuance discount	(136,295)	-	16,634	(119,661)	-
Total bonds payable	3,638,705	-	(248,366)	3,390,339	270,000
Note payable	40,902	-	(18,835)	22,067	19,798
Compensated absences	31,813	15,618	(10,571)	36,860	36,860
	<u>\$ 3,711,420</u>	<u>\$ 15,618</u>	<u>\$ (277,772)</u>	<u>\$ 3,449,266</u>	<u>\$ 326,658</u>

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES (continued)**

**I. Long-term liabilities (continued)**

The debt service requirements for the District's bonds and note payable are as follows:

Year Ending December 31	Revenue Bonds		Note Payable	
	Principal	Interest	Principal	Interest
2018	\$ 270,000	\$ 129,600	\$ 19,798	\$ 654
2019	285,000	120,777	2,269	12
2020	290,000	111,211	-	-
2021	300,000	101,133	-	-
2022	310,000	90,466	-	-
2023-2027	1,735,000	270,561	-	-
2028-2029	320,000	20,005	-	-
	<u>\$ 3,510,000</u>	<u>\$ 843,753</u>	<u>\$ 22,067</u>	<u>\$ 666</u>

The District has a noninterest bearing bond payable to Texas Water Development Board. However, to reflect the time value of money, the liability recorded in the financial statements reflects future payments discounted at an imputed interest rate of 1.65%, which was the District's long-term borrowing rate at January 2010. The bond is payable in annual installments, including interest, beginning in December 2010 and ending in December 2029. The total unamortized discount at December 31, 2017 was \$119,661.

The resolutions authorizing issuance of the District's bonds provided certain requirements as follows:

*Debt service account.* This section requires monthly transfers from the system account to the debt service account in the amount equal to 1/6 of next maturing interest plus 1/12 of next maturing principal for debt service payments, per the resolutions authorizing issuance of the District's bonds.

*Reserve account.* A reserve account is required by the resolution authorizing issuance of the bonds issued by the District.

In accordance with the loan agreements between the District and the U.S. Department of Agriculture Rural Development, the District has established a reserve fund at a local bank. Monthly deposits are made to the fund until the fund accumulates a balance of \$20,452. The fund is restricted for making payments as approved by the U.S. Department of Agriculture Rural Development.

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES (continued)**

**I. Long-term liabilities (continued)**

Total amounts required to be on deposit in the debt service and reserve accounts compared to actual amounts on deposit are as follows:

			<b>Debt Service Account</b>
Required Present Balance			<u>\$ 19,092</u>
Actual Present Balance			<u>\$ 524,970</u>
	<b>Reserve Required Ultimate Balance</b>	<b>Reserve Required Present Balance</b>	<b>Reserve Actual Present Balance</b>
Issue			
2009, 2009A	\$ 183,118	\$ 183,118	\$ 183,118
Other	202,144	202,144	229,712
	<u>\$ 385,262</u>	<u>\$ 385,262</u>	<u>\$ 412,830</u>

*Additional bonds.* This section required, among other things, that net revenues of the water system amount to 1.25 times average annual principal and interest requirements on all revenue bonds, present and proposed, in order to issue additional revenue bonds.

*Pledge and source of payment.* The District's outstanding bonds are payable solely from, and are secured by a lien on, the District's gross revenues.

**J. Contingencies**

The District is involved in litigation. Although the outcome of the litigation is not presently determinable, in the opinion of the District's legal council the ultimate resolution of this matter will not have a material adverse effect on the financial condition of the District.

## Supplementary Financial Data

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**SCHEDULE OF SERVICES AND RATES**  
 December 31, 2017

**1. Services Provided by the District during the Fiscal Year:**

Retail Water  
 Wholesale Water

**2. Retail Service Providers**

**a. Retail Rates for a 5/8" Meter:**

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water	\$ 22.84	1,000	Y	\$ 4.00	1,001 to 5,000
				4.60	5,001 to 10,000
				5.40	10,001 to 20,000
				6.00	20,001 to 30,000
				6.60	30,001 to 40,000
				7.40	40,001 to 50,000
				9.60	50,001 and above

Total charges for 10,000 gallons usage: \$61.84

**b. Water Retail Connections:**

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	-	-	x 1.0	-
5/8" x 3/4"	-	-	x 1.0	-
3/4"	5,035	5,035	x 1.5	7,553
1"	53	53	x 2.5	133
1 1/2"	8	8	x 5.0	40
2"	23	23	x 8.0	184
3"	1	1	x 17.5	18
4"	-	-	x 30.0	-
6"	1	1	x 62.5	63
Total	5,121	5,121		7,990

**3. Total Water Consumption during the Fiscal Year (rounded to the nearest thousand):**

Gallons pumped into system:	818,552	Water Accountability Ratio (Gallons billed / Gallons pumped)
Gallons billed to customers:	526,307	64.3%

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2017

	Original and Final Budgeted Amounts	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Actual - Over (Under) Budget
<b>OPERATING REVENUES</b>					
Water sales	\$ 3,331,298	\$ 3,612,372	\$ (14,803)	\$ 3,597,569	\$ 266,271
Connection fees	95,000	188,559	-	188,559	93,559
Miscellaneous	75,000	131,872	(3,254)	128,618	53,618
Late charges	78,775	92,052	-	92,052	13,277
Prairieland GCD fees	153,972	161,138	-	161,138	7,166
Total operating revenues	3,734,045	4,185,993	(18,057)	4,167,936	433,891
<b>OPERATING EXPENSES</b>					
Bad debt	-	-	8,179	8,179	8,179
Contract services	115,000	30,708	20,787	51,495	(63,505)
Dues and subscriptions	11,000	14,166	-	14,166	3,166
Insurance-employee	133,764	119,381	-	119,381	(14,383)
Fuel/autos/equipment	92,000	69,562	(1,520)	68,042	(23,958)
Repairs and maintenance - system	765,000	702,743	150,639	853,382	88,382
Repairs and maintenance - office	40,000	25,379	196	25,575	(14,425)
Uniforms	8,000	5,254	-	5,254	(2,746)
Water samples	10,000	12,133	(415)	11,718	1,718
Insurance-liability/property	41,000	40,018	574	40,592	(408)
Miscellaneous	18,350	27,539	857	28,396	10,046
Postage	25,000	19,608	270	19,878	(5,122)
Legal	214,000	184,294	(10,896)	173,398	(40,602)
Accounting	28,000	21,785	(2,200)	19,585	(8,415)
Office	25,000	18,747	(1,233)	17,514	(7,486)
Telephone	50,000	52,779	(213)	52,566	2,566
Payroll	622,710	570,244	(5,900)	564,344	(58,366)
Employee retirement plan	30,000	23,191	(309)	22,882	(7,118)
Payroll taxes	55,523	42,632	(386)	42,246	(13,277)
Seminars, meetings and training	10,000	4,022	-	4,022	(5,978)
Water purchases	650,000	441,844	(122,538)	319,306	(330,694)
Utilities	497,000	508,771	(1,644)	507,127	10,127
Prairieland GCD fees	97,180	117,652	-	117,652	20,472
Depreciation	-	677,631	(677,631)	-	-
Contingencies	5,829	-	-	-	(5,829)
Total operating expenses	3,544,356	3,730,083	(643,383)	3,086,700	(457,656)
OPERATING INCOME	189,689	455,910	625,326	1,081,236	891,547
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest	25,795	32,494	-	32,494	6,699
Interest and fiscal charges	(159,210)	(152,129)	1,086	(151,043)	(8,167)
Principal payments	(248,774)	-	(283,835)	(283,835)	35,061
Capital outlay:					
Land and easement acquisition	-	-	(44,105)	(44,105)	44,105
Buildings	(250,000)	-	-	-	(250,000)
Vehicles	(70,000)	-	(87,410)	(87,410)	17,410
Equipment	(200,000)	-	(85,620)	(85,620)	(114,380)
Water line renewals	(2,250,000)	-	(104,772)	(104,772)	(2,145,228)
Engineering fees	(225,000)	-	(78,219)	(78,219)	(146,781)
Woodbine well plant #1	(274,625)	-	-	-	(274,625)
Meter reading system	(1,000,000)	-	-	-	(1,000,000)
System hydraulics	(50,000)	-	-	-	(50,000)
Total nonoperating revenue (expenses)	(4,701,814)	(119,635)	(682,875)	(802,510)	(3,885,906)
INCOME BEFORE CAPITAL CONTRIBUTIONS	(4,512,125)	336,275	(57,549)	278,726	(2,994,359)
Capital contributions	587,500	2,399,700	(1,125,725)	1,273,975	686,475
CHANGE IN NET POSITION	\$ (3,924,625)	\$ 2,735,975	\$ (1,183,274)	\$ 1,552,701	\$ (2,307,884)
Number of persons employed by the District:					
Full-Time		12			
Part-Time		-			

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**SCHEDULE OF CASH AND TEMPORARY INVESTMENTS**  
December 31, 2017

	<b>Identification or Certificate Number</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Balance at End of Year</b>
<b>OPERATING:</b>				
Cash on hand	N/A	N/A	N/A	\$ 500
Citizens National Bank - Checking	145953	N/A	On Demand	980
Citizens National Bank - Checking	1695690	0.25%	On Demand	461,550
Citizens National Bank - Money Market	50222075	0.45%	On Demand	2,787,306
Citizens National Bank - Money Market	50101766	0.45%	On Demand	2,966,085
Citizens National Bank - Money Market	50222083	0.45%	On Demand	192,644
The Cowboy Bank of Texas - CD	11664	0.50%	03/03/16	34,440
The Cowboy Bank of Texas - CD	11665	0.50%	03/03/16	34,440
The Cowboy Bank of Texas - CD	11806	0.50%	01/16/16	49,081
The Cowboy Bank of Texas - CD	12642	0.60%	10/01/16	122,286
The Cowboy Bank of Texas - CD	12653	0.60%	10/22/16	123,616
InterBank - CD	55000621	0.65%	10/30/16	100,000
InterBank - CD	55001597	0.40%	06/29/16	125,159
Wells Fargo - Savings	3000840354816	0.03%	On Demand	71,881
TexasTrust	175218	N/A	On Demand	250,000
<b>TOTAL OPERATING</b>				<u><u>7,319,968</u></u>
<b>DEBT SERVICE:</b>				
Citizens National Bank - Money Market - Bonds	50103226	0.45%	On Demand	524,970
<b>TOTAL DEBT SERVICE</b>				<u><u>524,970</u></u>
<b>RESERVE:</b>				
Citizens National Bank - Money Market - Note	148148	0.35%	On Demand	115,798
Citizens National Bank - Money Market - Bonds and Note	50102517	0.45%	On Demand	297,032
<b>TOTAL RESERVE</b>				<u><u>412,830</u></u>
<b>TOTAL</b>				<u><u>\$ 8,257,768</u></u>



**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**DEBT SERVICE REQUIREMENTS - BY YEARS**  
 December 31, 2017

<u>Due During Fiscal Years Ending</u>	<u>Utility System Revenue Refunding Bonds, Series 2008</u>		
	<u>Principal Due 12/1</u>	<u>Interest Due 6/1, 12/1</u>	<u>Total</u>
2018	\$ 155,000	\$ 74,100	\$ 229,100
2019	165,000	67,974	232,974
2020	170,000	61,454	231,454
2021	175,000	54,735	229,735
2022	180,000	47,819	227,819
2023	190,000	40,706	230,706
2024	200,000	33,197	233,197
2025	205,000	25,293	230,293
2026	215,000	17,191	232,191
2027	220,000	8,694	228,694
	<u>\$ 1,875,000</u>	<u>\$ 431,163</u>	<u>\$ 2,306,163</u>

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**DEBT SERVICE REQUIREMENTS - BY YEARS**  
December 31, 2017

Due During Fiscal Years Ending	Utility System Revenue Bonds, Series 2009		
	Principal Due 12/1	Interest Due 6/1, 12/1	Total
2018	\$ 65,000	\$ 55,500	\$ 120,500
2019	70,000	52,803	122,803
2020	70,000	49,757	119,757
2021	75,000	46,398	121,398
2022	80,000	42,647	122,647
2023	85,000	38,527	123,527
2024	85,000	34,023	119,023
2025	90,000	29,475	119,475
2026	95,000	24,435	119,435
2027	100,000	19,020	119,020
2028	110,000	13,220	123,220
2029	115,000	6,785	121,785
	<u>\$ 1,040,000</u>	<u>\$ 412,590</u>	<u>\$ 1,452,590</u>

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**DEBT SERVICE REQUIREMENTS - BY YEARS**  
December 31, 2017

Due During Fiscal Years Ending	Utility System Revenue Bonds, Series 2009A		
	Principal Due 12/1	Interest Due	Total
2018	\$ 50,000	\$ -	\$ 50,000
2019	50,000	-	50,000
2020	50,000	-	50,000
2021	50,000	-	50,000
2022	50,000	-	50,000
2023	50,000	-	50,000
2024	50,000	-	50,000
2025	50,000	-	50,000
2026	50,000	-	50,000
2027	50,000	-	50,000
2028	50,000	-	50,000
2029	45,000	-	45,000
	<u>\$ 595,000</u>	<u>\$ -</u>	<u>\$ 595,000</u>

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**DEBT SERVICE REQUIREMENTS - BY YEARS**  
 December 31, 2017

<b>Note Payable - USDA - Rural Development, March 30, 1980</b>			
<b>Due During Fiscal Years Ending</b>	<b>Principal Due *</b>	<b>Interest Due *</b>	<b>Total</b>
2018	\$ 19,798	\$ 654	\$ 20,452
2019	2,269	12	2,281
	<u>\$ 22,067</u>	<u>\$ 666</u>	<u>\$ 22,733</u>

\* Due in monthly payments including interest

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**DEBT SERVICE REQUIREMENTS - BY YEARS**  
 December 31, 2017

Due During Fiscal Years Ending	Annual Requirements for All Debt		
	Principal Due	Interest Due	Total
2018	\$ 289,798	\$ 130,254	\$ 420,052
2019	287,269	120,789	408,058
2020	290,000	111,211	401,211
2021	300,000	101,133	401,133
2022	310,000	90,466	400,466
2023	325,000	79,233	404,233
2024	335,000	67,220	402,220
2025	345,000	54,768	399,768
2026	360,000	41,626	401,626
2027	370,000	27,714	397,714
2028	160,000	13,220	173,220
2029	160,000	6,785	166,785
	<u>\$ 3,532,067</u>	<u>\$ 844,419</u>	<u>\$ 4,376,486</u>

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**ANALYSIS OF CHANGES IN LONG-TERM DEBT**  
**December 31, 2017**

	Utility System Revenue Refunding Series 2008	Utility System Revenue Series 2009	Utility System Revenue Series 2009A	Note Payable USDA - Rural Development 1980	Totals
Interest Rate	3.95 -5.14%	1.65-5.850%	N/A	5.00%	
Dates Interest Payable	6/1; 12/1	6/1; 12/1	N/A	monthly	
Maturity Dates	12/1/2027	12/01/29	12/01/09	03/20/20	
Beginning Debt Outstanding	\$ 2,025,000	\$ 1,105,000	\$ 645,000	\$ 40,902	\$ 3,815,902
Debt Sold During the Current Year	-	-	-	-	-
Debt Retired During the Current Year	<u>(150,000)</u>	<u>(65,000)</u>	<u>(50,000)</u>	<u>(18,835)</u>	<u>(283,835)</u>
Ending Debt Outstanding	<u>\$ 1,875,000</u>	<u>\$ 1,040,000</u>	<u>\$ 595,000</u>	<u>\$ 22,067</u>	<u>\$ 3,532,067</u>
Interest Paid During the Current Year	<u>\$ 80,028</u>	<u>\$ 58,100</u>	<u>\$ -</u>	<u>\$ 1,617</u>	<u>\$ 139,745</u>

**Paying Agent's Name and City:**

Series 2008 Bank of America, N.A., Dallas, Texas

Series 2009 Wells Fargo Bank, N.A., Austin, Texas

Series 2009A Wells Fargo Bank, N.A., Austin, Texas

**Note Holder Name and City:**

Series 1980 USDA - Rural Development, Cleburne, Texas

**Bond Authority:**

Amount Authorized By Board of Directors

Amount Issued

Remaining To Be Issued

**Revenue  
Bonds**

\$ 5,040,000

\$ 5,040,000

\$ -

Restricted debt service cash and temporary investments as of December 31, 2017:

\$ 524,970

Average annual debt service payment (Principal and Interest) for remaining term of all debt:

\$ 364,707



**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES**  
Five Years Ended December 31, 2017

	Amounts					Percent of Fund Total Revenues				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
Operating Revenues:										
Water sales	\$ 3,612,372	\$ 3,160,158	\$ 3,095,896	\$ 2,824,002	\$ 2,625,766	86.3%	88.4%	88.0%	91.1%	91.4%
Connection fees	188,559	112,775	110,961	61,300	51,000	4.5%	3.2%	3.2%	2.0%	1.8%
Miscellaneous	131,872	80,426	101,193	30,718	22,188	3.2%	2.2%	2.9%	1.0%	0.8%
Late charges	92,052	76,323	74,188	70,418	65,566	2.2%	2.1%	2.1%	2.3%	2.3%
PrairieLand GCD fee	161,138	146,492	136,910	113,595	108,204	3.8%	4.1%	3.9%	3.7%	3.8%
Total Operating Revenues	<u>4,185,993</u>	<u>3,576,174</u>	<u>3,519,148</u>	<u>3,100,033</u>	<u>2,872,724</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Expenses:										
Operation	3,052,452	2,840,890	2,398,204	1,888,335	1,775,877	72.9%	79.4%	68.1%	60.9%	61.8%
Depreciation and amortization	677,631	627,702	621,043	595,042	595,412	16.2%	17.6%	17.6%	19.2%	20.7%
Total Operating Expenses	<u>3,730,083</u>	<u>3,468,592</u>	<u>3,019,247</u>	<u>2,483,377</u>	<u>2,371,289</u>	<u>89.1%</u>	<u>97.0%</u>	<u>85.8%</u>	<u>80.1%</u>	<u>82.5%</u>
Operating Income	455,910	107,582	499,901	616,656	501,435	10.9%	3.0%	14.2%	19.9%	17.5%
Nonoperating Expenses										
Interest income	32,494	26,831	23,482	15,932	18,857	0.8%	0.8%	0.7%	0.5%	0.7%
Insurance proceeds	-	-	-	-	50,709	0.0%	0.0%	0.0%	0.0%	1.8%
Gain (loss) on disposal of assets	-	-	550	(127)	-	0.0%	0.0%	0.0%	0.0%	0.0%
Interest and fiscal charges	(152,129)	(148,331)	(160,293)	(204,314)	(213,231)	-3.6%	-4.1%	-4.6%	-6.6%	-7.4%
Bond issue costs	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
Total Nonoperating Expenses	<u>(119,635)</u>	<u>(121,500)</u>	<u>(136,261)</u>	<u>(188,509)</u>	<u>(143,665)</u>	<u>-2.9%</u>	<u>-3.4%</u>	<u>-3.9%</u>	<u>-6.1%</u>	<u>-5.0%</u>
Income (loss) before contributions	336,275	(13,918)	363,640	428,147	357,770	8.0%	-0.4%	10.3%	13.8%	12.5%
Capital contributions	<u>2,399,700</u>	<u>1,082,750</u>	<u>738,982</u>	<u>336,300</u>	<u>271,248</u>	<u>57.3%</u>	<u>30.3%</u>	<u>21.0%</u>	<u>10.8%</u>	<u>9.4%</u>
Change in net position	<u>\$ 2,735,975</u>	<u>\$ 1,068,832</u>	<u>\$ 1,102,622</u>	<u>\$ 764,447</u>	<u>\$ 629,018</u>	<u>65.4%</u>	<u>29.9%</u>	<u>31.3%</u>	<u>24.7%</u>	<u>21.9%</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>5,121</u>	<u>4,609</u>	<u>4,346</u>	<u>4,016</u>	<u>3,814</u>					

**MOUNTAIN PEAK SPECIAL UTILITY DISTRICT**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
 December 31, 2017

Complete District Mailing Address: 5671 Waterworks Road, Midlothian, Texas 76065

District Business Telephone Number: (972) 775-3765

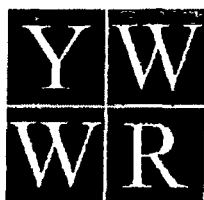
Submission Date of the most recent District Registration Form: May 22, 2017

Limit on Fees of Office that a Director may received during a fiscal year: \$0

Name	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid* 12/31/2017	Expense Reimbursements 12/31/2017	Title at Year End
<b>Board Members:</b>				
Clyde T. Bryant	5/13/2014	\$ -	\$ -	President
Mike Cull	5/14/2013	-	-	Vice-President
Ann Major	5/13/2014	-	-	Secretary/Treasurer
C.E. Wilson	5/13/2014	-	-	Director
Stephen Bradford	5/14/2013	-	-	Director
Donna Mullins	5/8/2015	-	-	Director
Kathy Tucker	7/14/2015	-	-	Director
<b>Key Administrative Personnel:</b>				
Randel Kirk	2/88		-	General Manager
<b>Consultants:</b>				
Jackson Walker, L.L.P.	3/15		138,897	Attorney
Miller, Mentzer, P.C.	5/91		10,278	Attorney
Yeldell, Wilson, Wood & Reeve, P.C.	5/01		19,585	Auditor
SAMCO - Mark McIney	2/15		-	Financial Advisor
Childress Engineers	1991		77,449	Engineer

\* Fees of Office are the amounts actually paid to a director during the District's fiscal year.

## Other Report



# YELDELL, WILSON, WOOD & REEVE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Greer Yeldell, CPA | Glen Wilson, CPA | Tracie Wood, CPA | Joyce Reeve, CPA  
Glenda Valek, CPA | Caitlyn Keller, CPA

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

To the Board of Directors of  
Mountain Peak Special Utility District  
Midlothian, Texas

We have audited, in accordance with the 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, the financial statements of the business-type activities of Mountain Peak Special Utility District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Mountain Peak Special Utility District's basic financial statements, and have issued our report thereon dated May 4, 2018.

### Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described below that we consider to be a material weakness.

Board of Directors of  
Mountain Peak Special Utility District  
Page Two

#### *FINDING*

Preparation of Financial Statements – We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Current auditing standards require auditors to communicate this situation to the Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. However, based on current auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

From a practical standpoint, we prepare the statements and determine the fairness of the presentation at the same time in connection with our audit. This is not unusual for us to do with entities of your size.

The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors. We have instructed management to review a draft of the auditor prepared financials in detail for accuracy and we have answered any questions that management might have. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Under the circumstances, the most effective controls lie in management's knowledge of the District's financial operations. It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of cost and other consideration. Regarding the specific situations listed above, we would offer the following specific recommendations: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your accounting information to the amounts reported in the financial statements.

#### *RESPONSE*

Procedures will be implemented by the District to review the financial statements and related footnote disclosures and to agree the District's accounting information to the amounts reported in the financial statements and related footnote disclosure.

Board of Directors of  
Mountain Peak Special Utility District  
Page Three

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mountain Peak Special Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Mountain Peak Special Utility District's Response to Findings**

Mountain Peak Special Utility District's response to the finding identified in our audit is described previously. Mountain Peak Special Utility District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Yeldell, Wilson, Wood & Reeve, P.C.*

Yeldell, Wilson, Wood & Reeve, P.C.  
*Certified Public Accountants*

Waxahachie, Texas  
May 3, 2018



## ANNUAL FILING AFFIDAVIT

STATE OF TEXAS COUNTY OF ELLIS

I, RANDEL KIRK of the  
(Name of Duly Authorized District Representative)

MOUNTAIN PEAK SPECIAL UTILITY DISTRICT  
(Name of District)

hereby swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of the Directors of the District on the 8th day of MAY, 2018 its annual audit report for the fiscal year or period ended 12/31/2017 and those copies of the annual audit report have been filed in the district office, located at:

5671 Waterworks Rd. Midlothian, Texas 76065  
(Address of District)

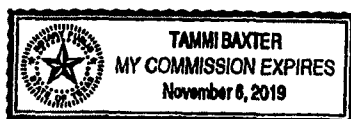
The annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of the annual filing requirements of Texas Water Code Section 49.194.

Date: 5/8/2018 By: [Signature]  
(Signature of District Representative)

Randel Kirk, General Manager  
(Typed Name & Title of above District Representative)

Sworn to and Subscribed to before me by this 8th day of MAY, 2018  
(SEAL)

[Signature]  
(Signature of Notary)



My Commission Expires On: November 6, 2019  
Notary Public in the State of Texas.



**ATTACHMENT 4**  
**Sardis-Lone Elm W.S.C.**  
**T.C.E.Q. Inspection Report**

Bryan W. Shaw, Ph.D., P.E., *Chairman*  
 Toby Baker, *Commissioner*  
 Jon Niermann, *Commissioner*  
 Richard A. Hyde, P.E., *Executive Director*



## TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

*Protecting Texas by Reducing and Preventing Pollution*

December 15, 2017

**E SIGNATURE CONFIRMATION # 9134 9690 0935 0019 0727 28**

Mr. Bill Brandon, President  
 Sardis Lone Elm Water Supply Corporation  
 6681 W. Highland  
 Midlothian, TX 76065

Re: Notice of Violation for Public Water Supply Comprehensive Compliance Investigation at:  
 Sardis Lone Elm WSC, 6681 W. Highland Rd., Midlothian, Ellis County, Texas  
 RN 101451466, PWS ID No.0700034, Investigation No. 1448611

Dear Mr. Brandon:

On October 27, 2017, Mike Caldwell of the Texas Commission on Environmental Quality (TCEQ) Dallas/Fort Worth (D/FW) Regional Office conducted an investigation of the above-referenced regulated entity to evaluate compliance with applicable requirements for public water supply. Enclosed is a summary which lists the investigation findings. During the investigation, a certain outstanding alleged violation was identified for which compliance documentation was required. Based on the information you have provided, the TCEQ has adequate documentation to resolve the alleged violation(s). Therefore, no further action is required.

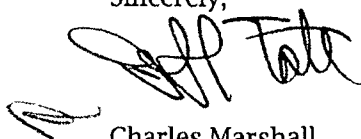
In the listing of the alleged violations, we have cited applicable requirements, including TCEQ rules. Please note that both the rules themselves and the agency brochure entitled *Obtaining TCEQ Rules* (GI 032) are located on our agency website at <http://www.tceq.state.tx.us> for your reference. If you would like a hard copy of this brochure mailed to you, you may call and request one from either the D/FW Regional Office at (817) 588-5800 or the Central Office Publications Ordering Team at 512-239-0028.

The TCEQ appreciates your assistance in this matter. Please note that the Legislature has granted TCEQ enforcement powers which we may exercise to ensure compliance with environmental regulatory requirements. We anticipate that you will resolve the alleged violation as required in order to protect the State's environment. If you have additional information that we are unaware of, you have the opportunity to contest the violations documented in this notice. Should you choose to do so, you must notify the D/FW Regional Office within 10 days from the date of this letter. At that time, Mr. Jeff Tate, Water Section Manager, will schedule a violation review meeting to be conducted within 21 days from the date of this letter. However, please be advised that if you decide to participate in the violation review process, the TCEQ may still require you to adhere to the compliance schedule included in the attached Summary of Investigation Findings until an official decision is made regarding the status of the contested violations.

Mr. Bill Brandon  
Page 2  
December 15, 2017

If you or members of your staff have any questions, please feel free to contact Mr. Caldwell in the D/FW Regional Office at 817-588-5860.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles Marshall", with a stylized flourish at the end.

Charles Marshall  
Team Leader, Public Water Supply Program  
D/FW Regional Office

CM/mlc

Enclosure: Summary of Investigation Findings

## Summary of Investigation Findings

SARDIS LONE ELM WSC

6681 W HIGHLAND RD

MIDLOTHIAN, ELLIS COUNTY, TX 76065

Investigation #

1448611

Investigation Date: 10/27/2017

Additional ID(s): 0700034

### ALLEGED VIOLATION(S) NOTED AND RESOLVED ASSOCIATED TO A NOTICE OF VIOLATION

Track No: 661046

30 TAC Chapter 290.46(s)(1)

**Alleged Violation:**

Investigation: 1448611

Comment Date: 11/28/2017

Failure to calibrate the well meters at least once every three years.

During the investigation on October 27, 2017, it was noted that the well meters for wells #4 and #5 were inaccurate and not functioning properly.

On the day of the investigation, it was noted that the water system performed an accuracy check of well meter #4 within the last three years, however, the accuracy check determined that the well meter was reading more than 10.7% off on June 21, 2017. Well meter #5 was reading more than 16% off on March 23, 2016. According to the American Water Works Association, the meter shall register not less than 98% nor more than 102% of the water actually passed through the meter.

30 TAC 290.46(s)(1) states that flow-measuring devices and rate-of-flow controllers that are required by §290.42(b) and (d) of this title (relating to Water Treatment) shall be calibrated at least once every 12 months. Well meters required by §290.41(c)(3)(N) of this title shall be calibrated at least once every three years.

**Recommended Corrective Action:**

Replace the well meters on wells #4 and #5. Submit documentation including, but not limited to, purchase receipts, work orders, and or photographs that adequately demonstrates compliance to the TCEQ Region 4 Office for review.

**Resolution:**

On November 9, 2017, documentation was received from the water system at the TCEQ Region 4 Office. Included in the documentation, was a photograph of the new well meter for both wells. Based on this documentation, it appears that the water system has adequately corrected the alleged violation.

Track No: 661133

30 TAC Chapter 290.42(e)(3)(D)

**Alleged Violation:**

Investigation: 1448611

Comment Date: 11/28/2017

Failure to provide a working scale for the chlorine gas cylinders at plant #7.

During the investigation on October 27, 2017, it was noted that the scale for the chlorine gas cylinders at plant #7 was faulty.

30 TAC 290.42(e)(3)(D) Facilities shall be provided for determining the amount of disinfectant used daily and the amount of disinfectant remaining for use.

**Recommended Corrective Action:**

Replace the scale for the chlorine gas cylinders at plant #7. Submit documentation including, but not limited to, purchase receipts, work orders, and or photographs that adequately demonstrates compliance to the TCEQ Region 4 Office for review.

**SARDIS LONE ELM WSC****Investigation # 1448611**

not limited to, purchase receipts, work orders, and or photographs that adequately demonstrates compliance to the TCEQ Region 4 Office for review.

**Resolution:**

On November 9, 2017, documentation was received from the water system at the TCEQ Region 4 Office. Included in the documentation, was a photograph of the new scales for plant #7. Based on this documentation, it appears that the water system has adequately corrected the alleged violation.

**ATTACHMENT 5**  
**Sardis-Lone Elm W.S.C.**  
**Water Purchase Contract**

**ROCKETT SPECIAL UTILITY DISTRICT  
AND  
SARDIS LONE ELM WATER SUPPLY CORPORATION  
TREATED WHOLESALE WATER SUPPLY CONTRACT**

**THIS CONTRACT** ("Contract") is made and entered into on the Effective Date set forth below, by and between the Rockett Special Utility District (the "District"), a political subdivision of the State of Texas operating pursuant to Chapters 49 and 65 of the Texas Water Code, and Sardis Lone Elm Water Supply Corporation (the "Corporation") a Texas non-profit corporation operating pursuant to Chapter 67 of the Texas Water Code.

**W I T N E S S E T H:**

**WHEREAS**, the District is authorized to enter into this Contract pursuant to Section 65.201 of the Water Code and the Corporation is authorized to enter into this Contract pursuant to Section 67.010 of the Water Code; and

**WHEREAS**, the Corporation is desirous of obtaining an adequate and dependable treated water supply; and

**WHEREAS**, the District has expressed a willingness to assist the Corporation by providing treated water service to the Corporation; and

**WHEREAS**, it is necessary, convenient and advisable for the Corporation to purchase treated water service from the District.

**NOW, THEREFORE**, in consideration of the mutual covenants and agreements herein contained, the District agrees to furnish and the Corporation agrees to pay for treated water upon the terms and conditions and for the consideration hereinafter set forth, to wit:

**Section 1. DEFINITION OF TERMS.** The following terms and expressions as used in this Contract, unless the context clearly shows otherwise, shall have the following meanings:

- (a) "Annual Payment" means the amount of money to be paid to the District by the Corporation during each Annual Payment Period.
- (b) "Annual Payment Period" means the District's fiscal year, which currently begins on January 1 of each calendar year and ends on December 31 of the same calendar year.
- (c) "CCN" means a Certificate of Convenience and Necessity issued by the Texas Commission on Environmental Quality (TCEQ).
- (d) "Construction Costs" include all costs related to the Projects including all costs for labor, materials, engineering services, right-of-way acquisition,

attorney fees and administration expenses.

- (e) "The District" means the Rockett Special Utility District, a contracting party.
- (f) "The Corporation" means the Sardis Lone Elm Water Supply Corporation, a contracting party.
- (g) "MGD" is an abbreviation for "million gallons of water per day" and means a quantity of water during a period of time expressed for convenience in terms of an average annual daily quantity during an Annual Payment Period.
- (h) "System" means collectively the existing facilities and the future the District projects relating to water storage, treatment, transportation, distribution and supply, including all dams, reservoirs, and other properties or interests therein wherever located.
- (i) "Water Year" means the period of January 1 of each calendar year through December 31 of the same calendar year or such other twelve (12) month period designated by The District.
- (j) "TCEQ" means the Texas Commission on Environmental Quality.

**Section 3. QUANTITY.** The District agrees to sell and to deliver treated water under this Contract to the Corporation at the Point of Delivery as described in Section 6 herein, and the Corporation agrees to take at said Point of Delivery, water required for use by the Corporation during the term of this Contract, including treated water for the Corporation's own use and for distribution to all customers served by the Corporation's water distribution system or within the Corporation's CCN No. 10058 issued by the TCEQ. The quantity of water sold to the Corporation shall be measured at the Point of Delivery as described in Section 6 herein. The Corporation shall not become a party to any contract for the sale of treated water which would violate or be inconsistent with the provisions of this Contract, and the District will use its best efforts to furnish and remain in position to furnish treated water sufficient for all reasonable treated water requirements of the Corporation, not to exceed the annual amount as set out on Exhibit A attached hereto. If treated water from the System must be rationed, such rationing shall, within the limits permitted by law, be done by the District on an equal basis of the relative actual total amount of all treated water from the entire System taken by each customer, respectively, during the last preceding Annual Payment Period in which rationing among its customers was not necessary.

**Section 4. OTHER CONTRACTS.** The District reserves the right to supply treated water from the System to additional or other contracting parties as determined by the District's Board of Directors.



**Section 5. QUALITY.** The water to be delivered by the District and received by the Corporation shall be treated water from the System. The Corporation has satisfied itself that such water will be suitable for its needs, but the District is obligated to treat such water so as to meet the standards of all state and federal agencies having jurisdiction over water quality. The District and the Corporation shall cooperate, each within its legal powers, in preventing, to the extent practicable, the pollution and contamination of the reservoirs and watersheds from which System water is obtained.

**Section 6. POINT OF DELIVERY.** The point of delivery of treated water from The District to the Corporation will be near FM 664 and Bob White Road, Ellis County, Texas (the "Point of Delivery"). At the Point of Delivery, a vault with master meter and associated valves, fittings and accessories as specified by the District, described in Section 7 below, will be installed at the Corporation's expense. Meter readings will be the basis for calculation of all charges for water sold to the Corporation as set forth in Section 7 herein.

### **Section 7. MEASURING EQUIPMENT.**

(a) At the Point of Delivery, the District will furnish and install, at the Corporation's expense, the necessary meter vault and rate of flow equipment, if any, approved by the District for measuring properly the quantity of treated water delivered under this Contract and such meter and other equipment so installed shall remain the property of the District. Reading, calibration and adjustment of the metering equipment shall be done only by the employees or agents of the District, but the Corporation shall have access to the metering equipment at all reasonable times for purposes of inspection and verification. The original record for meter readings under this Contract shall be a journal or other record book maintained by the District in its offices in which the records of the employees or agents of the District who take such readings shall be transcribed. Upon the request of the Corporation, the District will prepare and forward a copy of the journal or record book to the Corporation within a reasonable time or allow the Corporation access to the same in the offices of the District during regular business hours. In addition, the Corporation and the District agree to cooperate on the installation and operation of SCADA or equivalent systems so that the Corporation may monitor usage and receive master meter readings electronically.

(b) The District will calibrate the metering equipment annually and provide a written report of such calibration to the Corporation. Not more than once in any six (6) month time period, the District shall test the meter if requested in writing by the Corporation to do so, in the presence of a representative of the Corporation, and the parties shall jointly observe any adjustments which are made to the meter in case any adjustments shall be necessary, and if the check meter hereinafter provided for has been installed, the same shall also be calibrated by the Corporation in the presence of a representative of the District and the parties shall jointly observe any adjustment, if necessary. Upon the Corporation delivering a written request to the District to test and calibrate the meter, The District shall give the Corporation notice of a date and time for the performance of same. If a representative of the Corporation is not present at the time set, the District may proceed with the test and calibration in the absence of any representative of the Corporation.

(c) If either party at any time observes a variation between the delivery meter and the check meter or meters, if any such check meter or meters shall be installed, such party will promptly notify the other party, and the parties hereto shall then cooperate to procure an immediate calibration test and joint observation of any adjustment and the same meter or meters shall then be adjusted to accuracy. Each party shall give the other party forty-eight (48) hours notice of the time of all tests of meters so that the other party may conveniently have a representative present.

(d) If upon any test, the percentage of inaccuracy of any metering equipment is found to be in excess of five percent (5%), registration thereof shall be corrected for a period extending back to the time when such inaccuracy began, if such time is ascertainable, and if such time is not ascertainable, then for a period extending back one-half ( $\frac{1}{2}$ ) of the time elapsed since the last date of calibration, but in no event further back than a period of six (6) months. If, for any reason, any meters are out of repair so that the amount of water delivered cannot be ascertained or computed from the reading thereof, the water delivered through the period such meters are out of service or out of repair shall be estimated and agreed upon by the parties hereto upon the basis of the best data available. For such purposes, the best data available shall be deemed to be the registration of any check meter or meters if the same have been installed and are accurately registering. Otherwise, the amount of water delivered during such period may be estimated (i) by correcting the error if the percentage of the error is ascertainable by calibration tests or mathematical calculation, or (ii) estimating the quantity of delivery by deliveries during the preceding periods under similar conditions when the meter or meters were registering accurately.

(e) The Corporation may, at its sole expense, install and operate a check meter to check each meter installed by the District but the measurement of water delivered under this Contract shall be determined by the District's meter(s), except in those cases specified above. All check meters shall be of standard make and shall be subject at all reasonable times to inspection and examination by any employee or agent of the District, but the reading, calibration and adjustment thereof shall be made only by the Corporation except during any period when a check meter(s) may be used under the provisions hereof for measuring the amount of water delivered, in which case the reading, calibration and adjustment thereof shall be made by the District with like effect as if the check meter(s) had been furnished or installed by the District.

(f) The District reserves the right in its sole discretion to require the Corporation at its expense to install a rate-of-flow controller at the Delivery Point

**Section 8. UNIT OF MEASUREMENT.** The unit of measurement for treated water delivered under this Contract shall be 1,000 gallons of water, U.S. Standard Liquid Measure.

**Section 9. PRICE AND TERMS.** The service to be performed under this Contract by the District consists of the readiness of the District to deliver to the Corporation, upon its demand, treated water in accordance with the provisions of this Contract. In return for such service, the Corporation agrees to compensate the District by payment of certain minimum annual sums of money, for each of which the District agrees, if required by the Corporation, to deliver all, or so much thereof as the Corporation may desire, of a certain corresponding

volume of water as follows:

(a) For the first Annual Payment Period beginning with the next first day of the second month after the first delivery of water to the Corporation, the Corporation will take or pay for gallons of water per day set out on Exhibit A attached hereto at an initial rate of \$3.40 per 1,000 gallons. The minimum amount of water the Corporation will be required to purchase at the above rate, or such other rate, as may be from time to time determined by the District, shall be calculated annually for each ensuing year. In the event that the District provides services for only a portion of the first or last fiscal year of the Contract, the annual minimum charge shall be prorated on the basis of the actual number of days for which service was provided, divided by 365.

(b) Payment of the minimum annual service charge listed above shall be made each year by the Corporation to the District in twelve (12) equal monthly installments, each of which shall be due and payable on or before the sixteenth (16th) day of the month following the service. Payment of water delivered in any year in excess of the volume allowed for the minimum annual payment effective for that year, shall be made by the Corporation to the District at the rate specified herein when in accordance with the following method: when the Corporation exceeds 100% of the annual minimum amount during any Water Year, excess water will be billed, on the first month following the month in which the 100% level was reached, for the excess water delivered in the month prior to the month being billed, and this procedure would continue to the end of the Annual Payment Period with the Corporation making payment for all excess not previously paid for on or before the sixteenth (16th) day of the month following the end of such year.

(c) In the event that the Corporation shall fail to make any such monthly payment of the Annual Payment within the time herein in this section specified, interest on such amount shall accrue at the rate of 10% per annum from the date such payment becomes due until paid in full with the interest as herein specified. In the event such payment is not made within thirty (30) days from the date such payment becomes due, the District may, at its option, discontinue delivery of water to the Corporation until the amount due the District is paid in full with interest as herein specified.

**Section 10. CAPACITY FEE.** On and after the effective date of this Contract, the Corporation will pay to the District a capacity fee of \$500.00 for each water meter installed on the Corporation's Water System. The sum of all capacity fees due for all water meters installed during any calendar quarter is due and payable on the following dates of each year: May 1 for the first quarter, August 1 for the second quarter, October 1 for the third quarter and February 1 for the fourth quarter. When the Corporation has paid a capacity fee on 1,272 meters, then the Corporation's liability to pay the capacity fee will terminate. On the fifth anniversary date of this Contract and every five years thereafter, the District may adjust the Capacity Fee to an amount equal to the subscription cost for capacity from the Tarrant Regional Water District per MGD (million gallons per day) of raw water divided by 1,157.41.<sup>1</sup>

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<sup>1</sup> The factor of 1,157.41 is derived by multiplying 0.6 GPM x 60 mins. x 24 hours = 864 GPD per standard meter which is divided into 1,000,000 gallons = 1,157 which is the number of standard meters 1 MGD will serve per TCEQ standards. Tarrant Regional Water District currently charges \$545,539.00 for a subscription of 1 MGD.

**Section 11. TERM OF CONTRACT.** This Contract shall continue in force and effect for a period of twenty (20) years from the Effective Date of this Contract. Unless either party delivers written notice of termination to the other party one year prior to the end of the Contract's term, then this Contract will automatically renew and extend for an additional five (5) years.

**Section 12. MODIFICATION.** This Contract may be changed or modified only by written agreement of the parties and only after having obtained approval from the governing bodies of both the District and the Corporation. No change or modification shall be made to this Contract which will affect adversely the prompt payment when due of all moneys required to be paid by the Corporation under the terms of this Contract.

**Section 13. FORCE MAJEURE.** If, by reason of force majeure, any party hereto shall be rendered unable to wholly or in part to carry out its obligations under this Contract, other than the obligation of the Corporation to make the payments required under Section 9 of this Contract, then if such party shall give notice and full particulars of such force majeure in writing to the other party within a reasonable time after occurrence of the event or cause relied on, the obligation of the party giving such notice, so far as it is affected by such force majeure, shall be suspended during the continuance of the inability then claimed, but for no longer period, and any such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "Force Majeure" as employed herein shall mean acts of God, strikes, lockouts, or other industrial disturbances, acts of public enemy, orders of any kind of the government of the United States of America or the State of Texas, or any civil or military authority, insurrection, riots, epidemics, landslides, lightening, earthquake, fires, hurricanes, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accidents to machinery, pipelines or canals, partial or entire failure of water supply, or an account of any other causes not reasonably within the control of the party claiming such inability.

**Section 14. REGULATORY BODIES AND LAWS.** This Contract is subject to all applicable Federal and State Laws and any applicable permits, ordinances, rules, orders and regulations of any local, state or federal governmental authority having or asserting jurisdiction, but nothing contained herein shall be construed as a waiver of any right to question or contest any such law, ordinance, order, rule, or regulation in any forum, having jurisdiction.

**Section 15. NOTICES.** Unless otherwise provided herein, any notice, communication, request, reply or advice (herein severally and collectively, for convenience, called "Notice") herein provided or permitted to be given, made, or accepted by any party to any other party must be in writing and may be given or served by depositing the same in the United States mail postage prepaid, certified and addressed to the party to be notified, with return receipt requested, or by certificated delivery to an officer of such party, or by facsimile with confirmation of delivery when appropriate, addressed to the party to be

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$\$545,539.00 / 1,157 = \$471.51$  per standard meter for water capacity.

notified. Notice deposited in the mail in the manner described above shall be conclusively deemed to be effective, unless otherwise stated herein, from and after the expiration of three (3) days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the party to be notified. For the purposes of notice, the addresses of the parties shall, until changed as hereinafter provided, be as follows:

If to The District: Rocket Special Utility District  
Attn: General Manager  
126 Alton Adams Drive  
P. O. Box 40  
Red Oak, Texas 75154

If to The Corporation: Sardis Lone Elm Water Supply Corporation  
Attn: General Manager  
6681 W. Highland Road  
Midlothian, Texas 76065

The parties hereto shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other addresses by at least fifteen (15) days written notice to the other parties hereto.

**Section 16. SEVERABILITY.** The parties hereto specifically agree that in case any one or more of the sections, subsections, provisions, clauses, or words of this Contract or the application of such sections, subsections, provisions, clauses, or words to any situation or circumstance should be, or should be held to be, for any reason, invalid or unconstitutional, under the laws or constitutions of the State of Texas or the United States of America, or in contravention of any such laws or constitutions, such invalidity, unconstitutionality, or contravention shall not effect any other sections, subsections, provisions, clauses, or words to any other situation or circumstance, and it is intended that this Contract shall be severable and shall be construed and applied as if any such invalid or unconstitutional section, subsection, provision, clause, or word had not been included herein, and the rights and obligations of the parties hereto shall be construed and remain in force accordingly.

**Section 17. VENUE.** All amounts due under this Contract, including, but not limited to, payments due under this Contract or damages for the breach of this Contract, shall be paid and be due in Ellis County, Texas, which is the County in which the principal administrative offices of the District and the Corporation are located. It is specifically agreed among the parties to this Contract that Ellis County, Texas, is a principal place of performance of this Contract.

## **Section 18. OTHER CONDITIONS AND PROVISIONS.**

(a) Operation and Maintenance of System. The District will continuously operate

and maintain the System in an efficient manner and in accordance with good business and engineering practices, and at reasonable cost and expense. The District assumes no responsibility for the operation and maintenance of any portion of the Corporation's water system.

(b) Title to Water; Indemnification. Title to all water supplied to the Corporation shall be in the District up to the Point of Delivery as set forth in Section 5 herein, at which point title shall pass to the Corporation. The District and the Corporation, without waiving any defense of sovereign, governmental, or official immunity, shall save and hold each other harmless from all claims, demands, and causes of action which may be asserted by anyone on account of the transportation and delivery of said water while title remains in such party, said indemnification shall include all costs and attorneys fees associated with the defense of said claims. The Corporation, without waiving any defense of sovereign, governmental, or official immunity, expressly agrees to indemnify and hold harmless the District from all said claims, demands, and causes of action which may be asserted by any customer, or other person to whom the Corporation supplied water, or otherwise arising from the District's delivery, or failure to deliver, water to the Corporation; any breach of contract between the District and the Corporation; or from any party's negligence or breach of duty related to performance of any duty at common law or any law, regulation, or statute of the State of Texas or United States of America, or otherwise arising by virtue of any contract between those parties with regard to furnishing of treated water by the District to the Corporation pursuant to the terms and provisions of the Contract.

(c) Operating Expenses at The Corporation. The Corporation represents and covenants that all payments to be made by it under this Contract shall constitute reasonable and necessary "operating expenses" of its system, as defined in Chapter 971 of the Government Code, and that all such payments will be made from the revenues of its system. The Corporation represents and has determined that the treated water supply to be obtained from the District's System, is absolutely necessary and essential to the present and future operation of its water system. Accordingly, all payments required by this Contract to be made by the Corporation shall constitute reasonable and necessary operating expense of its respective system as described above, with the effect that the obligation to make such payments from revenues (whether of principal, interest, or otherwise) with respect to all bonds or other obligations heretofore or hereafter issued by the Corporation.

(d) The Corporation's Rate for Waterworks System. The Corporation agrees throughout the term of this Contract to continuously operate and maintain its water system, and to fix and collect such rates and charges for water services to be supplied by its water system to produce revenues in an amount equal to at least (i) all of its payments under this Contract, and (ii) all other amounts required to be paid from said revenues by the provisions of the ordinances or resolutions authorizing its revenue bonds or other obligations now or hereafter outstanding and file appropriate financial reports related to the Corporation's water system including annual audits.

(e) Conversion to a Special Utility District. Because the Corporation is not recognized as governmental entity by the Internal Revenue Service, certain limitations are placed on the District relating the amount of water that the District may sell to the

Corporation and any other wholesale customers that are not a governmental entity. Therefore, it is in the best interests that the Corporation convert to a Special Utility District pursuant to Chapter 65 of the Texas Water Code. The Corporation, therefore agrees that it will use its best efforts to convert to a Special Utility District within two (2) years following the date that it receives notice from the District that the District is selling five percent (5%) or more of its annual water capacity on a wholesale basis to water utilities that are not political subdivisions of the State of Texas and/or operate under Chapter 67 of the Texas Water Code. The Corporation further agrees that if it has not converted to Special Utility District by the time that the District is selling nine percent (9%) or more its capacity on a wholesale basis to non governmental water utilities, then the District may unilaterally reduce the quantity of water that the District delivers to the Corporation to a level that will ensure that the District does not sell on a wholesale basis more than ten percent (10%) of the District's capacity to non governmental water utilities.

**Section 19. WATER CONSERVATION.** The Corporation agrees to adopt and enforce all ordinances related to water conservation as may be required by the TCEQ and/or may be reasonably required by the District.

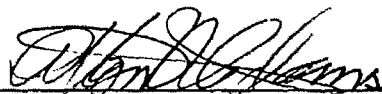
**Section 20. SPECIAL CONDITIONS.** The meter size, location and any quantity set forth in this contract are intended to meet the water needs of the Corporation for the Contract Period. The needs of the Corporation are independently determined by the Corporation, and the District has conducted no independent evaluation of the Corporation's water system.

**Section 21. EFFECTIVE DATE.** The Effective Date of this Agreement is the last date upon which this Agreement is executed by a party hereto.

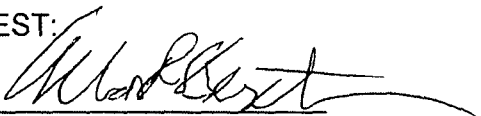
**IN WITNESS WHEREOF,** the parties hereto acting under authority or their respective governing bodies have caused this Contract to be duly executed in several counterparts, each of which shall constitute an original, all as of the day and year first above written, which is the date of this Contract.

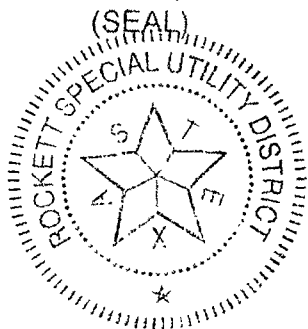
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## ROCKETT SPECIAL UTILITY DISTRICT


By:   
 Alton Adams, President  
 Date: 6-16-09, 2009

ATTEST:

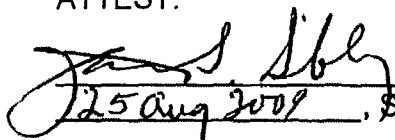
  
 Allan Beutler, Secretary



## SARDIS LONE ELM WATER SUPPLY CORP.

By:   
 B. Brandon, President  
 Date: 8/6, 2009

ATTEST:

  
25 Aug 2009, Secretary



**Agreement for the Sale and Delivery of Treated Water to  
the Sardis-Lone Elm Water Supply Corporation by  
the City of Midlothian**

STATE OF TEXAS           §  
   §  
COUNTY OF ELLIS       §

THIS AGREEMENT (the "Agreement") entered into this 11<sup>th</sup> day of August, 2015 (the "Effective Date") by and between the City of Midlothian, a home rule municipality operating under and governed by the laws and Constitution of the State of Texas ("Midlothian"), and Sardis-Lone Elm Water Supply Corporation, a member-owned corporation established under Chapter 67 of the Texas Water Code ("Sardis") hereinafter collectively referred to as the ("Parties"), evidences a binding agreement between the Parties regarding the sale and delivery of treated water. For good and valuable consideration and in consideration of the agreements contained in this Agreement, the adequacy, receipt, and sufficiency of which are acknowledged, the Parties hereby agree as follows:

**Recitals**

**WHEREAS**, Midlothian is a home rule municipality operating under and governed by the laws and Constitution of the State of Texas with its corporate limits and extra territorial jurisdiction (ETJ) in Ellis County, Texas; and

**WHEREAS**, Sardis is a member-owned corporation, established under Chapter 67 of the Texas Water Code; and

**WHEREAS**, Sardis owns, operates, and maintains a water supply treatment and distribution system serving water users in Ellis County, Texas; and

**WHEREAS**, Midlothian owns, operates, and maintains a water supply treatment and distribution system located in Ellis County Texas, and

**WHEREAS**, Midlothian has agreed to sell Sardis treated water for the use of its customers, provided that rights to Raw Water (defined herein) to be treated on behalf of Sardis shall be secured at their sole expense within five (5) years of the effective date of this Agreement and all existing water rights that Midlothian has are specifically excluded from this Agreement; and

**WHEREAS**, Midlothian and Sardis concur that the terms, conditions and considerations stated herein are fair, just and reasonable and will mutually benefit the Parties and serve the public interest.

**NOW, THEREFORE**, pursuant to *Chapter 791, Texas Government Code*, and as otherwise authorized and permitted by the laws of the State of Texas for and in consideration

of the covenants, conditions and undertakings hereinafter described, and subject to each and every term and condition of this Agreement, the Parties contract, covenant and agree as follows:

## **ARTICLE 1**

### **Findings and Purpose**

- 1.1 Recitals.** The recitals hereinabove set forth are incorporated herein for all purposes and are found to be true and correct.
- 1.2 No Grant of Equity or Ownership.** Unless otherwise stated, no provision of this Agreement shall be construed to create any type of joint or equity ownership of any property or any partnership or joint venture. Unless otherwise stated, neither this Agreement, nor any acts of the Parties hereunder, nor Sardis' payments, shall be construed as granting to or otherwise vesting in Sardis any right, title, interest, or equity in the Midlothian Raw Water System (defined herein) nor in the Midlothian Treated Water System (defined herein) or any element thereof.
- 1.3 Purpose.** This Agreement provides the terms and conditions whereby Treated Water may be purchased by Sardis from Midlothian.

## **ARTICLE 2**

### **Definitions and Interpretation**

- 2.1 Definitions.** The following terms and expressions used in this Agreement, unless the context indicates otherwise, shall mean:

*Agreement* means this "Agreement for the Sale and Delivery of Treated Water" and any subsequent amendments agreed to in writing by the Parties.

*Annual Daily Average* means the measured annual usage as determined through Meter readings divided by the total number of days in the year.

*AWWA* means the American Water Works Association.

*Business Day* means any Day other than Saturdays, Sundays and legal holidays that are observed by both Sardis and Midlothian.

*CCN* means certificate of convenience and necessity.

*Cost of Service Study* means that study performed pursuant to Article 5.2(b) of this Agreement.

*Cost of the System* means all costs of acquiring, constructing, developing, permitting, implementing, expanding, improving, enlarging, bettering, extending, replacing, repairing, maintaining and operating the Midlothian Raw Water System and the Midlothian Treated Water System. The costs of property, interests in property, water and water rights, capitalized interest, land, easements and rights-of-way, damages to land and property, leases, treatment and other facilities, equipment, telemetry, machinery, pumps, pipes, tanks, lines, meters, taps, valves, fittings, mechanical devices, office equipment, assets, contract rights, wages and salaries, employee benefits, chemicals, storage, materials, supplies, power, supervision, engineering, testing, auditing, franchises, charges, assessments, claims, insurance, financing, consultants, administrative expenses, auditing expenses, legal expenses,

amounts for an operation and maintenance reserve fund, amounts for a debt service reserve fund, amounts for principal and interest on bonds issued by Midlothian to pay for the Costs of the System, amounts required for bond coverage reflective of Midlothian's policies and obligations to pay for Costs of the System, bond issuance expenses, amounts for working capital, appropriate general and administrative costs of Midlothian and other similar or dissimilar expenses and costs related to providing wholesale water service required for the Midlothian Raw Water System and the Midlothian Treated Water System.

*Day* means a 24-hour period beginning at 12:00 a.m.

*Delivery Point(s)* means the point(s) at which Midlothian agrees to deliver, and Sardis agrees to receive, Treated Water under this Agreement. The initial delivery point shall be as shown on Exhibit A, attached hereto and incorporated herein for all purposes.

*Effective Date* means the date that this Agreement has been signed by both Parties acting under authority provided by the governing bodies of the respective Parties.

*Emergency* means a bona-fide emergency condition created by unforeseeable mechanical failure, by unprecedented high rate of Treated Water usage, such as a major fire or a major water main break, or by circumstances beyond the Parties' control.

*ETJ* means extraterritorial jurisdiction.

*Expiration Date* means the last effective date of this Agreement as specified in Article 7.1, absent the renewal of this Agreement.

*Fiscal Year* is the fiscal year of Midlothian from October 1 through September 30.

*Initial Rates* means the rates set under Article 5.2(a) of this Agreement until the recalculated rates, from the first Cost of Service Study that is completed after the Effective Date of this Agreement, become effective.

*Maximum Day Demand* means the daily maximum usage specified in Article 5.2(a) of this Agreement.

*Maximum Day Usage* means the highest amount of Treated Water delivered to Sardis at the Delivery Point(s) during any Day, as determined through Meter readings.

*Meter(s)* means the metering facility or devices installed or to be installed at each Delivery Point to measure the amount of Treated Water delivered to Sardis by Midlothian as provided in this Agreement.

*Midlothian Raw Water System* means all facilities, structures, improvements, property, rights, certificates of adjudication, permits, licenses, contracts and other property of any nature whatsoever, now or hereafter owned by Midlothian, in connection with the storage, diversion, transportation, and delivery of Raw Water. All

existing water rights that Midlothian has in Joe Pool Reservoir and other sources are specifically excluded from this Agreement.

*Midlothian Treated Water System* means all facilities, structures, improvements, property, rights, permits, licenses, and other property of any nature whatsoever, now or hereafter owned by Midlothian, in connection with the diversion, storage, transportation, treatment, and delivery of Treated Water.

*Minimum Day Demand* means the minimum daily usage that must be taken by Sardis, as specified in Article 5.2(a) of this Agreement.

*Municipal Customer* means any entity receiving wholesale water service from Midlothian including wholesale customers of either entity.

*Party* means either Midlothian or Sardis, and “Parties” means Midlothian and Sardis, collectively.

*Rate of Flow* means usage on a per minute basis (i.e., gallons per minute (gpm)).

*Rate Year* means each twelve-month period beginning October 1 and ending September 30 of the next calendar year.

*Raw Water* means water that is purchased by Midlothian from TRWD through the TRA, in its natural state prior to treatment.

*Raw Water Charge* means the charge calculated by applying the Raw Water Rate to the number of gallons of Treated Water provided to Sardis by Midlothian, as measured by each Meter and billed on a monthly basis, plus an amount equal to five percent (5%) of the number of gallons of Treated Water provided to Sardis by Midlothian which the Parties agree is a reasonable estimated amount of Raw Water loss during the treatment and delivery process.

*Raw Water Rate* means the raw water rate charged to Midlothian for Raw Water by TRWD through the TRA.

*Regulatory Requirements* means all applicable requirements and provisions of federal, state, and county constitutions, laws, statutes, rules, regulations and ordinances enacted or issued from time to time, including, without limitation, all applicable sections of the Texas Water Code and the rules and regulations of the Texas Commission on Environmental Quality, and the Texas Administrative Code, and all judicial and administrative orders, judgments, and decrees of any governmental authority having jurisdiction concerning the matters contained herein issued from time to time.

*TCEQ* means the Texas Commission on Environmental Quality or its successor agency(ies).

*TRA* means Trinity River Authority of Texas.

*Treated Water* means Raw Water treated by Midlothian so that it is potable water meeting the minimum water quality requirements for human consumption as prescribed by the TCEQ or other appropriate regulatory agency.

*TRWD* means Tarrant Regional Water District.

*TRWD Buy-In* means charges by the TRWD through the TRA for reserving a quantity of Raw Water for use by the payer.

*Volume Charge* means the charge calculated by applying the Volume Rate to the number of gallons of Treated Water provided to Sardis by Midlothian as measured by each Meter (or as estimated in accordance with Article 4.3(c) of this Agreement) and billed on a monthly basis.

*Volume Rate* means the dollar amount per 1,000 gallons applied to Sardis' usage of Treated Water in order to calculate the Volume Charge. The Volume Rate excludes Midlothian's Raw Water costs, which are captured within the Raw Water Rate.

*Water* means either Raw Water or Treated Water, or both Raw Water and Treated Water, as indicated by the context in which the word appears.

*Water Conservation* means those practices, techniques, and technologies that will reduce the consumption of water, reduce the loss or waste of water, improve efficiency in the use of water, and/or increase the recycling and reuse of water.

*Wholesale Customer* means the class of customers, including, but not limited to, Sardis, to whom, under the terms of a specific agreement, Midlothian sells and provides Treated Water for re-sale.

**2.2 Interpretations.** The following principles shall control the interpretation of this Agreement:

- (a) Unless otherwise stated, reference to any document, other than a license, certificate of adjudication or permit, means the document as amended or supplemented from time to time.
- (b) Reference to any Party (including the Parties) or governmental regulatory agency means that entity and its successors and assigns.
- (c) Misspelling of one or more words in this Agreement shall not void the Agreement. Such misspelled words shall be read so as to have the meaning apparently intended by the Parties.
- (d) Words of any gender used in this Agreement shall be held and construed to include any other gender.
- (e) Words in the singular number shall be held to include the plural, unless the context otherwise requires.
- (f) Articles and headings contained herein are for convenience and reference and are not intended to define or limit the scope of any provision of this Agreement.

### ARTICLE 3 Water Provided Under Agreement

#### 3.1 Treated Water.

##### (a) Delivery and Acceptance.

(1) Midlothian agrees to furnish and sell to Sardis up to 1.0 MGD (to be taken over a 24 hour period) of Treated Water for five (5) years from the Effective Date of this Agreement. Midlothian shall deliver any and all portions of such 1.0 MGD supply of Treated Water at a Delivery Point that is mutually agreed upon by the Parties. Sardis, with Midlothian's cooperation, shall work to secure Raw Water in accordance with the provisions contained in Article 5.1(a) during this five (5) year period. In the event that Raw Water cannot be secured by Sardis during this time, the provisions contained within Article 7 shall apply.

(2) By executing this Agreement, Sardis agrees to accept delivery of the Treated Water furnished by Midlothian to meet the conditions of Article 3.1(a)(1) of this Agreement and to pay for such Water in accordance with the terms herein, including any buy-in for all quantities of Raw Water.

(b) **Source of Supply and Capacity.** Midlothian's agreement to make Treated Water available is limited to the extent that Raw Water, as that term is defined in this Agreement, is available and the extent to which capacity is available in the Midlothian Treated Water System.

(c) **Additional Water.** To the extent Treated Water is available in amounts greater than the Maximum Day Demand, Midlothian may, at its sole discretion, provide Sardis with additional Treated Water, subject to the charges described in Article 5; save and except any TRWD buy-in fees or take-or-pay fees. Should Midlothian elect to provide Sardis with Treated Water in excess of the Maximum Day Demand, Midlothian may terminate or reduce providing Treated Water at the excess amount by providing Sardis with twenty-four (24) hours prior written notice of such termination or reduction. Sardis agrees that Midlothian shall never be obligated during the term of this Agreement to make Treated Water available to Sardis in excess of the Maximum Day Demand. The purchase of any additional supplies of Treated Water over the Maximum Day Demand does not guarantee that Midlothian shall make Treated Water available on that basis at any time other than the timeframe Midlothian elects to provide additional supplies of Treated Water to Sardis.

(d) **Water Pressure.** Midlothian agrees to furnish and sell to Sardis Treated Water delivered under the operating pressure prevailing in the Midlothian Treated Water System at each Delivery Point that is mutually agreed upon. Notwithstanding anything in this Agreement or in the requirements of any regulatory agency to the contrary, Midlothian does not represent or guarantee to Sardis that Treated Water provided to Sardis under this Agreement shall be

provided at any specific minimum pressure at each Delivery Point, and Midlothian is under no obligation with respect thereto. Sardis understands and acknowledges that maintaining a certain water pressure in Sardis' delivery system may require the use of storage or pumps on Sardis' system.

- (e) **Interruption of Service for Maintenance.** Notwithstanding anything in this Agreement or in the requirements of any regulatory agency to the contrary, Midlothian shall be entitled at any and all times to install, repair, maintain, and replace such equipment or devices or to take any other action under an Emergency (including reduction or cessation of water service to Sardis) as necessary or appropriate to allow Midlothian at all times to maintain a minimum pressure as required by law at all retail service locations directly served by the Midlothian Treated Water System. Midlothian shall use all reasonable efforts to install, repair, maintain, and replace such equipment and devices in a manner that minimizes, to the extent practical under the circumstances, any reduction in the amount of Treated Water furnished by Midlothian to Sardis under this Agreement. Midlothian may install at each Delivery Point appropriate devices to monitor and enforce all or any of these limitations or any other limitations on the volume or pressure of Treated Water delivered by Midlothian to Sardis pursuant to this Agreement. In the event of such service interruptions, Midlothian shall make all reasonable efforts to expedite the restoration of service in a timely manner. Midlothian shall provide Sardis with twenty-four (24) hours prior written notice of all known repairs that are expected to interrupt service.

- 3.2 **Regulatory Requirements.** Sardis acknowledges and agrees that this Agreement defines the extent of Midlothian's obligations to supply Treated Water to Sardis and that, except as expressly provided by this Agreement, Midlothian is under no obligation to provide Sardis with a sufficient amount of Treated Water for Sardis to meet its minimum production, storage, service pump, or pressure maintenance requirements, or any other requirements imposed on Midlothian by virtue of 30 Texas Administrative Code, Chapters 290 or 291, or any other Regulatory Requirements.
- 3.3 **Delivery Points.** Subject to the conditions set forth herein, Midlothian agrees to divert, transport, treat, and deliver Treated Water to Sardis at each Delivery Point. The location of Delivery Points shall be mutually agreed upon by and between Sardis and Midlothian. Delivery Points shall not be moved or relocated except by mutual consent of the Parties in writing. The initial Delivery Point shall be as shown on Exhibit A, attached hereto and incorporated herein for all purposes. The location of all future Delivery Points (if any) shall be depicted on a separate exhibit and included as part of this Agreement. Said exhibit(s) shall show the water mains, meters, vaults, valves and other associated appurtenances and clearly identify the limits of the Parties responsibilities and ownership.
- 3.4 **Relocated Delivery Point.** Any request to relocate a Delivery Point shall be submitted in writing by the requesting Party. If the relocated Delivery Point is mutually agreed upon, then the requesting Party shall be responsible for funding all costs related to constructing the improvements for such relocated Delivery Point, unless the Parties agree on a division of costs based on mutual benefit; provided,

however, that if Sardis submits a request to relocate a Delivery Point, then the following shall also apply:

- (1) If Midlothian is to construct all necessary improvements, Sardis shall be responsible for reimbursing Midlothian, as agreed upon in writing, including the acquisition of any easements or right-of-way. Prior to beginning construction, the Parties shall enter into a written agreement to specify the manner and timeframe for such reimbursement to Midlothian and the time for construction.
- (2) If Sardis is to construct the necessary improvements for a relocated Delivery Point, Sardis shall submit documents to acquire rights-of-way and will submit plans for the construction of the improvements to Midlothian for approval prior to construction commencing; provided, however, that such approval shall not be unreasonably withheld or delayed if the plans comply with Midlothian's technical standards and incorporate Midlothian's requirements. If Midlothian approves the documents and plans submitted, Midlothian will give Sardis notice of said approval in writing within a commercially reasonable time. During the construction, Midlothian may, but is not obligated to, inspect improvements under construction at its sole cost. All costs for the construction of the improvements, including the costs for any easements and/or rights-of-way, shall be borne as agreed upon in writing. Midlothian may, but is not obligated to, make a final inspection at its sole cost, after construction of the improvements are completed and before the improvements are approved by Midlothian for use.

**3.5 Additional Delivery Points and Delivery Line.** Sardis may request one or more additional Delivery Point(s) and/or delivery line(s). Such request(s) shall be made in writing by Sardis and Midlothian shall provide a written response within a commercially reasonable amount of time upon receipt of such request. If additional Delivery Point(s) and/or line(s) are mutually agreed upon, then Sardis shall submit documents to acquire rights-of-way and/or easements and shall submit plans for the construction of the improvements to Midlothian for approval prior to construction commencing; provided, however, such approval shall not be unreasonably withheld or delayed if the plans comply with Midlothian's technical standards and incorporate Midlothian's requirements. If Midlothian approves the documents and plans submitted, Midlothian shall give Sardis notice of said approval in writing. During the construction of such improvements, Midlothian may, but is not obligated to, inspect improvements under construction at its sole cost. All costs for the construction of the improvements, including the costs for any easements and/or rights-of-way, shall be borne by Sardis. Midlothian may, but is not obligated to, make a final inspection at its sole cost, after construction of the improvements are completed and before the improvements are approved by Midlothian for use.

**3.6 Improvements to Existing Delivery Points.** If Sardis requests that improvements be made to an existing Delivery Point, then Sardis shall submit the request in writing to Midlothian. If Midlothian approves the request, then the Parties shall then decide



whether Midlothian or Sardis will be responsible for constructing the improvements and shall follow the procedures set forth in Article 3.4.

- 3.7 Valves at Delivery Point.** As shown and identified in Exhibit A and future exhibits (if any), all valves releasing water from the Midlothian Treated Water System to Sardis shall be solely operated and maintained by Midlothian.
- 3.8 Property of Parties.** Acquired easements, rights-of-way, and water supply assets shall be owned by the acquiring Party. The acquiring Party shall not charge rental or other fees to the other Party for the use of such rights-of-way or easements. Easements, rights-of-way and water supply assets jointly purchased by the Parties shall be owned by the Party in which the easements, rights-of-way and water supply assets lay.
- 3.9 Title to and Responsibility for Water.** Title to, possession and control of the Treated Water shall remain with Midlothian to each Delivery Point, whereupon title to, possession and control of the Treated Water shall pass to Sardis.
- 3.10 Maximum Delivery Rate.** The Parties agree that Midlothian's obligation under this Agreement to deliver Treated Water to Sardis is subject to the Maximum Rate of Flow as set forth below:
- Initial Delivery Point: 694 gpm (1.0 MGD)
- The maximum Rate of Flow at each additional Delivery Point, which is mutually agreed to under this Agreement, shall be agreed upon by the Parties in accordance with Article 4.2 at the time the Parties agree upon each additional Delivery Point.
- 3.12 Additional Treatment.** To the extent any additional, or alternative treatment or processing is required to make the water delivered by Midlothian to Sardis at each Delivery Point, suitable, compatible, or of a quality for introduction into the Sardis distribution system with the water then-within Sardis' distribution system, Sardis is responsible, at its sole cost, for installing any additional facilities or processes within Sardis' Water System for any additional treatment, conditioning or processing.

## **ARTICLE 4**

### **Metering and Rate of Flow Control**

- 4.1 Treated Water Measurement and Control.** Sardis shall install at its sole cost, any Meters and appropriate valves, back flow prevention, flow controllers, or other appropriate equipment, including Supervisory Control and Data Acquisition (SCADA) at each initial Delivery Point and the necessary SCADA improvements at Midlothian's water treatment plant to measure and control the amount of Treated Water delivered to Sardis under the terms of this Agreement. Each Meter shall be specified by Midlothian and meet appropriate AWWA standards. Each Meter shall be installed and tested prior to actual delivery of Treated Water. Upon initial installation and acceptance by Midlothian, each Meter and related equipment shall be solely owned, operated, and maintained by Midlothian at Midlothian's cost, but such cost, or projected cost, shall be included within the cost of service study.
- 4.2 Rate-of-Flow Controllers.** The rate at which Treated Water is withdrawn by Sardis from the Midlothian System shall be regulated by rate-of-flow controllers. The rate of withdrawal shall be controlled so that the maximum rate shall not exceed the Maximum Rate of Flow without a specific written request by Sardis and approval from Midlothian. Notwithstanding anything in this Agreement to the contrary, approval of a request to increase the rate of flow and the length of time the request will be met, shall be at Midlothian's sole discretion. Midlothian shall respond to the request within twenty-four (24) hours of receiving the request. If Midlothian approves the request, Midlothian shall make the adjustments within forty-eight (48) hours of responding to the request. Rate of Flow setting shall be solely operated and maintained by Midlothian.
- 4.3 Calibration of Meters.**
- (a) Annual Testing.** For Meters that require calibration, Midlothian shall routinely test for accuracy at its sole cost. Meters shall be serviced and tested per manufacture's recommendations, or as necessary. Copies of the results of such tests and all related information shall be provided to Sardis within thirty (30) days of such calibration. Sardis shall have access to the Meter(s) at all reasonable times; provided, however, that any reading, calibration or adjustment to such Meter(s) shall be done by employees or agents of Midlothian, or other mutually approved third Party calibration agent, in the presence of representatives of Sardis and Midlothian, if so requested by Sardis. Midlothian shall provide Sardis with seventy-two (72) hours prior notice of such reading, calibration or adjustment. Midlothian shall retain the right to test the Meter(s) more frequently than once each twelve (12) month period; provided, such additional tests are at Midlothian's sole cost.
  - (b) Inaccuracy.** After any calibration, if it is determined that the accuracy envelope of such Meter(s) is found to be lower than ninety-five percent (95%) or higher than one hundred five percent (105%) expressed as a percentage of the full scale of the Meter(s), or Meter(s) fail to perform to AWWA water metering standards (whichever is more restrictive), then the registration of the flow as determined by such defective Meter(s) shall be corrected for a period

extending back to the time such inaccuracy began, if such time is ascertainable; or, if such time is not ascertainable, then for a period extending back one-half (1/2) of the time elapsed since the date of the last calibration, but in no event further back than a period of six (6) months. In the event it is determined that there are inaccuracies with any Meter, Midlothian shall charge or credit Sardis' next invoice in an equal amount per month for the time period that the inaccuracies were determined to have occurred as appropriate, to reflect Sardis' prior underpayments or overpayments. Midlothian shall charge or credit Sardis' account in an amount equal to the difference between the amount actually paid by Sardis and the amount that should have been paid by Sardis, as determined by the corrected registration of the flow of the inaccurate Meter during the period of inaccuracy as determined in this subsection. Each Meter shall be properly sealed, and the seals shall not be broken unless representatives of both Sardis and Midlothian have been notified and given a reasonable opportunity to be present.

- (c) **Meter out of Service - No Readings.** If a Meter used to determine the flow of Treated Water to Sardis is out of service or out of repair so that the amount of Treated Water metered cannot be ascertained or computed from the reading thereof, the Treated Water delivered during the period such Meter is out of service or out of repair shall be estimated and agreed upon by Sardis and Midlothian upon the basis of the best data available. The basis for estimating such flow includes, but is not limited to, extrapolation of past patterns of flow for said Meter under similar conditions. In the event that Sardis and Midlothian cannot agree on the extrapolated estimate of Treated Water volume delivered before the payment due date, Sardis shall make payment to Midlothian based on the same month in the previous year on or before the payment due date. After making such payment, Sardis may request that the matter be submitted to non-binding mediation as provided herein. Midlothian may also request that the matter be submitted to non-binding mediation, as herein provided.

#### **4.4 Meter Reading.**

- (a) Midlothian shall read each Meter provided for herein at monthly intervals, and Sardis and Midlothian shall have free access to read any Meter daily, if either Party so desires. It shall be the duty of both Sardis and Midlothian to give immediate notice, each to the other, should any Meter be found to not be functioning properly, and, upon such notice, repairs to such Meter shall be made promptly.
- (b) Sardis shall have access to records on the Meter(s) readings during reasonable business hours and shall be furnished a copy of readings upon request.

#### **4.5 Additional Meter Testing.** Sardis shall have the right to request Midlothian to test any Meter, but no more frequently than once per month. Upon any such request, Midlothian agrees to perform its testing and calibration of the Meter with notice to Sardis, and the Parties shall be entitled to jointly observe any testing, calibration, and adjustments that are made to the Meter, in the event such modifications shall be