

Control Number: 49283



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Addendum StartPage: 0

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Public ETILITY COMMISSION FILING CLERK

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

TO: SARDIS-LONE ELM WATER SUPPLY CORPORATION

FROM: MOUNTAIN PEAK SPE ALUGLEY SPICT

**ELLIS COUNTY, TEXAS** 

17040

PREPARED BY:

CHILDRESS ENGINEERS
ENGINEERS & CONSULTANTS

211 North Ridgeway Drive, Cleburne, Texas 76033 817/645-1118 TEX. REG. NO. F-702



Josh J. Brockett, P.E.

 $\frac{2/4//9}{\text{Date}}$ 

E CHILDRESS ENGINEERS
ENGINEERS & CONSULTANTS

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

TO: SARDIS-LONE ELM WATER SUPPLY CORPORATION

FROM: MOUNTAIN PEAK SPECIAL UTILITY DISTRICT

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#### **APPLICATION**

#### **ATTACHMENTS**

- 1 Sardis Bylaws
- la Articles of Inc.
- 2 Entities Providing the Same Service
- 3 Financials
- 4 Sardis Rates
- 5 Latest TCEQ Inspection Report
- 6 Services Area Transfer Agreement

#### **EXHIBITS**

- 1 Location Map
- 2 Mile Buffer
- 3 Areas to be Transferred



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

Pursuant to Chapter 13.251 of the Texas Water Code

Dock	et Nun	nber:	

(this number will be assigned by the Public Utility Commission after your application is filed)

7 copies of the application, including the original, along with one copy of the portable electronic storage medium (such as CD or DVD) containing the GIS data shall be filed with

Public Utility Commission of Texas
Attention: Filing Clerk
1701 N. Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

No later than seven days after filing the application for the boundary change, provide a copy of each paper map and a portable electronic storage medium (such as CD, flash drive or DVD) containing complete and identical data to the portable electronic storage medium submitted above to

Texas Natural Resources Information System 1700 N. Congress Ave, Room B40 Austin, Texas 78701

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Part A – General Information
*RN# 101451466
1. Proposed action of application (check all the boxes that apply):  Sale of All Portion of the Water system(s) under CCN No.:  Acquisition Sewer system(s) under CCN No.:  Lease/Rental
X Transfer of All X Portion of the Certificated water service area – CCN No.: 10908  Certificated sewer service area – CCN No.:
If only a portion of a system or certificated service area is affected by this transaction, please specify the areas or subdivision involved:
See Attached Maps
and to:  Obtain a CCN for the transferee (purchaser) – indicate if purchaser will take the seller's CCN  Amend the transferee's CCN No.:  Merge or consolidate public utilities  Cancel CCN of the transferor (seller)
Proposed effective date of this transaction:
Part B — Current Service Provider or Seller Information  Questions 3 through 5 apply to the transferor (current service provider or seller)
For the current CCN holder or service provider please indicate:     A. Name: Mountain Peak SUD  (Individual, Corporation or Other Legal Entity)
rho is a(n):of Individual Corporation WSC HOA or POAX Other District
B. Utility Name (if different than above):  Address: 5671 Waterworks Road, Midlothian TX 76065  Telephone: (AC) (972) 775-5034
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 or accountant.  Name: Josh Brockett, P.E.  Address: 211 N. Ridgeway Dr., Cleburne, TX 76033  Telephone: (AC) (817) 645-1118

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Fax: (817) 645-7235		Email: joshb@chi	ldress-engineers.com
<ol> <li>About the last rate increase for the system or factoristics.</li> </ol>	cilities being		
A. What was the effective date of the last rate increase?	2/1/201	7	
B. Was notice of this increase provided to the P or a predecessor regulatory authority?	ublic Utility Con	nmission of Texas	(commission or PUC)
X No Yes- Application/Docket Number:		Date	9
5. Please provide a list of all customers affected by the or seller utility, if any, and include the following in			
Name and Address of Utility Customer	Date of	Amount of	Amount of Unpaid
None	Deposit	Deposit	Interest on Deposit
None			
Part C – Purchaser or T		rmation	
<ul><li>Questions 6 through 16 refer to the transferee or</li><li>6. For the person or entity acquiring the facilities and</li></ul>	-		
Applicant: Sardis-Lone Elm WSC	TOT CCIV.	, i <del>se e</del>	
• • • • • • • • • • • • • • • • • • • •	oration, or Other	Legal Entity)	
Utility Name:			
(If differ Utility Address: 6681 W. Highland Rd., Midlothian TX, 70	ent than above)		
Othity Address.   10001 W. Fighland Rd., Middothian 12, 7	6065		
Fax: (972) 775-3114 Email: paul@sardiswat	er.com	Telephone (AC): [	(972) 775-8566
CCN Numbers held prior to the filing of this applic	cation: 10058		
7. Check the appropriate box and provide informat applicant:	ion regarding th	e legal status of t	he transferee
Individual			
Home or Property Owners Association Partnership; attach copy of partnership ag	reement		
Corporation; provide charter number as re	•	e Office of the Sec	cretary of State for
Texas:			
Non-profit, member owned, member-c	ontrolled Coope	rative Corporatio	n (Article 1434(a)
Water Sewer Service Corporation); prov	-	•	. , ,

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If the applica the next ques Name: Address Telephone (A	AC):	proprietorship, provide the following information. If not Email Fax (AC):	, skip t
Name:  Address Telephone (A	AC):	Email	, skip t
Name:  Address Telephone (A	AC):	Email	, skip
Name:  Address Telephone (A	AC):	Email	, skip
Name: Address Telephone (A  If the applica partners of the	AC): nt is other than an <i>Indivic</i>		
Address Telephone (A f the applica partners of th	nt is other than an <i>Individ</i>		
Telephone (A f the applica partners of th	nt is other than an <i>Individ</i>	Fax (AC):	
partners of th			
partners of th			
	a a lagal antitu annhuing fa	dual, provide the following information regarding the off	cers c
3. whichever	he legal entity applying to	r the transfer. You must complete either question 8 or c	<sub>l</sub> uesti
	applies to the transferee	applicant.	
	e list next page	Telephone (AC):	
Address:			
Position:		Ownership % (if applicable): 0.00%	
•Name:		Telephone (AC):	
Address:			
Position:		Ownership % (if applicable): 0.00%	
•Name:		Tolonhono (AC)	
Address:		Telephone (AC):	
Position:		Ownership % (if applicable): 0.00%	
OSITION.		Ownership 70 (ii applicable).  0.0076	
•Name:		Telephone (AC):	
Address:			
Position:		Ownership % (if applicable): 0.00%	
•Name:		Telephone (AC):	
Address:			
Position:		Ownership % (if applicable): 0.00%	
Name:		Telephone (AC):	
Address:			
Position:		Ownership % (if applicable): 0.00%	

• Important:
• If the applicant is a for-profit corporation, please provide a copy of the corporation's
"Certification of Account Status" from the State Comptroller Office. This "Certification of
Account Status" can be obtained from:

8.

9.

#### **Sardis-Lone Elm Water Supply Corporation**

Position, Board Member	Address	Phone	
President of the Board: Bill Brandon	6681 West Highland Rd., Midlothian TX, 76065	(972) 775-8566	
Vice-President: Billy Getzendaner	6681 West Highland Rd., Midlothian TX, 76065	(972) 775-8566	
Secretary/Treasurer: Dan Rayfield	6681 West Highland Rd., Midlothian TX, 76065	(972) 775-8566	
Board Member: Greg Losey	6681 West Highland Rd., Midlothian TX, 76065	(972) 775-8566	
Board Member: <b>Alan Krohn</b>	6681 West Highland Rd., Midlothian TX, 76065	(972) 775-8566	
Board Member: <b>Charlie Ruby</b>	6681 West Highland Rd., Midlothian TX, 76065	(972) 775-8566	
Board Member: <b>Jim Rook</b>	6681 West Highland Rd., Midlothian TX, 76065	(972) 775-8566	

#### Texas Comptroller of Public Accounts

P. O. Box 13528, Capitol Station Austin, Texas 78711 1-800-252-5555

If the applicant is an Article 1434a water supply or sewer service corporation or other non-profit corporation, please provide a copy of the Articles of Incorporation and By-Laws.
 See attachment 1, Sardis-Lone Elm W.S.C. bylaws and attachment 1a, Sardis-Lone Elm W.S.C articles of incorporation.

10. Contact person. Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney or accountant.

Name:	Josh Brockett, P.E.	Title:	Engineer
Address: 2	211 N. Ridgeway Dr., Cleburne, TX 76033	Telephone	(AC): (817) 645-1118
ax # (	(817) 645-7235	Email	joshb@childress-engineers.com

- FITHERE ARE MORE THAN TWO PARTIES INVOLVED IN THIS TRANSACTION, PLEASE ATTACH SHEETS PROVIDING THE INFORMATION REQUIRED IN QUESTION 6

  THROUGH QUESTION 10 FOR EACH PARTY
- 11. Please respond to each of the following questions. Attach additional sheets if necessary.
  - A. Describe the experience and qualifications of the applicant to provide adequate utility service to the requested area

Sardis-Lone Elm WSC owns and operates PSW0700034. 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

В.	Has the applicant acquiring the CCN or facilities or an affiliated interest of the applicant been under enforcement action by the PUC, TCEQ, Texas Department of Health (TDH), the Office of the Attorney General (OAG) or the Environmental Protection Agency (EPA) in the past for noncompliance with rules, orders or State Statutes?  Yes X No
	If yes, please attach copies of any correspondence with these regulatory agencies concerning these enforcement actions and describe any actions and efforts to comply with those requirements. Attach additional sheets if needed.
N/A	4
С.	Describe the source and availability of funds required to make the planned or required improvements if any, to meet minimum requirements of the TCEQ and PUC and ensure continuous and adequate service.

None

D. Describe the anticipated impact of this transaction on the quality of utility service and explain ar anticipated changes in the quality of service.	
There are no anticipated changes to the quality of service, as Sardis-Lone Elm W.S.C. is ra "Superior" by the State of Texas.	ted
E. How will the 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.	
2. Please describe the nature of the proposed transaction:	
Sardis-Lone Elm WSC and Mountain Peak SUD have agreed on a equitable service area swap that will simplify their boundaries.	
3. If the transferee applicant is an Investor Owned Utility (IOU) and will be under the rate jurisdicti the PUC, please provide the following information. Water supply or sewer service corporations political subdivisions of the state should mark this section N/A:	
<ul> <li>Total Purchase Price: N/A</li> <li>Total Original Cost (as recorded on books of seller or merging entity):</li> <li>Accumulated Depreciation as of the proposed effective date of the transaction:</li> <li>Contributions in Aid of Construction: <ul> <li>Specific surcharges approved by TCEQ or PUC:</li> <li>Revenues from explicit customer agreements:</li> </ul> </li> </ul>	
- Developer Contributions (please explain):  I/A	
- Other Contributions (please explain):	
N/A	
Total Contributions in Aid of Construction N/A	
Net Book Value:	

	by the PUC, the TWC or the TCE	Q, please p	rovide the Applicat	ion/Docket Nun	nber and date:
	Application/Docket Number:	N/A		Date:	-
	If the applicant is not under the information related to Contribute	-		•	se price and
	Please provide any other information of should be given consideration if not ex [attach additional sheet(s)]	cplained else	where in the appli		elieve
	Areas to be transferred by agreement areas within each CCN that can be more adjusts the boundary to follow existing the utilities. Both items provided the contains been approved by both utilities.  See attachment 6 for the agreement.	ore readily or property li	served by the oth nes to eliminate p	er utility. The a properties split	agreement between
C.	Complete the following propose surviving) company. Additional not intended to pose descriptive	entries may	be made; the follo	•	
	Utility Plant in Ser				
	Plant Acquisition Adjustm				
	Extraordinary Loss on Purch				
	Accumulated Depreciation of Pl				
		Cash:			
	Notes Paya	<b> </b>			
	Mortgage Paya	able:			
	Others (please list):				
	As the purchaser, I understand provide written evidence and suused and useful for providing ut	upport for t	ne original cost and		_
	Purchaser's Initials:	Date:			
14.	Please indicate the proposed effect of to customers:	this transac	ion on the rates to	be charged to t	he affected
	All the customers will be charged the same response All customers will be charged determined transaction.	-	_		
∟∟ PUC	T Sale Merger Transfer (Previous TCEO Form	10516)			

If the Original Cost or any of the above items has been established in a rate case proceeding

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	No current customers
app	Applicant is an IOU and intends to file with the commission or municipal regulatory authority an lication to change rates of some/all of its customers as a result of this transaction. If so, please explain:
	N/A
	Other. Please explain:
15.	List all neighboring water and /or sewer utilities, cities, and political subdivisions providing the same service within two (2) miles of area affected by this proposed transaction. This information should be available from the water utility database (WUD) or Applicant's licensed water operator.
	See Exhibit A, and attachment 2
16. F	inancial, Managerial and Technical information for the acquiring entity.
	See attachment 3, Sardis-Lone Elm W.S.C financials. See attachment 4, Sardis-Lone Elm W.S.C. rate schedule.

#### Part D — Historical Financial Information

HISTORICAL BALANCE SHEETS	CURRENT YEAR (A)	A-1 YEAR	A-2 YEAR	A-3 YEAR	A-4 YEAR	A-5 YEAR
CURRENT ASSETS						
Cash	_					
Accounts Receivable						
Inventories						
Income Tax Receivable						
Other						
Total						
FIXED ASSETS						
Land						
Collection/Distribution System						
Buildings						
Equipment						
Other						
Less: Accum. Depreciation or Reserves						
Total						
TOTAL ASSETS						
CURRENT LIABILITIES						
Accounts Payable						
Notes Payable, Current						
Accrued Expenses						
Other						
TOTAL						
LONGTERM LIABILITIES						
Notes Payable, Long-term						
Other						
TOTAL LIABILITIES						
OWNER'S EQUITY						
Paid in Capital						
Retained Equity						
Other			·		:	
Current Period Profit or Loss						
TOTAL OWNER'S EQUITY						
TOTAL LIABILITIES AND EQUITY						
WORKING CAPITAL						
CURRENT RATIO						
DEBT TO EQUITY RATIO EQUITY TO TOTAL						
ASSETS		1				

HISTORICAL INCOME STATEMENT	CURRENT YEAR (A)	A-1 YEAR	A-2 YEAR	A-3 YEAR	A-4 YEAR	A-5 YEAR
METER NUMBER						
Existing Number of Taps						
New Taps Per Year						
Total Meters at Year End						
METER REVENUE						
Fees Per Meter						
Cost Per Meter						
Operating Revenue Per Meter						
GROSS WATER REVENUE						
Fees						
Other						
Gross Income						
OPERATING EXPENSES						
General & Administrative						
Interest						
Other						
NET INCOME						
		"				

	HISTORICAL EXPENSE DETAIL	CURRENT YEAR (A)	A-1 YEAR	A-2 YEAR	A-3 YEAR	A-4 YEAR	A-5 YEAR
	GENERAL/ADMINISTRATIVE EXPENSES						
	Salaries						
	Office Expense						
ľ	Computer Expense						
	Auto Expense						
	Insurance Expense						
	Telephone Expense						
	Utilities Expense						
,	Depreciation Expense						
	Property Taxes						
	Professional Fees						
	Other						
	Total						
<b>'</b>	% Increase Per Year						
i	OPERATIONAL EXPENSES			1			
	Salaries						
	Auto Expense			·			
	Utilities Expense						_
	Depreciation Expense						
Ī	Repair & Maintenance						
ĺ	Supplies						
	Other						
	Total						
	% Increase Per Year						
	ASSUMPTIONS						
	Interest Rate/Terms						
1	Utility Cost/gal.					-	
	Depreciation Schedule						
	Other						
-	· · · · · · · · · · · · · · · · · · ·	-			-	-	

#### Part E – Projected Information

#### **PROJECTED BALANCE SHEETS**

PROJECTED BALANCE SHEETS	START UP	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
CURRENT ASSETS		1 201 111 1	12/11/2	. 2		. 2
Cash						
Accounts Receivable						
Inventories						
Income Tax Receivable						-
Other						
Total						
FIXED ASSETS					L –	
Land						
Collection/Distribution System						
Buildings						
Equipment						
Other						
Less: Accum. Depreciation or Reserves						
Total						
TOTAL ASSETS						
CURRENT LIABILITIES						
Accounts Payable						
Notes Payable, Current		-				
Accrued Expenses						
Other						
Total						
LONGTERM LIABILITIES						
Notes Payable, Long-term						
Other						
TOTAL LIABILITIES						
OWNER'S EQUITY				,		
Paid in Capital					ļ,,	
Retained Equity						
Other						
Current Period Profit or Loss						
TOTAL OWNER'S EQUITY						
TOTAL LIABILITIES AND EQUITY						
WORKING CAPITAL					<u> </u>	
CURRENT RATIO						
DEBT TO EQUITY RATIO						
EQUITY TO TOTAL ASSETS				<u> </u>		

#### **PROJECTED INCOME STATEMENT**

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
METER NUMBER				_		
Existing Number of Taps						
New Taps Per Year						
Total Meters at Year End						
METER REVENUE						
Fees Per Meter	1					
Cost Per Meter						
<b>Operating Revenue Per Meter</b>						
GROSS WATER REVENUE						
Fees						
Other						
Gross Income						
OPERATING EXPENSES						
General & Administrative						
Interest						
Other						
NET INCOME						

#### **PROJECTED EXPENSE DETAIL**

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
GENERAL/ADMINISTRATIVE EXPENSES						
Salaries						
Office Expense						
Computer Expense						
Auto Expense						
Insurance Expense						
Telephone Expense						
Utilities Expense						
Depreciation Expense						
Property Taxes						
Professional Fees				ļ		
Other						
Total						
% Increase Per Year	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
OPERATIONAL EXPENSES						
Salaries						
Auto Expense						
Utilities Expense			-			
Depreciation Expense						
Repair & Maintenance						
Supplies						
Other						
Total						
% Increase Per Year	0.00%	0 00%	0.00%	0.00%	0.00%	0.00%
	0.0070	0 00,0				
ASSUMPTIONS	0.00 /8					
ASSUMPTIONS Interest Rate/Terms	0.00 /8					
ASSUMPTIONS Interest Rate/Terms Utility Cost/gal.	0.0078					
ASSUMPTIONS Interest Rate/Terms Utility Cost/gal. Depreciation Schedule	0.0078					
ASSUMPTIONS Interest Rate/Terms Utility Cost/gal.	0.0078					

#### PROJECTED SOURCES AND USES OF CASH STATEMENTS

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
SOURCES OF CASH						
Net Income						
Depreciation (If Funded)						
Loan Proceeds						
Other						
Total Sources						
USES OF CASH						
Net Loss						
Principle Portion of Pmts.						
Fixed Asset Purchase						
Reserve						
Other						
Total Uses						
NET CASH FLOW						
DEBT SERVICE COVERAGE						
Cash Available for Debt						
SERVICE (CADS)		,				
Net Income (Loss)						
Depreciation, or Reserve Interest				·		
Total						
REQUIRED DEBT SERVICE (RDS)			,			
Principle Plus Interest						
DEBT SERVICE COVERAGE RATIO						
CADS Divided by RDS						

#### Part F – TCEQ Public Water or Sewer System Information

Please answer questions 17 through 22 on a different sheet transferred or acquired.	et for each physically Distinct	system being
17. A. For Water Systems. TCEQ Public Water System Iden	ntification Number: 0 7	0 0 0 3 4
Date of last inspection: 10/27/2017		
B. For Wastewater Systems: N/A		
-TCEQ Discharge Permit Number: W -Name of Permitee: N/A -Date of application to transfer Discharge PerDate of application to transfer Discharge Per	rmit submitted:	
18. A. Are any improvements required to meet TCEQ or PUC standards?	Yes No. If yes, p	please explain:
B. Is there a moratorium on new connections? Yes	× No. If yes, please explain	n:
C. Provide details of each required major capital improven TCEQ or PUC standards (attach additional sheets if nec		s and meet the
Description of the Required Improvement	Schedule to Complete	Estimated Cost
N/A		
19. Does the system being transferred operate within the city liboundaries? X Yes No  If yes, indicate the number of customers within the city liboundaries of the number of customers within the city liboundaries.  Attach copy of franchise agreement or consent letter from	imits or district boundaries:	
Sardis-Lone Elm W.S.C. operates within utility ease City limits.	ments and right of ways wi	ithin
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20. Do you currently purchase wate  Sewer	er or sewer treatment capacity  Purchased on a   Res	·
Source: Rockett S.U.D. and Co.	City of Midlothian	% of total supply: 25.00%
21. List the number of existing of	connections to be effected by	this transaction. None
Water		Sewer
-Non Metered	-2"meter	-Residential Connection
-5/8" or 3/4" meter	-3" meter	-Commercial Connection
-1" meter	-4" meter	-Industrial Connection
-1 1/2" meter	-Other	-Other
Total Water Connections:		Total Sewer Connections
23. List the name, class, and licer	use number of the operator(s)	that will be responsible for the system:
Name	Class	License#
See Attached List		
- · · · · · · · · · · · · · · · · · · ·		ea with enough detail to accurately locate the

- b. One large scale map showing the proposed service area boundaries being sold, transferred, or merged and, if available, the existing and proposed facilities. Color coding should be used to differentiate existing from proposed facilities. Facilities and service area boundaries should be shown with such exactness that they can be located on the ground. If transferring area not currently in a CCN or a portion of an existing CCN area please attach the following hard copy maps with each copy of the application:
  - 1. A general location map delineating the proposed service area with enough detail to accurately locate the proposed area within the county.
  - 2. A map showing only the proposed area by:
    - i. metes and bounds survey certified by a licensed state or registered professional land surveyor; or
    - ii. projectable digital data with metadata (proposed areas should be in a single record and clearly labeled, data disk should be included); or
    - iii. following verifiable natural and man-made landmarks, or
    - a copy of recorded plat map with metes and bounds.
  - 3. A written description of the proposed service area.

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#### Sardis-Lone Elm W.S.C. Operators

Name	Class	License #
Paul Tischler	Α	W00015976
Chet Kelly	В	W60014982
Scott Settlemeyer	С	W60006321
Todd Martin	С	W60013483
Justin Johnson	С	W60010808
William Getzendaner III	С	WD0014013
Jonathan Getzendaer	С	WD0011213

#### Part G — Oaths and Notices

OATH FOR SEL	LER OR FORMER SERVICE PROVIDER	
STATE OF	Texas	
COUNTY OF	Ellis	
(indicate relations representative of familiar with the o	ship to applicant) that is, owner, member of par applicant); that, in such capacity, I am qualified locuments filed with this application, and have o	, being duly sworn, file this application for  I Manager, Mountain Peak S.U.D.  Itnership, title as officer of corporation, or other authorized and authorized to file and verify such application, am personally complied with all the requirements contained in the application; with respect to applicant are true and correct. Statements about
other parties are r		that the application is made in good faith and that this application
I further state that required under Se	I have provided to the purchaser or transferee ction 13 301(I) and copies of any outstanding Omission of Texas, or Attorney General and have	a written disclosure statement about any contributed property as reders of the Texas Commission on Environmental Quality, the also complied with the notice requirements in Section 13.301(k) of
		AFFIANT
	is form is any person other than the sole owner Attorney must be enclosed.	(Utility's Authorized Representative) , partner, officer of the Applicant, or its attorney, a properly
SUBSCRIBED AND day	SWORN TO BEFORE ME, a Notary Public in and of Manuary, 20 19.	for the State of Texas, this
SEAL		Chouli Vouro
18 S 1 S 1 S 1 S 1 S 1 S 1 S 1 S 1 S 1 S	CHARLI VANCE Notary Public, State of Texas Comm. Expires 05-16-2021 Notary ID 12942727-1	NOTARY PUBLIC IN AND FOR THE STATE OF TEXAS
		PRINT OR TYPE NAME OF NOTARY  MY COMMISSION EXPIRES 5 10 2

One copy of this page must be submitted for each utility involved in this transaction.

#### **OATH FOR PURCHASER OR ACQUIRING ENTITY**

STATE OF	Texas	
COUNTY OF	Ellis	
I, Paul Tischler		, being duly sworn, file this application for
· ·		anager, Sardis-Lone Elm W.S.C. ership, title as officer of corporation, or other authorized
representative of a personally familiar the application; ar correct. Statemen	applicant); that, in such capacity, I am qualified an with the documents filed with this application, and, that all such statements made and matters set	d authorized to file and verify such application, am nd have complied with all the requirements contained in forth therein with respect to applicant are true and nd belief. I further state that the application is made in
Environmental Qu	ality, the Public Utility Commission of Texas or the	Attorney General which have been issued to the system ninistrative penalties or other enforcement actions if I
		2000
		AFFIANT (Utility's Authorized Representative)
	is form is any person other than the sole owner, p must be enclosed.	artner, officer of the Applicant, or its attorney, a properly verified
Applicant represer	nts that all other parties to this transaction have b	een furnished copies of this completed application.
day <u>29</u>	SWORN TO BEFORE ME, a Notary Public in and for of Sinhand, 20 19 .	the State of Texas, this
SEAL		2 sui Elster
01	JONI ELSTON Notary Public, State of Texas Comm. Expires 12-06-2021 Notary ID 10390882	NOTARY PUBLIC IN AND FOR THE STATE OF TEXAS
<i>"''((1)</i> ")		PRINT OR TYPE NAME OF NOTARY

MY COMMISSION EXPIRES

12-00-2021

One copy of this page must be submitted for each utility involved in this transaction.

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P.	JK	ιvi	- A

Docket No.

#### Notice to Current Customers, Neighboring Systems and Cities

Mountain Peak S.U.D. (Seller's or Transferor's Name)	<u>'S</u>	
NOTICE OF INTENT TO SELL I CONVENIENCE AND NECESSI Sardis-Lone Elm WSC (Purchaser's or Transferee's Name)	· / ——	ERTIFICATE OF
To: <u>Sardis-Lone Elm WSC</u> (Name of Customer, Neighboring Sy	Date Notice Mailed_ vstem or City)	, 20
6681 W, Highland Rd (Address)		
Midlothian TX City State	76065 Zip	
Mountain Peak S.U.D. Sellers or Transferors' Name	5671 Waterworks Road Address	Midlothian, TX 76065 City/State/Zip
Has submitted an application with th transfer water or sewer (please select	ne Public Utility Commission of Texa t) (CCN) NO <u>10908</u> IN	s to sell facilities and Ellis [County Name]
County to: Sardis Lone-Elm W.S.C. Purchasers or Transferee's Name	-	Midlothian, TX 76065 City/State/Zip
The sale is scheduled to take place as §13.301). The transaction and the tra	s approved by the Commission (V.T. insfer of the CCN include the following	
Portions of Lakegrove subdivision as	nd undeveloped areas	

Each of the areas are described below

#### Area 1

The area subject to this transaction is located approximately 2.6 miles south of downtown Midlothian, Texas, and is generally bounded on the north by the SCS Site 5 reservoir; on the east by Oak Tree Lane; on the south by Sheparkon Drive; and in the west by 14<sup>th</sup> Street.

The total of area 1 being requested includes approximately 79 acres and serves 0 current customers.

#### Area 2

The area subject to this transaction is located approximately 4.2 miles south southeast of downtown Midlothian, Texas. It is bounded by various property lines and is shown on exhibit 3

The total of area 2 being requested includes approximately 92 acres and serves 0 current customers.

#### Area 3

The area subject to this transaction is located approximately 5.8 miles south southeast of downtown Midlothian, Texas. It is bounded by various property lines and is shown on exhibit 3

The total of area 3 being requested includes approximately 385 acres and serves 0 current customers.

This transaction will have the following effect on the current customer's rates and services: None, no current customers are being transferred.

Affected persons may file written protests and/or request a public hearing within 30 days of this notice.

To request a hearing, you must:

- 1) state your name, mailing address and daytime telephone number;
- 2) state the applicant's name, application number or another recognizable reference to this application;
- 3) include the statement "I/we request a public hearing";
- 4) write a brief description of how you, the persons you represent, or the public interest would be adversely affected by the proposed transaction and transfer of the CCN; and
- 5) state your proposed adjustment to the application or CCN which would satisfy your concerns and cause you to withdraw your request for a hearing.

Only those who submit a written request to be notified of a hearing will receive notice if a hearing is scheduled. The Commission will issue the CCN requested in the referenced applications unless a hearing is scheduled to consider the transaction. If no protest or requests for hearing are filed during the comment period, the Commission may issue the CCN 30 days after publication of this notice.

Persons who wish to protest or request a heading on this application should write the:

Filing Clerk
Public utility Commission of Texas
1701 North Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

Se desea informacion en Espanol, puede llamar al 1888-782-8477

Randle Kirk	
	Utility Representative
Mountain Pea	k S.U.D.
	Utility Name
Paul Tischler	
	Utility Representative
Sardis-Lone E	Elm WSC
	Utility Name

# ATTACHMENT 1 Sardis Bylaws

# BYLAWS of Sardis-Lone Elm WATER SUPPLY CORPORATION

Bylaws of <u>Sardis-Lone Elm</u> Water Supply Corporation, having been presented to the Board of Directors of said Corporation and duly adopted as follows:

#### **ARTICLE I**

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

#### **ARTICLE II**

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

#### **ARTICLE III**

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

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

#### **ARTICLE IV**

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

Section 2. The Board of Directors shall consist of 7 Directors, a majority of whom shall constitute a quorum. "Upon issuance of the Charter and annually thereafter during the first regular meeting of the Directors following the Annual Membership meeting<sup>1</sup>, where the Board of Directors shall elect a President, a Vice-President and a Secretary-Treasurer from among the Directors." The Directors shall be elected by the Members at the Members' meetings provided for in Article VI of the Bylaws. The Directors shall be divided into three (3) classes, each class to be as near as equal in number as possible. The terms of the Directors of the first class shall expire at the first annual meeting of the Members after their election; the terms of the Directors of the second class shall expire at the second annual meeting after their election; and terms of the Directors of the third class shall expire at the third annual meeting after their election. At each annual meeting after such classification, the number of Directors equal to the

number of the class whose term expires at the time of such meeting shall be elected to hold office until the third succeeding annual meeting. Directors, as such, shall not receive any stated salary for their services, except as provided for by state law.

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

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

Section 4. The President of the Board, or Vice-President, shall preside at any meeting of the Members convened to consider removal of a Director as provided under Section 2, unless the President is the subject of charges, in which event the Vice-President shall preside. In the event

both the President and the Vice-President are the subject of charges, those Directors who are not the subject of any charges shall appoint one of the other Directors to preside over the meeting. Any meeting convened to consider the removal of a Director shall be conducted in accordance with the procedures prescribed by the Board. The fact that the President, Vice-President, or other Officer or Director has been made the subject of charges does not prevent such individual from continuing to act as Officer and/or Director. Any Director that has been removed under the provisions of this Article shall not be precluded from subsequent election to a position on the Board of Directors.

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

#### ARTICLE V

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

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

Membership meeting, at which time the general Membership shall elect a successor for the balance of the term.

Section 3. The Board of Directors shall provide access for the public, new service applicants, or Members to the meetings of the Board of Directors by setting aside a time for hearing of suggestions, proposals, or grievances; however, there shall be no deliberations or actions by the Board unless such has first been noticed in accordance with the Texas Open Meetings Act. The Board of Directors shall establish reasonable rules for access to such meetings.

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

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

Form RUS-TX 1780-20 Revision 12-2011

counsel, public accountants, or other persons provided the Directors reasonably believes such matters to fall within such person's professional or expert competence. Nevertheless, Directors must disclose any knowledge they may have concerning a matter in question that makes reliance otherwise provided herein to be unwarranted.

#### ARTICLE VI

Section 1. There shall be a regular meeting of the Members annually, between February  $1^{st}$  and May 1st, to transact all business that may be properly brought before it.

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

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

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

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

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

Section 5. The Board of Directors shall establish a standing Credentials Committee of three (3) Members, of which the Secretary-Treasurer shall be the chairperson. This committee shall at no time have sufficient board members appointed to constitute a quorum of the Board of Directors. This committee, in accordance with procedures adopted by the Board under Section 2, shall recommend for Board approval the election procedures and all related forms and notices, recommend for Board approval a person to fill the role of independent election auditor, ensure that the election procedures are implemented, and serve other functions designated in the Corporation's election procedures. Should the individual holding the office of Secretary

Treasurer be running for re-election, the Board shall appoint an officer not currently running for re-election to serve as chairperson of this committee.

Section 6. After fixing a date for the notice of a meeting, the Board of Directors shall prepare an alphabetical list of the names of all voting members who are entitled to vote as of the record date of the meeting. The list must show the address of each voting member. No later than two (2) business days after the date notice is given of the meeting, and continuing through the meeting, the list of voting members must be available for inspection by any member entitled to vote at the meeting for the purpose of communication with other members concerning the meeting at the Corporation's principal office or at a reasonable place identified in the meeting notice in the city where the meeting will be held. Any voting Member, or voting Member's agent or attorney, shall be allowed, on written demand, to inspect and, at a reasonable time and at their expense, copy the list. Further, the Board shall make the list of voting Members available at the meeting, and shall allow inspection of such list by any voting Member or voting Member's agent or attorney at any time during the meeting, including any adjournments thereof.

#### **ARTICLE VII**

A special meeting of the Members or Directors may be called by the President, or by demand by a majority of the board members or one-third (1/3) of the Members. Such special meetings shall be held upon giving notice as required by the Texas Open Meetings Act.

Prior to convening any special meeting of the Members, the President shall request in writing that the Secretary-Treasurer give at least ten (10) days prior notice to the Members, and that such special meeting is otherwise noticed, as required under Texas Business Organizations Code Section 22.156, and as provided under Article V of these Bylaws. Such notice shall specify the time, place and purpose of the meeting, and shall be addressed and mailed to each of the Members at their address last known to the Corporation, personally delivered to each Member, or sent by facsimile to each Member.

Emergency meetings of the Directors may be held on rare occassions and only when clearly authorized by the Texas Open Meetings Act. Notice of such emergency meeting shall be provided under Article V of the Bylaws and the Texas Open Meetings Act, at least two hours before the meeting is convened. It shall be the responsibility of the President, or a designee of that office, to ensure that proper notice is posted and Directors are properly notified. In no event shall any emergency meeting of the Directors be convened where the business of such meeting could be considered at a regular or special meeting of the Directors receiving at least seventy-two (72) hour notice as provided under Article V of these Bylaws.

#### ARTICLE VIII

The Corporation shall conduct its business on a non-profit basis, and no dividends shall ever be paid upon the Memberships of such Corporation. All profits arising from the operation of such business shall be annually paid out to the persons who have, during the past year, transacted business with the Corporation, in direct proportion to the amount of business transacted, provided that no such dividends shall ever be paid while any indebtedness of the Corporation remains unpaid and, provided also, that the Directors of the Corporation may allocate to sinking fund(s) and reserve accounts such amount of profits as they deem necessary for maintenance, operation, capital improvements, expansions and replacements of all facility components, as provided by Section 67.008 (d) of the Texas Water code. Funds allocated by the Board to a sinking fund for replacement, amortization of debts, and the payment of interest that are not required to be spent in the year in which deposited shall be invested in accordance with the provisions of Section 67.014 (b) of the Texas Water Code.

#### ARTICLE IX

The Directors of the Corporation shall establish and maintain, so long as the Corporation is indebted to the Government, in an institution insured by the State or Federal Government, or invested in readily marketable securities backed by the full faith and credit of the United States of America, a reserve account separate and apart from other fund accounts of the Corporation.

Securities so purchased shall be deemed at all times to be part of the reserve fund account. There shall be deposited in such fund the sum as required by a total of all loan resolutions executed by the Corporation. Such deposits shall be made monthly and shall continue until the total amount deposited equals the sum as required by the executed loan resolutions provided, however, that after any withdrawals, such deposits shall be resumed until the amount accumulated in the fund is restored to the sum as required by the executed loan resolutions.

Withdrawals may be made from this fund only upon prior written approval from USDA Rural Development, RUS. Approval shall be made only for emergency repairs, obsolescence of equipment, improvements to facility, and for making up any deficiencies in revenue for loan payments.

#### ARTICLE X

Section 1. The Corporation shall have Members as defined by the Texas Water Code. All customers of the Corporation must hold a Membership or obtain their service through a Membership. A person or entity that holds an interest in property solely as security for the performance of an obligation or that only builds on or develops the property for sale to others is not required to hold a Membership as a condition to receive service on a limited basis. Every person (which includes any legal entity) owning or having a legal right to the control, possession or occupancy of property served, or which may reasonably be served by the Corporation, shall have the right to become a Member of the Corporation upon payment of the Membership fee hereinafter provided and upon compliance with the Corporation's conditions of water and/or sewer service as provided for in its published charges, rates and conditions of service.

Membership shall not be denied because of the applicant's race, color, religion, sex, age, marital status, familial status, handicap, income from Public Assistance, disability or national origin. It is the intent of the Corporation to provide service on a nondiscriminatory basis.

Section 2. The Membership fee shall be as determined by the Board of Directors.

Payment of Membership fee or transfer of Membership shall entitle an applicant to further qualify for one (1) connection to the system or shall entitle a transferee of Membership to continue to qualify for service to an existing connection to the system by meeting the conditions

for water and/or sewer as provided in the Corporation's published rates, charges, and conditions of service. A person may own more than one Membership, but each Member shall be entitled to only one vote regardless of the number of Memberships owned. Membership certificates shall be in such form as shall be determined by the Board of Directors.

Section 3. The Membership fee may be revised by the Board of Directors as the Board may determine to be appropriate. In determining the amount of the Membership fee, however, the Board shall ensure that the fee is sufficient to establish the potential Member as being legitimately interested in securing water and/or sewer service from the Corporation for such potential Members' own needs. Furthermore, the Board shall determine and administer such fee in a manner or in an amount which does not unreasonably deny service to financially deprived potential Members. In no event, however, shall the Membership fee exceed an amount equal to the sum of twelve (12) charges of the Corporation's minimum monthly water and/or sewer rate unless previously approved by USDA Rural Development, RUS. Membership fees will be refundable.

#### ARTICLE XI

Where necessary for determining those Members entitled to notice of, or those Members entitled to vote at any meeting or any adjournment thereof, or where necessary to make a determination of Members for any other proper purpose, ownership of Memberships shall be deemed to be vested in those persons who are the record owners of Memberships as evidenced by the Membership transfer book on the 15<sup>th</sup> day of the month preceding the month of the date upon which the action requiring such determination is to be taken. Nothing herein shall preclude the holder of a Membership from mortgaging such Membership or, upon notification of the Corporation, preclude the holder of such mortgages from exercising legal rights pursuant to such mortgages upon proper notice to the Corporation.

#### **ARTICLE XII**

Section 1. In order to ensure that business done by the Corporation shall continue within the capacity of its facilities and to prevent undue financial burden on the Members of the Corporation, Membership in the Corporation shall be transferred in accordance with the following:

- (a) Except as herein provided, Membership in the Corporation shall be deemed personal estate and a person or entity that owns any stock of, is a Member of, or has some other right of participation in the Corporation may not sell or transfer that stock, Membership, or other right of participation to another person or entity except: (1) by will to a transferee who is a person related to the testator within the second degree by consanguinity; (2) by transfer without compensation to a transferee who is a person related to the owner of the stock or other interest within the second degree by consanguinity; or (3) by transfer without compensation or by sale to the Corporation.
- (b) Subsection (a) of this section does not apply to a person or entity that transfers the Membership or other right of participation to another person or entity as part of the conveyance of real estate from which the Membership or other right of participation arose.
- (c) The transfer of stock, Membership, or another right of participation under this section does not entitle the transferee to water and/or sewer service unless each condition for water and/or sewer service is met as provided in the Corporation's published rates, charges, and conditions of service. Water and/or sewer service provided by the Corporation as a result of stock, Membership, or other right of participation may be conditioned on ownership of the real estate designated to receive service and from which the Membership or other right of participation arose.
- (d) The Corporation may cancel a persons or other entity's stock, Membership, or other right of participation if the person or other entity fails to meet the conditions for water and/or sewer service prescribed by the Corporation's published rates, charges, and conditions of service, or fails to comply with any other condition placed on the receipt of water and/or sewer service under the stock, Membership, or other right of participation authorized under Subsection (c) of this section. The Corporation may, consistent with the limitations prescribed by Subsection (a)

of this section and as provided in the Corporation's tariff, reassign canceled stock, or a cancelled Membership, or other right of participation to any person or entity that has legal title to the real estate from which the canceled Membership or other right of participation arose and for which water and/or sewer service is requested, subject to compliance with the conditions for water and/or sewer service prescribed by the Corporation's published rates, charges, and conditions of service.

Section 2. Notwithstanding anything to the contrary here-in-above provided, the consideration for the transfer of any Membership in the Corporation from the original Members, their transferees, pledges, administrators or executors, or other persons, shall never exceed the amount of the original costs of such Membership. No gain or profit shall ever be realized from the sale or transfer of a Membership.

#### ARTICLE XIII

The Board may employ a manager to handle the business of the Corporation under the direction of the Board. The Board shall set the salary for the manager.

#### **ARTICLE XIV**

Notwithstanding the ownership of a Membership certificate, all Members shall be billed, disconnected, or reconnected, and otherwise shall receive service in accordance with the written policies of the Corporation, including the tariff of the Corporation. In the event a member should surrender the Membership certificate properly endorsed to the Secretary-Treasurer of the Corporation, the water and/or sewer service shall be discontinued and the obligation to pay for water and/or sewer service shall terminate except as for the minimum charge for the current month and the charge for water and/or sewer used during the current month, and except as for any prior unpaid amounts due the Corporation. Any remaining balance from the membership fee will be refunded to the former member. In the event Membership is terminated, cancelled,

withdrawn, or surrendered, whether voluntarily or involuntarily, the former Member's rights and interest in the assets of the Corporation will not be forfeited.

#### ARTICLE XV

Upon the discontinuance of the Corporation by dissolution or otherwise, all assets of the Corporation shall be distributed among the Members and former Members in direct proportion to the amount of their patronage with the Corporation insofar as practicable. Any indebtedness due the Corporation by a Member for water and/or sewer service or otherwise shall be deducted from such Member's share prior to final distribution. By application for and acceptance of Membership in the Corporation, each Member agrees that upon the discontinuance of the Corporation by dissolution or otherwise, all assets of the Corporation transferred to that Member shall be in turn immediately transferred by the individual Member to an entity that provides a water supply or wastewater service, or both, that is exempt from ad valorem taxation. By application for and acceptance of membership in the Corporation, each Member grants the Corporation's Board of Directors that Member's permission to execute all instruments and documents necessary to effectuate such transfers in order to preserve the Corporation's statutory rights to exemption from income and ad valorem taxation.

#### ARTICLE XVI

The fiscal year of the Corporation shall be <u>January 1</u> to <u>December 31</u>.

#### **ARTICLE XVII**

For so long as the Corporation is indebted for a loan or loans made to it by the United States of America through the USDA Rural Development, RUS, the Corporation shall insure with a reputable insurance company such of its properties and in such amounts as is required by the State Director of the USDA Rural Development, RUS, for the State of Texas.

#### ARTICLE XVIII

Section 1. If at the end of the fiscal year, or in the event of emergency repairs, the Board of Directors determines the total amount derived from the collection of water and/or sewer charges to be insufficient for the payment of all costs incident to the operation of the Corporation's system during the year in which such charges are collected, the Board shall make and levy an assessment against each Member of the Corporation as the Board may determine or as may be required by USDA Rural Development, RUS, so that the sum of such assessments and the amount collected from water and/or sewer and other charges is sufficient to fully pay all costs of operation, maintenance, replacement and repayment on indebtedness for the year's operations, but this provision shall not operate for the benefit of any third party creditor other than USDA Rural Development, RUS, without a favorable vote of the majority of the Members. Any assessments levied to make up operations deficits in any year shall be levied against Members in proportion to their patronage with the Corporation.

Section 2. In the event a Member should surrender their Membership certificate properly endorsed by the Secretary-Treasurer of the Corporation, the obligation to pay such assessments shall be limited to assessments made and levied prior to the date of surrender of the Membership certificate provided, however, that this paragraph and the second sentence of Article XIV shall not apply to relieve a Member of their obligation under special arrangements covering Multiple Membership certificates held by one Member which may have been required or approved by the USDA Rural Development, RUS.

#### ARTICLE XIX

The Corporation shall keep correct and complete books and records of account and shall keep minutes of the proceedings of its Members, Board of Directors, and committees, and shall keep a record of the name and addresses of its Members entitled to vote at its registered office or principle office in Texas.

Annually, the Board of Directors shall prepare or cause to be prepared a report of the financial activity of the Corporation for the preceding year including a statement of support, revenue, and expenses and changes in fund balances, a statement of functional expenses, and balance sheets for all funds or such financial reports as required by USDA Rural Development, RUS. Such report shall be approved by the Board of Directors.

With prior written request, corporate records, books, and annual reports, subject to exceptions provided by the Public Information Act, Chapter 552, Texas Government Code, including any amendments thereto, shall be available for public inspection and copying by the public or their duly authorized representatives during normal business hours subject to a reasonable charge for the preparation of copies.

In the event of any conflict between the provisions of the Open Record Public Information Act and the provisions of the Bylaws, the provisions of the Public Information Act shall prevail.

#### ARTICLE XX

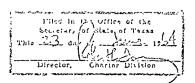
These Bylaws may be altered, amended, or repealed by a vote of a majority of the Members voting at any regular meeting of the Members, or at any special meeting of the Members called for that purpose, except that the Members shall not have the power to change the purpose of the Corporation so as to decrease its rights and powers under the laws of the State, or to waive any requirements of bond or other provisions for the safety and security of the property and funds of the Corporation or its Members, or to deprive any Member of rights and privileges then existing, or so to amend the Bylaws as to effect a fundamental change in the intents and purposes of the Corporation. Notice of any amendment to be made at a special meeting of the Members must be given at least ten (10) days before such meeting and must set forth the amendments to be considered. For so long as the Corporation is indebted for a loan or loans made to it by the United States of America through the USDA Rural Development, RUS, or its successor agencies and assigns, these Bylaws shall not be altered, amended, or repealed without the prior written consent of the State Director of the USDA Rural Development, RUS, for the State of Texas.

#### **ARTICLE XXI**

The seal of the Corporation shall consist of a circle within which shall be inscribed
"Sardis-Lone Elm WATER SUPPLY CORPORATION."
ARTICLE XXII
The Corporation pledges its assets for use in performing the functions of the corporation
as provided by law and the Corporation's Articles of Incorporation.
ARTICLE XXIII
If newly formed Corporation:
The above Bylaws were adopted by a majority vote of the initial Board of Directors of the
Sardis-Lone Elm Water Supply Corporation, at a meeting held on the 20 day of Secenber, 20.
<u> </u>
If an existing Corporation:
The above Bylaws were adopted as amended by the Members of the
Sardis-Lone Elm Water Supply Corporation, at a meeting held on the
20 day of December, 20 16.
12/ Dunder
President
Attest:
Han Kay f
Secretary-Treasurer

# ATTACHMENT 1a Articles of Inc.

### ARTICLES OF INCORPORATION OF



#### SARDIS-LONE ELM WATER SUPPLY CORPORATION

STATE OF TEXAS )

KNOW ALL MEN BY THESE PRESENTS:

COUNTY OF ELLIS )

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

#### ARTICLE I

The name of the corporation is  $\mbox{SARDIS-LONE}$  ELM WATER SUPPLY CORPORATION.

#### ARTICLE II

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

#### ARTICLE LIT

The period of its duration is perpetual.

#### ARTICLE IV

The Corporation is formed for the purpose of furnishing a water supply for general farm use and domestic purposes to individuals residing in the rural community of Sardis-Lone Elm, Texas , and the surrounding rural area. The

Attachment 1a Page 1 of 8

place where the business of the Corporation is to be transacted shall be the community of Sardis Lone Elm
Texas, and the surrounding rural area.

#### ARTICLE V

The address of the initial registered office of the on County Road, 2 miles from F.M.Road 663. Corporation is Route 3, Midlothian, Texas/ and the name of its initial registered agent at such address is .

GEORGE JOHNSON.

#### ARTICLE VI

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

George Johnson	Rt. 3,	Midlothian,	Texas
Randall Tucker	Rt. 3,	Midlothian,	Texas
James Ranton	Rt. 3,	Midlothian,	Texas
R. S. Appleton	Rt. 3,	Midlothian,	Texas.
H. M. Rice	Rt. 3,	Midlothian,	Texas

#### ARTICLE VII

The name and address of each incorporator is:

George Johnson	Rt.	3,	Midlothian,	Texas
Randall Tucker	Rt.	3,	Midlothian,	Texas
James Ranton	Rt.	3,	Midlothian,	Texas
R. S. Appleton	Rt.	З,	Midlothian,	Texas
H. M. Rice	Rt.	3,	Midlothian,	Texas

#### ARTICLE VIII

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

#### ARTICLE VIII

**)** 

Section\_1. Every person (which includes any legal entity) owning or having a legal right to the control, possession or occupancy of property served or which may reasonably be served by the corporation shall have the right to become a member of the Corporation upon payment of the membership fee hereinafter provided and upon compliance with the reasonable requirements of the Corporation governing the purchase of water, charges for connections and operation of and service by the system. Membership shall not be denied because of the applicant's race, color, creed or national origin. It is the intent of the Corporation to provide service on a non-discriminatory basis to all persons desiring service to the extent that the capabilities of the system will reasonably permit. Membership and service may be denied when the additional service requested would prevent the system from providing adequate service.

Section 2. The membership fee shall be \_\_\_\_\_\_Dollars which shall entitle the member to one connection to the water main of the Corporation. A person may own more than one membership but each member shall be entitled to only one vote regardless of the number of memberships owned. Membership certificates shall be in such form as shall be determined by the Board of Directors.

3.27

thereafter on the first Tuesday in January the Board of Directors shall elect a President, a Vice-President, and a Sccretary-Treasurer. The position of the Secretary-Treasurer shall be placed under a fidelity bond in the amount which shall be set by the Board of Directors. The amount of said bond shall be set from time to time by the Board of Directors, but shall not be less than \$1,000.00.

#### ARTICLE IX

The Corporation shall conduct its business on a nonprofit basis, and no dividends shall ever be paid upon the
membership of such corporation and all profits arising from
the operation of such business shall be annually paid out to
the persons who have, during the past year, transacted business
with such corporation, in direct proportion to the amount of
business transacted, provided that no such dividends shall ever
be paid while any indebtedness of the Corporation remains unpaid, and provided also that the directors of such Corporation
may allocate to a reserve fund such amounts of the annual income as they deem necessary for maintenance, upkeep, operation
and replacement, emergency repairs, and for deficiencies in
income necessary to meet debt service costs.

#### ARTICLE X

The Corporation may make and collect charges for water delivered in such amounts and in such manner as may be provided for in the By-Laws and make additional charges, prospective and retroactive, on the basis of the number of connections or otherwise as may be provided for, in the By-Laws. It may adjust rates from time to time to cover deficiencies in income in the event the amount collected from water and other

charges is insufficient in any year to operate and maintain the water system and pay annual obligations and to enforce the collection thereof by the termination of water service or otherwise as provided by the By-Laws and by a personal action at law. In addition, and at the end of any fiscal year the Corporation may make and levy an assessment against each member of the Corporation in the manner and for the purposes as may be provided for in the By-Laws and may enforce the collection of same by termination of water service or otherwise as provided for in the By-Laws and by a personal action at law.

#### ARTICLE XI

The Board of Directors shall select as depository for the funds of said Corporation, a bank within the State of Texas which is insured with the Federal Deposit Insurance Corporation and shall require of said depository such bond as the Board deems necessary for the protection of said Corporation.

#### ARTICLE XII

The directors of the Corporation shall establish and maintain, so long as the Corporation is indebted to the Government, in a bank within the State of Texas, insured with the Federal Deposit Insurance Corporation, a reserve fund account separate and apart from other fund accounts of the Corporation. There shall be deposited in such funds the sum of \$25.00 per month from the revenues of the Corporation. Such deposits will continue until the total amount deposited equal \$2,500.00; provided, however, that after any withdrawals, such deposit shall be resumed until the amount accululated in the fund is restored to \$2,500.00.

Withdrawals from this fund shall be made only for

emergency repairs, obsolescence of equipment, and for making up any deficiencies in revenue for loan payments. One of the objects of this reserve fund is to assure, during the periods of non-water deliveries or water shortages, the availability of funds equal to the difference between collection from the sale of water and collections that would have been made had the members been able to purchase the quantity of water used normally.

The Directors shall invest all sums in this fund not required to be expended within the year in which the same are deposited, in bonds, or other evidence of indebtedness of the United States of America, or they shall deposit said sums at interest in a savings account, in a bank insured with the Federal Deposit Insurance Corporation. Securities so purchased shall be deemed at all times to be a part of the reserve fund account.

#### ARTICLE XIII

The Corporation is and shall continue to be a Corporation without capital stock. Membership in the Corporation shall be sold for \$50.00 per member.

#### ARTICLE XIV

Membership in the Corporation shall be deemed personal estate and shall be transferable only on the books of the Corporation in such manner as the By-Laws may prescribe.

IN WITNESS WHEREOF, we have hereunto set our hands, this 4.D. 1964.

(F) 5

STATE OF TEXAS )
COUNTY OF DALLAS )

I, a Notary Public in and for the above County and State, do hereby certify that on this 21st day of June 1964, personally appeared before me the following persons: George Johnson, Randall Tucker, James Ranton, R. S. Appleton, and H. M. Rice,

who, each being by me first duly sworn, severally declared that they are the persons who signed the foregoing document as incorporators, and that the statements therein contained are true.

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

Notary Public in and for

Dallas

\_ County, Texas

My commission expires June 1, 1965.

ARTICLES OF INCORPORATION SARDIS-LONE ELM WATER SUPPLY CORPORATION Corporate Mame ROUTE 3, MIDLOTHIAN, THEXAS - ON COUNTY ROAD, 2 MILES FROM F. M. ROAD 663 Registered Office GEORGE JOHNSON Registered Agent 7709 Filing Fee  $\phi$  25.00 Existence PERPETUAL FILED IN THE OFFICE OF THE SECRETARY OF STATE OF THE STATE OF TEXAS DAY OF JUNE 1964 23FD THIS' LEDCER NO. EXEMPT

# ATTACHMENT 2 Entities Providing the Same Service

#### Attachment 2: Entities Providing the Same Service within 2 Miles of the Transaction

Entity	CCN
City of Midlothian	11706
City of Waxahachie	10915
Mountain Peak Special Utility District	10908
Buena Vista-Bethel Special Utility District	10898
Sardis-Lone Elm Water Supply Corporation	10058

# ATTACHMENT 3 Financials

**Audited Financial Statements** 

December 31, 2016 and 2015

Gilliam, Wharram & Co., P.C. Certified Public Accountants

## SARDIS-LONE ELM WATER SUPPLY CORPORATION TABLE OF CONTENTS

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#### GILLIAM, WHARRAM & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS 107 WESTMEADOW DR. • P.O. BOX 118 CLEBURNE, TEXAS 76033 • (817) 641-2274 FAX (817) 641-2474

#### Independent Auditor's Report

To the Board of Directors Sardis-Lone Elm Water Supply Corporation Midlothian, Texas

We have audited the accompanying financial statements of Sardis-Lone Elm Water Supply Corporation, which comprise the statements of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

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

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

#### Opinion

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

#### Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating expenses on page 16 and 17 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The financial statements of Sardis-Lone Elm Water Supply Corporation for the year ended December 31, 2015, were audited by another auditor whose report dated February 16, 2016, included an other-matter-paragraph that described the supplementary information presented with the financial statements, and expressed an unmodified opinion on those statements.

Gilliam, Wharram & Co., P.C.

Dilliam, Wharram + Co., P. C.

Cleburne, Texas

April 7, 2017

**Financial Statements** 

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

	AS	S	E.	Ī	S
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		2016		2015
Current Assets: Cash and cash equivalents Investments	\$	631,678 100,000	\$	1,158,457 100,000
Accounts receivable, net of allowance		499,141		360,588
Inventory		1,155,703		104,399
mventory		1,133,703		104,399
Total Current Assets		2,386,522		1,723,444
Property, Plant and Equipment: Property, plant and equipment, total		31,385,793		29,556,891
Less: Accumulated depreciation		(10,032,514)		(9,277,349)
Less. Accumulated depreciation		(10,032,314)		(9,211,349)
Total Property, Plant and Equipment, net		21,353,279		20,279,542
Restricted Assets: Cash for capital improvements		963,042		629,876
		333,3.12		0_0,0.0
Total Assets		24,702,843	\$	22,632,862
LIABILITIES AND NET ASSE	TS			
		2016		2015
Current Liabilities:				
Accounts payable	\$	80,582	\$	-
Other accrued expenses		99,101		87,858
Current portion of long-term debt		580,357		363,212
				, , , , , , , , , , , , , , , , , , , ,
Total Current Liabilities		760,040		451,070
Long-Term Debt:				
Notes payable		5,327,699		4,633,769
Less: Current portion of long-term debt		(580,357)		(363,212)
Total Long-Term Debt		4,747,342		4,270,557
Total Liabilities		5,507,382		4,721,627
Net Assets:				
Retained earnings - unrestricted		18,190,019		17,238,959
Retained earnings - Board-designated for debt service		42,400		42,400
Total unrestricted net assets		18,232,419		17,281,359
Retained earnings - restricted for capital improvement		963,042		629,876
Total Not Access		10 105 464		
Total Net Assets		19,195,461		17,911,235
Total Liabilities and Net Assets	\$	24,702,843	_\$_	22,632,862

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

#### STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

UNRESTRICTED SUPPORT AND REVENUE	2016	2015
Operating Revenues: Water service fees	\$ 4,916,991	\$ 4,983,858
Total Unrestricted Support and Revenue	4,916,991	4,983,858
Operating Expenses:		
Distribution	3,453,475	3,106,925
Administration	107,901	132,296
Office	197,789	190,881
Total Operating Expenses	3,759,165	3,430,102
Income from Operations	1,157,826	1,553,756
Net Assets Released from Restrictions		110,000
Other Revenues (Expenses):		
Investment income	3,192	6,455
Interest expense	(207,037)	(215,249)
Investment gains and losses, net	-	(1,444)
Scrap sales	1,500	1,750
Gain (loss) on disposal of assets	(303)	-
Rental income	61,540	69,854
Capital contributed by developers	800,740	-
Depreciation expense	(866,398)	(814,270)
Total Other Revenues (Expenses)	(206,766)	(952,904)
INCREASE IN UNRESTRICTED NET ASSETS	951,060	710,852
TEMPORARILY RESTRICTED NET ASSETS		
Investment return	2,141	1,414
Capital recovery fees	331,025	280,030
Net assets released from restrictions:  Restrictions satisfied by payments	_	(110,000)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	333,166	171,444
CHANGE IN NET ASSETS	1,284,226	882,296
NET ASSETS, beginning of year	17,911,235	17,028,939
NET ASSETS, end of year	\$ 19,195,461	\$ 17,911,235

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

#### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Operating Activities: Change in net assets Adjustments to reconcile change in net assets to cash	\$ 1,284,226	\$ 882,296
provided by operating activities:  Depreciation  Loss on disposal of assets  Capital contributed by developers	866,398 303 (800,740)	814,270 - -
Increase (decrease) in: Accounts receivable Inventory Accounts payable	(138,553) (1,051,304) 80,582	(77,727) (22,374)
Accrued expenses	11,243	(14,762)
Net cash provided by operating activities	252,155	1,581,703
Investing Activities: Increase in restricted cash Proceeds from disposal of assets Cash acquisition of plant and equipment	(333,166) 31,083 (1,170,780)	(171,444) 134 (1,076,022)
Net cash used in investing activities	(1,472,863)	(1,247,332)
Financing Activities: Proceeds from notes payable Principal payments on notes payable	1,087,036 (393,107)	- (344,515)
Net cash provided by (used in) financing activities	693,929	(344,515)
Net decrease in cash Cash and cash equivalents, at beginning of year	(526,779) 1,158,457	(10,144) 1,168,601
Cash and cash equivalents, at end of year	\$ 631,678	\$ 1,158,457
Supplemental disclosures:  Cash paid for interest on debt  Noncash items:  Capital contributed by developers	\$ 207,037 800,740	\$ 215,249 -
Tapital velicination of detelopole	550,7 40	_

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

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

#### Note 1: Nature of Activities and Significant Accounting Policies

#### **Nature of Activities**

Sardis-Lone Elm Water Supply Corporation (the Corporation) is a Texas non-profit corporation formed in June 1964. The Corporation supplies water to customers in the rural area surrounding Midlothian, Texas. These services are primarily provided by a system of wells and water lines which have been installed and are operated by the Corporation. Sale of water is the principal source of income.

The Corporation is governed by a seven-person Board of Directors who are elected by the membership and serve a three-year term. The Board is responsible for the financial and managerial decisions of the Corporation, as well as compliance with laws and regulations.

#### Summary of Significant Accounting Policies

A summary of the Corporation's significant accounting policies consistently applied to the preparation of the accompanying financial statements follows:

#### Basis of Presentation

The Corporation utilizes the accrual basis of accounting, which conforms to generally accepted accounting principles in the United States of America.

#### Cash and Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers cash on hand, cash on deposit in banks and money market funds to be cash equivalents.

#### Accounts Receivable

Accounts receivable arise from the sale of water and related services. Water meters for members whose account balance is more than one month delinquent are locked until the past due amounts are paid in full. Balances that are still outstanding after management has used reasonable collection efforts and thus considered bad debts are written off through income.

#### Investments

Investments are reported at fair value. Allowable investments for the Corporation are mutual funds, certificates of deposit, unit investment trusts, equity securities, and pooled funds.

#### Inventory

Inventory consists of fitting supplies, meters, pipe and other supply items and is stated at cost. Cost is determined substantially by the first-in, first-out method.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

#### Note 1: Nature of Activities and Significant Accounting Policies (continued)

#### Property, Plant and Equipment

The Corporation capitalized equipment of significant cost. Property, plant, and equipment are recorded at cost and depreciation is provided by the straight-line method over their estimated useful lives. Assets acquired through gifts or donations are recorded at their estimated fair market value at the time of acquisition and depreciated in the same manner as purchased assets. Depreciation is charged to expense.

The estimated useful lives of the various classifications of these assets are as follows:

Buildings	40	Years
Distribution system and wells	40	Years
Machinery and equipment	5	Years
Furniture and fixtures	5-10	Years
Vehicles	3	Years

Maintenance and repairs are charged to expense as incurred and major renewals or betterments are capitalized. In 2016 and 2015, depreciation expense was \$866,398 and \$814,270, respectively.

#### Net Assets

The Corporation is required to report information regarding its net assets according to the following three net asset classes: *unrestricted* which includes the operating funds expended in daily operations; *temporarily restricted* which includes amounts set aside for capital improvement; and *permanently restricted* which would be amounts restricted in perpetuity, of which the Corporation has none.

#### Revenue Recognition

Revenue from water sales is available for unrestricted use in the related calendar year.

#### Use of Estimates

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

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

#### Note 1: Nature of Activities and Significant Accounting Policies (continued)

#### Reclassifications

Certain accounts relating to the prior year have been restated to conform to current year's presentation. The reclassifications have no effect on prior year change in net assets.

#### Federal Income Tax

The Corporation is exempt from federal income tax under Internal Revenue Code Section 501(c)(12) and is not a private foundation.

#### Note 2: Cash and Cash Equivalents

At December 31, 2016, the balance of the Corporation's deposits (cash, checking, money market, and savings accounts) amounted to \$1,594,720, of which \$963,042 is restricted for capital improvement projects.

At December 31, 2015, the balance of the Corporation's deposits (cash, checking, money market, and savings accounts) amounted to \$1,788,333, of which \$629,876 is restricted for capital improvement projects.

#### Note 3: Investments

At December 31, 2016 and 2015, the Corporation's investments consisted of a certificate of deposit in the amount of \$100,000.

#### Fair Value Measurements

The Corporation is subject to the provisions of FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, which establishes a hierarchy that categorizes fair value measurements as follows:

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

Level II – Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant drivers are observable.

Level III – Prices determined using significant unobservable inputs.

These reflect the Corporation's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

#### Note 3: Investments (continued)

The following is a summary of the fair value measurements as of December 31, 2016 and 2015, for the statement of financial position items that are required to be presented at fair value:

		2016	2015
Level II	-		
Certificates of deposit	\$	100,000	\$ 100,000

Investment income for the year is summarized as follows:

	2016	2015
Interest income	\$ 5,333	\$ 6,455
Realized gain (loss) on investments	 _	(30)
	\$ 5,333	\$ 6,425

#### Note 4: Accounts Receivable

The Corporation's accounts receivable consists of billings for water usage in the amount of \$525,879 and \$360,588 as of December 31, 2016 and 2015, respectively. The following is an aged analysis of accounts receivable:

	2016			2015		
		Amount	%		Amount	%
Current	\$	406,057	77.21%	\$	272,320	70.41%
30 -59 days past due		63,922	12.16%		47,425	12.26%
60-89 days past due		17,408	3.31%		21,567	5.58%
Over 90 days past due		38,492	7.32%		45,452	11.75%
		525,879	100.00%		386,764	100.00%
Less: allowance for						
uncollectible accounts		(26,738)			(26,176)	
	\$	499,141		\$	360,588	

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

#### Note 5: Property, Plant and Equipment

A summary of property, plant and equipment as of December 31, 2016 and 2015, is as follows:

	2016	2015		
Land	\$ 348,472	\$ 348,472		
Buildings	563,580	563,580		
Distribution systems and wells	28,227,525	26,606,993		
Machinery and equipment	1,523,836	1,401,001		
Furniture and fixtures	183,676	164,069		
Vehicles	538,704	472,776		
	31,385,793	29,556,891		
Less accumulated depreciation	(10,032,514)	(9,277,349)		
	\$ 21,353,279	\$ 20,279,542		

#### **Note 6: Compensated Absences**

Regular full time employees are entitled to 40 hours of sick time after 12 months of employment. All unused sick leave will be forfeited on the employee's anniversary date, so that at no time will an employee have more than 40 hours of sick time available. Unused sick leave is not compensatory upon separation from employment.

The Corporation's employees earn two weeks of vacation after one full year of service. After the fifth year, employees receive one additional day each year up to a maximum of three weeks. Employees are required to use carryover no more 40 hours of vacation. Unused vacation is compensatory upon separation. Compensated absences are not material to the financial statements and the Corporation has elected to recognize the costs when actually paid to employees.

#### Note 7: Long-Term Debt

The Corporation maintained a line of credit with Citizens National Bank in the amount of \$150,000 with interest at 5.25% maturing June 25, 2016. No amounts were drawn or paid during 2015 or 2016 and the line was not renewed in 2016.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

#### Note 7: Long-Term Debt (continued)

A summary of long-term debt for the years ended December 31, 2016 and 2015, is as follows:

	 2016	2015
\$4,700,000 line of credit; interest accrues at the bank base rate plus 1% (loan rate of 4.5% as of September 30, 2016); secured by real property, inventories, equipment, and receivables of the Corporation; monthly payments of \$30,215 including principal and interest; maturing in March 2030.	\$ 3,599,811	\$ 3,792,886
\$1,200,000 term construction loan; 4% interest rate; secured by real property; monthly payments of \$16,432 including principal and interest; maturing in February 2021.	674,809	840,883
\$1,087,037 term equipment loan; 4% interest rate; secured by real property; monthly payments of \$20,047 including principal and interest; maturing in October		
2021.	1,053,079	
	5,327,699	4,633,769
Less: current portion	(580,357)	(363,212)
Long-term portion	\$ 4,747,342	\$ 4,270,557

Debt service requirements through maturity are as follows as of December 31, 2016:

333
33
34
94
04
94
20
12
3 8 2 8 7

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

#### Note 8: Retirement Plan

As of January 1, 2009, the Corporation established a 401(k) retirement plan for its employees. Employees are eligible to participate in the Plan after one year of service and having reached the age of 21. In 2016 and 2015, an employee may contribute up to a maximum of \$18,000 (with an additional catch-up contribution of \$6,000 for qualified individuals) to the Plan. The Corporation contributes to the Plan through matching contributions. Participants are 100% vested in the Corporation's contributions for its matching portion after three years of service. The Corporation's contribution to the Plan for the years ended December 31, 2016 and 2015 was \$23,411 and \$24,713, respectively.

#### Note 9: Commitments and Contingencies

#### Water Purchase Contract

In August 2009, the Corporation entered into a contract with the Rockett Special Utility District (the District) for the purpose of obtaining an adequate and dependable treated water supply. The contract remains in effect for 20 years following its effective date. Under the terms of the contract, payments are based on certain minimal annual sums of money. The Corporation will take or pay for gallons of water per day at an annually adjusted rate per 1,000 gallons (\$3.89 for 2016 and \$3.88 for 2015) paid to the District in 12 equal monthly installments. Should the Corporation exceed 100% of the annual minimum amount during any water year; the excess water delivered will be billed in the first month following the month in which the 100% level was reached.

In August 2015, the Corporation entered into a contract with the City of Midlothian (the City) for the purpose of obtaining an additional adequate and dependable treated and raw water supply. The contract remains in effect for 5 years following its effective date. In the event the Corporation secures raw water for treatment by the City, the agreement shall remain in effect for a total term of twenty 20 years from the effective date. The Corporation will take or pay for gallons of treated water at a volume rate of \$2.41 per 1,000 gallons and a raw water rate of \$1.08883 per 1000 gallons, which will be billed monthly. A settle-up shall be made no less than sixty days after the end of the City's fiscal year, whereupon any under or over payment shall be paid or remitted to the appropriate party.

#### Construction

Due to the continued growth in the Corporation's service area, several construction projects are in progress or are in the planning stages.

#### Litigation

The Corporation is subject to claims and lawsuits arising principally in the normal course of operations. The Corporation maintains liability insurance coverage for these matters.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

#### Note 9: Commitments and Contingencies (continued)

#### Leases

The Corporation leases equipment under non-cancelable operating leases with terms ranging from three to five years. Rental expense for the equipment for the years ended December 31, 2016 and 2015 was \$62,916 for each year. The following is a schedule by year of future minimum lease payments under the leases at December 31, 2016:

Year ended	
December 31,	Total
2017	\$ 62,916
2018	36,045
2019	36,045
TOTALS	\$ 135,006

#### Note 10: Concentrations of Credit Risk

The Corporation maintains cash balances at several banks. Accounts at each institution are insured by the FDIC and balances in excess of the FDIC coverage are guaranteed by securities pledged by two financial institutions. As of December 31, 2015, cash and cash equivalents were fully collateralized. As of December 31, 2016, cash and cash equivalents were not fully collateralized by \$187,633.

#### **Note 11: Subsequent Events**

Subsequent events have been evaluated through April 7, 2017, the date the financial statements were available to be issued.

Supplementary Schedules

### SCHEDULE OF OPERATING EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2016

	_Di	stribution	Adı	ministration	 Office		Total	
Salaries*	\$	531,872	\$	57,833	\$ 125,655	\$	715,360	
Retirement plan contributions		17,406		1,893	4,112		23,411	
Payroll taxes		52,016		5,656	12,289		69,961	
Accounting fees		_		19,300	· <del>-</del>		19,300	
Legal fees		-		8,000	-		8,000	
Chemical analysis and testing		14,042		-	-		14,042	
Dues and memberships		5,680		-	-		5,680	
Fees		15,033		-	-		15,033	
Health insurance		139,968		15,219	33,068		188,255	
Insurance		68,616		-	-		68,616	
Office		-		-	22,665		22,665	
Maintenance		89,324		-	-		89,324	
Other		236,522		_	-		236,522	
Repairs		328,690		-	-		328,690	
SCADA		22,996		-	-		22,996	
Supplies		297,462		-	-		297,462	
Training		12,276		-	-		12,276	
Truck		83,161		-	-		83,161	
Utilities		522,085		-	_		522,085	
Wholesale water purchased		1,016,326			 		1,016,326	
	<u>\$</u>	3,453,475	\$	107,901	\$ 197,789	\$ :	3,759,165	

<sup>\*</sup>Excludes capitalized labor of \$249,298 for construction projects.

## SCHEDULE OF OPERATING EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2015

	Di	stribution	Administration		Office		Total	
Salaries	\$	737,131	\$	63,361	\$	148,414	\$	948,906
Retirement plan contributions		19,793		2,238		2,682		24,713
Payroll taxes		60,019		4,781		11,198		75,998
Accounting fees		-		22,416		-		22,416
Legal		-		6,050		-		6,050
Chemical analysis and testing		14,031		-		-		14,031
Dues and memberships		5,080		-		-		5,080
Fees		17,289		-		-		17,289
Health insurance		137,579		12,507		28,587		178,673
Insurance		134,519		-		-		134,519
Office		-		20,943		-		20,943
Maintenance		114,920		-		-		114,920
Other		153,414		-		-		153,414
Repairs		161,610		-		-		161,610
SCADA		27,548		-		-		27,548
Supplies		277,390		-		-		277,390
Training		1,270		-		-		1,270
Truck		86,384		-		-		86,384
Utilities		581,969		-		-		581,969
Wholesale water purchased		576,979						576,979
	\$ 3	3,106,925	\$	132,296	\$	190,881	_\$_	3,430,102

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# ATTACHMENT 4 Sardis Rates

#### Sardis-Lone Elm WSC Current Rates, April 2017

#### Monthly Minimum - \$23.63 Water Included with Minimum Bill - Zero Gallons

Charges for water used is as follows:

Tier	Charge/1,000 gallons
1 - 10,000 gallons	\$4.36
10,001 - 20,000 gallons	\$4.90
20,001 - 50,000 gallons	\$5.98
50,001 - 70,000 gallons	\$6.95
70,001 - 100,000 gallons	\$8.50
100,001 gallons plus	\$9.50

# ATTACHMENT 5 Latest 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 <a href="http://www.tceq.state.tx.us">http://www.tceq.state.tx.us</a> 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,

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

Investigation #

6681 W HIGHLAND RD

1448611 Investigation Date: 10/27/2017

MIDLOTHIAN, ELLIS COUNTY, TX 76065

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

**Summary of Investigation Findings** 

Page 1 of 2

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 6 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. <u>Term.</u> This agreement shall remain valid and enforceable until superseded by subsequent written agreement.
- 2. <u>Property Subject to the Agreement.</u> 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. <u>Effective Date.</u> 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. <u>Applicable Texas Law.</u> This Agreement will be governed by and construed and enforced under the laws of the State of Texas.
- 7. <u>Venue</u>. The sole and exclusive venue for any disputes arising out of or related to this Agreement shall be in Ellis County, Texas.

- 8. <u>Successors and Assigns.</u> 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 3/ day of 3, 2018.

Sardis-Lone Elm Water Supply Corporation

Y: // // // Bill Brandon, President

ATTĘST:

Paul Tischler, General Manager

EXECUTED by Mt Peak Special Utility District on this 26 Mday of Systember 2018.

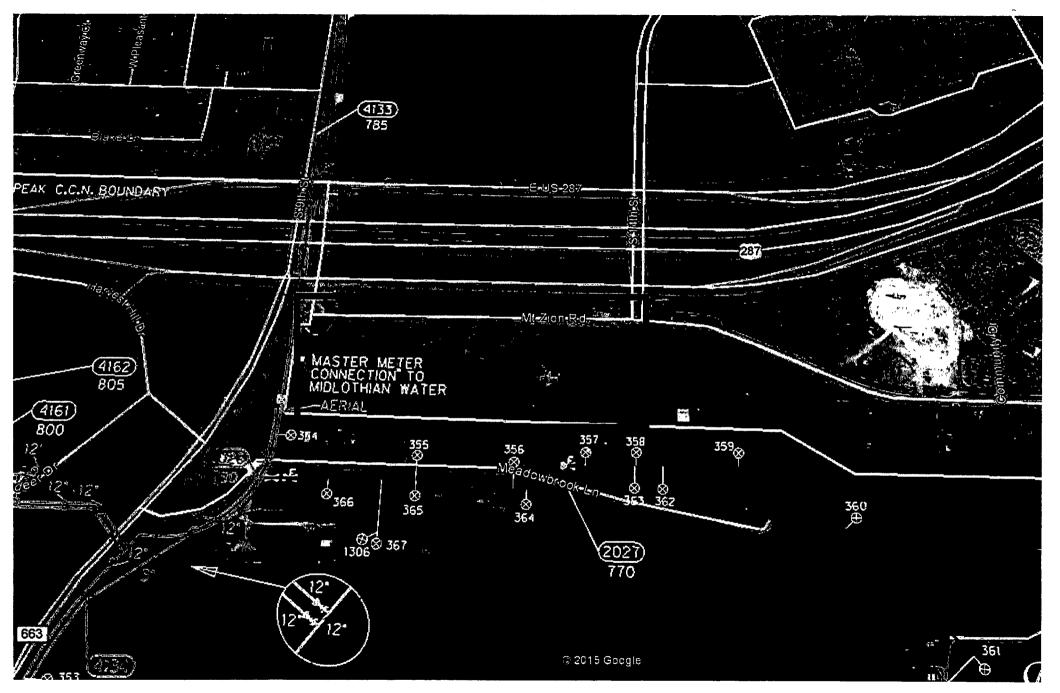
Mt Peak Special Utility District

Clyde Bryant, Presiden

ATTEST:

Randal Kirk, General Manager

EXHIBIT





**EXHIBIL "B"** 

