



Filing Receipt

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

Pursuant to Texas Water Code § 13.301 and 16 Texas Administrative Code § 24.239

Sale, Transfer, or Merger (STM) Application Instructions

- I. **COMPLETE:** In order for the Commission to find the application sufficient for filing, the Applicant should:
 - i. Provide an answer to every question and submit any required attachment applicable to the STM request (i.e., agreements or contracts).
 - ii. Use attachments or additional pages to answer questions as necessary. If you use attachments or additional pages, reference their inclusion in the form.
 - iii. Provide all mapping information as detailed in Part G: Mapping & Affidavits.
- II. **FILE:** Seven (7) copies of the completed application with numbered attachments. One copy should be filed with no permanent binding, staples, tabs, or separators; and 7 copies of the portable electronic storage medium containing the digital mapping data.
 - i. **SEND TO:** Public Utility Commission of Texas, Attention: Filing Clerk, 1701 N. Congress Avenue, P.O. Box 13326, Austin, Texas 78711-3326 (NOTE: Electronic documents may be sent in advance of the paper copy, however they will not be processed and added to the Commission's on-line Interchange until the paper copy is received and file-stamped in Central Records.)
- III. The application will be assigned a docket number, and an administrative law judge (ALJ) will issue an order requiring Commission Staff to file a recommendation on whether the application is sufficient. The ALJ will issue an order after Staff's recommendation has been filed:
 - i. **DEFICIENT (Administratively Incomplete):** Applicants will be ordered to provide information to cure the deficiencies by a certain date, usually 30 days from ALJ's order. *Application is not accepted for filing.*
 - ii. **SUFFICIENT (Administratively Complete):** Applicants will be ordered by the ALJ to give appropriate notice of the application using the notice prepared by Commission Staff. *Application is accepted for filing.*
- IV. Once the Applicants issue notice, a copy of the actual notice sent and an affidavit attesting to notice should be filed in the docket assigned to the application. Recipients of notice may request a hearing on the merits.

HEARING ON THE MERITS: An affected party may request a hearing within 30 days of notice. In this event, the application may be referred to the State Office of Administrative Hearings (SOAH) to complete this request.
- V. **TRANSACTION TO PROCEED:** at any time following the provision of notice, or prior to 120 days from the last date that proper notice was given, Commission Staff will file a recommendation for the transaction to proceed as proposed or recommend that the STM be referred to SOAH for further investigation. The Applicants will be required to file an update in the docket to the ALJ every 30 days following the approval of the transaction. The transaction must be completed within six (6) months from the ALJ's order (Note: The Applicants may request an extension to the 6 month provision for good cause).
- VI. **FILE:** Seven (7) copies of completed transaction documents and documentation addressing the transfer or disposition of any outstanding deposits. After receiving all required documents from the Applicants, the application will be granted a procedural schedule for final processing. The Applicants are requested to consent in writing to the proposed maps and certificates, or tariff if applicable.
- VII. **FINAL ORDER:** The ALJ will issue a final order issuing or amending the applicable CCNs.

FAQ:
Who can use this form?
 Any retail public utility that provides water or wastewater service in Texas.

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

Terms
Transferor: Seller
Transferee: Purchaser
CCN: Certificate of Convenience and Necessity
STM: Sale, Transfer, or Merger
IOU: Investor Owned Utility

Application Summary

Transferor: Palo Duro Service Company dba Trinity River Estates
(selling entity)

CCN No.s: 12200

Sale Transfer Merger Consolidation Lease/Rental

Transferee: City of Hudson Oaks
(acquiring entity)

CCN No.s: 12273

Water Sewer All CCN Portion CCN Facilities transfer

County(ies): Parker

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Please mark the items included in this filing

<input checked="" type="checkbox"/> Contract, Lease, Purchase, or Sale Agreement	Part A: Question 1
<input checked="" type="checkbox"/> Tariff including Rate Schedule	Part B: Question 4
<input type="checkbox"/> List of Customer Deposits	Part B: Question 5
<input type="checkbox"/> Partnership Agreement	Part C: Question 7
<input type="checkbox"/> Articles of Incorporation and By-Laws (WSC)	Part C: Question 7
<input type="checkbox"/> Certificate of Account Status	Part C: Question 7
<input checked="" type="checkbox"/> Financial Audit	Part C: Question 10
<input type="checkbox"/> Application Attachment A & B	Part C: Question 10
<input type="checkbox"/> Disclosure of Affiliated Interests	Part C: Question 10
<input type="checkbox"/> Capital Improvement Plan	Part C: Question 10
<input checked="" type="checkbox"/> List of Assets to be Transferred	Part D: 11.B
<input type="checkbox"/> Developer Contribution Contracts or Agreements	Part D: 11.D
<input type="checkbox"/> Enforcement Action Correspondence	Part E: Question 18 (Part D: Q12)
<input checked="" type="checkbox"/> TCEQ Compliance Correspondence	Part F: Question 22
<input type="checkbox"/> TCEQ Engineering Approvals	Part F: Question 24
<input type="checkbox"/> Purchased Water Supply or Treatment Agreement	Part F: Question 26
<input checked="" type="checkbox"/> Detailed (large scale) Map	Part G: Question 29
<input checked="" type="checkbox"/> General Location (small scale) Map	Part G: Question 29
<input checked="" type="checkbox"/> Digital Mapping Data	Part G: Question 29
<input checked="" type="checkbox"/> Signed & Notarized Oath	Page 13-14

Part A: General Information

1. Describe the proposed transaction, including the effect on all CCNs involved, and provide details on the existing or expected land use in the area affected by the proposed transaction. Attach all supporting documentation, such as a contract, a lease, or proposed purchase agreements:

The City of Hudson Oaks (COHO), Texas is currently dually certificated to the area of Trinity River Estates, PWS 1840099, CCN 12200 (Palo Duro Service Company). The area serves a MHP with 29 connections. The COHO has a contract to purchase the facilities of the PWS and transfer ownership and operations of the MHP PWS to COHO. There will be no change for current customers for service or facilities.

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

For **Transferee** (Purchaser) CCN:

For **Transferor** (Seller) CCN:

- Obtaining a NEW CCN for Purchaser
- Transfer all CCN into Purchaser's CCN (Merger)
- Transfer Portion of CCN into Purchaser's CCN
- Transfer all CCN to Purchaser and retain Seller CCN
- Uncertificated area added to Purchaser's CCN

- Cancellation of Seller's CCN
- Transfer of a Portion of Seller's CCN to Purchaser
- Only Transfer of Facilities, No CCN or Customers
- Only Transfer of Customers, No CCN or Facilities
- Only Transfer CCN Area, No Customers or Facilities

Part B: Transferor Information

Questions 3 through 5 apply only to the *transferor* (current service provider or seller)

3. A. Name: Palo Duro Service Corporation
(individual, corporation, or other legal entity)
 Individual Corporation WSC Other: _____

B. Mailing Address: 3505 Williams Road, Fort Worth, Texas 76116-7029

Phone: (817) 244-2248 Email: RhettMicheletti@GMail.com

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

Name: Rhett Micheletti Title: Owner

Mailing Address: 2310 Ashley Falls Lane, League City, Texas 77573

Phone: (832) 541-5909 Email: RhettMicheletti@GMail.com

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

A. Effective date for most recent rates: May 30, 2022

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

No Yes Application or Docket Number: 53311, See Attachment 2

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

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

- There are no customers that will be transferred
- # of customers without deposits held by the transferor 29
- # of customers with deposits held by the transferor* _____

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

Part C: Transferee Information

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

6. A. Name: City of Hudson Oaks, Texas
(individual, corporation, or other legal entity)
 Individual Corporation WSC Other:

B. Mailing Address: 210 Hudson Oaks Drive, Hudson Oaks, Texas 76087

Phone: (682) 229-2400 Email: hayden.brodowsky@hudsonoaks.com

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

Name: Hayden Brodowsky Title: Director of Operations

Address: 210 Hudson Oaks Drive, Hudson Oaks, Texas 79087

Phone: (682) 229-2412 Email: hayden.brodowsky@hudsonoaks.com

D. If the transferee is someone other than a municipality, is the transferee current on the Regulatory Assessment Fees (RAF) with the Texas Commission on Environmental Quality (TCEQ)?

- No Yes N/A

E. If the transferee is an IOU, is the transferee current on the Annual Report filings with the Commission?

- No Yes N/A

7. The legal status of the transferee is:

- Individual or sole proprietorship
- Partnership or limited partnership (*attach* Partnership agreement)
- Corporation |
Charter number (as recorded with the Texas Secretary of State): _____
- Non-profit, member-owned, member controlled Cooperative Corporation [Article 1434(a) Water Supply or Sewer Service Corporation, incorporated under TWC Chapter 67]
Charter number (as recorded with the Texas Secretary of State): _____
 Articles of Incorporation and By-Laws established (*attach*)
- Municipally-owned utility
- District (MUD, SUD, WCID, FWSD, etc.)

- County
- Affected County (a county to which Subchapter B, Chapter 232, Local Government Code, applies)
- Other (please explain): _____

8. If the transferee operates under any d/b/a, provide the name below:

Name: _____

9. If the transferee's legal status is anything other than an individual, provide the following information regarding the officers, members, or partners of the legal entity applying for the transfer:

Name: Tom Fitzpatrick

Position: Mayor

Ownership % (if applicable): 0.00%

Address: 210 Hudson Oaks Dr. Hudson Oaks, Texas 76087

Phone: (682) 229-2400

Email: tom.fitzpatrick@hudsonoaks.com

Name: Brian Lixey

Position: Council Member

Ownership % (if applicable): 0.00%

Address: 210 Hudson Oaks Dr. Hudson Oaks, Texas 76087

Phone: (682) 229-2400

Email: brian.lixey@hudsonoaks.com

Name: Tom Marquardt

Position: Council Member

Ownership % (if applicable): 0.00%

Address: 210 Hudson Oaks Dr. Hudson Oaks, Texas 76087

Phone: (682) 229-2400

Email: tom.marquardt@hudsonoaks.com

Name: Marty Schrantz

Position: Council Member

Ownership % (if applicable): 0.00%

Address: 210 Hudson Oaks Dr. Hudson Oaks, Texas 76087

Phone: (682) 229-2400

Email: marty.schrantz@hudsonoaks.com

10. **Financial Information**

The transferee Applicant must provide accounting information typically included within a balance sheet, income statement, and statement of cash flows. If the Applicant is an existing retail public utility, this must include historical financial information and projected financial information. However, projected financial information is only required if the Applicant proposes new service connections and new investment in plant, or if requested by Staff. If the Applicant is a new market entrant and does not have its own historical balance sheet, income statement, and statement of cash flows information, then the Applicant should establish a five-year projection taking the historical information of the transferor Applicant into consideration when establishing the projections. Please See Attachment 3 for City

of Hudson Oaks Financial Audit

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

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

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

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

Part D: Proposed Transaction Details

11. A. Proposed Purchase Price: \$ 267,067.00

If the transferee Applicant is an investor owned utility (IOU) provide answers to B through D.

B. Transferee has a copy of an inventory list of assets to be transferred (*attach*):

No Yes N/A

Please see Attachment 1 for Sale Agreement

Total Original Cost of Plant in Service: \$ _____

Accumulated Depreciation: \$ _____

Net Book Value: \$ _____

C. **Customer contributions in aid of construction (CIAC):** Have the customers been billed for any surcharges approved by the Commission or TCEQ to fund any assets currently used and useful in providing utility service? Identify which assets were funded, or are being funded, by surcharges on the list of assets.

No Yes

Total Customer CIAC: \$ _____

Accumulated Amortization: \$ _____

D. **Developer CIAC:** Did the transferor receive any developer contributions to pay for the assets proposed to be transferred in this application? If so, identify which assets were funded by developer contributions on the list of assets and provide any applicable developer agreements.

No Yes

Total developer CIAC: \$ _____

Accumulated Amortization: \$ _____

12. A. Are any improvements or construction required to meet the minimum requirements of the TCEQ or Commission and to ensure continuous and adequate service to the requested area to be transferred plus any area currently certificated to the transferee Applicant? Attach supporting documentation and any necessary TCEQ approvals, if applicable.

No Yes Please see Attachment 8

B. If yes, describe the source and availability of funds and provide an estimated timeline for the construction of any planned or required improvements:

Seller to address violations. New PT and GST. Please see Attachment 8.

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

The City of Hudson Oaks maintains a professional staff of operators as well as administrative staff with extensive experience in owning and operating groundwater supply public water systems.

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

Utility Plant in Service: \$ N/A, Applicant is a Municipality
Accumulated Depreciation of Plant: \$ _____
Cash: \$ _____
Notes Payable: \$ _____
Mortgage Payable: \$ _____
(Proposed) Acquisition Adjustment*: \$ _____
Other (NARUC account name & No.): _____
Other (NARUC account name & No.): _____

* Acquisition Adjustments will be subject to review under 16 TAC § 24.41(d) and (e)

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

None

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

N/A

Part E: CCN Obtain or Amend Criteria Considerations

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

Service will improve with the availability of multiple operators with extensive experience. Enhanced and improved billing software and full time administrative staff.

17. Describe the transferee's experience and qualifications in providing continuous and adequate service. This should include, but is not limited to: other CCN numbers, water and wastewater systems details, and any corresponding compliance history for all operations.

The City of Hudson Oaks maintains a professional staff of operators as well as administrative staff with extensive experience in owning and operating groundwater supply public water systems. The City of Hudson Oaks owns and operates two public water supply systems (CCN No.12200) of over 1,000 connections and provides both ground and surface water. The City of Hudson Oaks has no outstanding violations for either of its PWSs.

18. Has the transferee been under an enforcement action by the Commission, TCEQ, Texas Department of Health (TDH), the Office of the Attorney General (OAG), or the Environmental Protection Agency (EPA) in the past five (5) years for non-compliance with rules, orders, or state statutes? Attach copies of any correspondence with the applicable regulatory agency(ies)

No Yes

19. Explain how the environmental integrity or the land will be impacted or disrupted as a result of the proposed transaction:

The environmental integrity will improve with extensive and professional experience in providing water supply including local repair, heavy equipment, and co-mingling of resources.

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

The public interest will be improved with the migration of the new PWS into the management of the City of Hudson Oaks who maintains full time professional and administrative staff along with the resources to provide continuous and adequate service.

21. List all neighboring water or sewer utilities, cities, districts (including ground water conservation districts), counties, or other political subdivisions (including river authorities) providing the same service within two (2) miles from the outer boundary of the requested area affected by the proposed transaction:

10282 City of Weatherford
11844 New Progress WSC
13196 Town of Annetta
11970 Highland WSC
UTGCD
Parker County

Part F: TCEQ Public Water System or Sewer (Wastewater) Information

Complete Part F for EACH Public Water or Sewer system to be transferred subject to approval of the transaction. Attach a separate sheet with this information if you need more space for additional systems being transferred.

22. A. For Public Water System (PWS):

TCEQ PWS Identification Number: 1840099 (7 digit ID)

Name of PWS: Trinity River Estates , Please see Attachment 5

Date of last TCEQ compliance inspection: June 14, 2022 (attach TCEQ letter)

Subdivisions served: Trinity River Estates MHP

B. For Sewer service:

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

Name of Wastewater Facility: NA

Name of Permittee: _____

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

Subdivisions served: _____

Date of application to transfer permit *submitted* to TCEQ: _____

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

Water				Sewer	
	Non-metered		2"		Residential
29	5/8" or 3/4"		3"		Commercial
	1"		4"		Industrial
	1 1/2"		Other		Other
Total Water Connections:			29	Total Sewer Connections:	

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

No Yes

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

Description of the Capital Improvement:	Estimated Completion Date:	Estimated Cost:
New PT	February 1, 2023	\$ 1,500.00
New GST	February 1, 2023	\$ 25,000.00
See Attachment 8		

C. Is there a moratorium on new connections?

No Yes:

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

No Yes: City of Hudson Oaks, Portion (name of municipality)

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

Water: 0 Sewer: _____

26. A. Does the system being transferred purchase water or sewer treatment capacity from another source?

No Yes: If yes, attach a copy of purchase agreement or contract.

Capacity is purchased from: _____

Water: _____

Sewer: _____

B. Is the PWS required to purchase water to meet capacity requirements or drinking water standards?

No Yes

C. What is the amount of water supply or sewer treatment purchased, per the agreement or contract? What is the percent of overall demand supplied by purchased water or sewer treatment (if any)?

	Amount in Gallons	Percent of demand
Water:		0.00%
Sewer:		0.00%

D. Will the purchase agreement or contract be transferred to the Transferee?

No Yes:

27. Does the PWS or sewer treatment plant have adequate capacity to meet the current and projected demands in the requested area?

No Yes: See Attachment 8.

28. List the name, class, and TCEQ license number of the operator that will be responsible for the operations of the water or sewer utility service:

Name (as it appears on license)	Class	License No.	Water or Sewer
Ricky King	GW C	WG0004356	Water
Joe Glenn Kincaid	GW C	WG0016611	Water
Joseph Paul Sutton	D	WO0047205	Water

Part G: Mapping & Affidavits

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

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

Please see Attachment 7

1. A general location (small scale) map identifying the requested area in reference to the nearest county boundary, city, or town. The following guidance should be adhered to:
 - i. If the application requests to transfer certificated service areas for both water and sewer, separate maps must be provided for each.
 - ii. A hand drawn map, graphic, or diagram of the requested area is not considered an acceptable mapping document.

- iii. To maintain the integrity of the scale and quality of the map, copies must be exact duplicates of the original map. Therefore, copies of maps cannot be reduced or enlarged from the original map, or in black and white if the original map is in color.

- 2. A detailed (large scale) map identifying the requested area in reference to verifiable man-made and natural landmarks such as roads, rivers, and railroads. The Applicant should adhere to the following guidance:

Please see Attachment 6

- i. The map must be clearly labeled and the outer boundary of the requested area should be marked in reference to the verifiable man-made or natural landmarks. These verifiable man-made or natural landmarks must be labeled and marked on the map as well.
- ii. If the application requests an amendment for both water and sewer certificated service area, separate maps need to be provided for each.
- iii. To maintain the integrity of the scale and quality of the map, copies must be exact duplicates of the original map. Therefore, copies of maps cannot be reduced or enlarged from the original map, or in black and white if the original map is in color.
- iv. The outer boundary of the requested area should not be covered by any labels, roads, city limits or extraterritorial jurisdiction (ETJ) boundaries.

- B. For applications that are requesting to include area not currently within a CCN, or for applications that require a CCN amendment (any change in a CCN boundary), such as the transfer of only a portion of a certificated service area, provide the following mapping information with each of the seven (7) copies of the application:

- 1. A general location (small scale) map identifying the requested area with enough detail to locate the requested area in reference to the nearest county boundary, city, or town. Please refer to the mapping guidance in part A 1 (above).
- 2. A detailed (large scale) map identifying the requested area with enough detail to accurately locate the requested area in reference to verifiable man-made or natural landmarks such as roads, rivers, or railroads. Please refer to the mapping guidance in part A 2 (above).
- 3. One of the following identifying the requested area:

Please see Attachment 9

- i. A metes and bounds survey sealed or embossed by either a licensed state land surveyor or a registered professional land surveyor. Please refer to the mapping guidance in part A 2 (above);
- ii. A recorded plat. If the plat does not provide sufficient detail, Staff may request additional mapping information. Please refer to the mapping guidance in part A 2 (above); or
- iii. Digital mapping data in a shapefile (SHP) format georeferenced in either NAD 83 Texas State Plane Coordinate System (US Feet) or in NAD 83 Texas Statewide Mapping System (Meters). The digital mapping data shall include a single, continuous polygon record. The following guidance should be adhered to:
 - a. The digital mapping data must correspond to the same requested area as shown on the general location and detailed maps. The requested area must be clearly labeled as either the water or sewer requested area.
 - b. A shapefile should include six files (.dbf, .shp, .shx, .sbx, .sbn, and the projection (.prj) file).
 - c. The digital mapping data shall be filed on a data disk (CD or USB drive), clearly labeled, and filed with Central Records. Seven (7) copies of the digital mapping data is also required.

Part H: Notice Information

The following information will be used to generate the proposed notice for the application.
DO NOT provide notice of the application until it is found sufficient and the Applicants are ordered to provide notice.

30. Complete the following using verifiable man-made or natural landmarks such as roads, rivers, or railroads to describe the requested area (to be stated in the notice documents). Measurements should be approximated from the outermost boundary of the requested area:

The total acreage of the requested area is approximately: 68.00

Number of customer connections in the requested area: 29

Affected subdivision : Trinity River Estates MHP

The closest city or town: City of Hudson Oaks, TEXas

Approximate mileage to closest city or town center: 0

Direction to closest city or town: North

The requested area is generally bounded on the North by: East Bankhead Highway

on the East by: Howell Garner Road

on the South by: Center Point Road

on the West by: East Bankhead Highway

31. A copy of the proposed map will be available at: City of Hudson Oaks City Hall

32. What effect will the proposed transaction have on an average bill to be charged to the affected customers? Take into consideration the average consumption of the requested area, as well as any other factors that would increase or decrease a customer's monthly bill.

All of the customers will be charged the same rates they were charged before the transaction.

All of the customers will be charged different rates than they were charged before the transaction.

higher monthly bill lower monthly bill

Some customers will be charged different rates than they were charged before (i.e. inside city limit customers)

higher monthly bill lower monthly bill

Oath for Transferor (Transferring Entity)

STATE OF Texas

COUNTY OF Parker

I, Rhett Micheletti being duly sworn, file this application for sale, transfer, merger, consolidation, acquisition, lease, or rental, as President

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

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

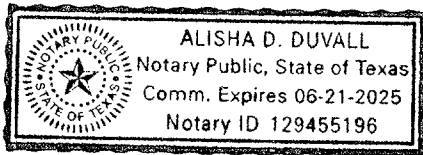
I further state that I have been provided with a copy of the 16 TAC § 24.239 Commission rules. I am also authorized to agree and do agree to be bound by and comply with any outstanding enforcement orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas or the Attorney General which have been issued to the system or facilities being acquired and recognize that I will be subject to administrative penalties or other enforcement actions if I do not comply.

[Handwritten Signature]
AFFIANT
(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN BEFORE ME, a Notary Public in and for the State of Texas this day the 9 of NOV, 20 22

SEAL



Alisha D. Duvall
NOTARY PUBLIC IN AND FOR THE STATE OF TEXAS
Alisha D. Duvall
PRINT OR TYPE NAME OF NOTARY

My commission expires: 6-21-2025

Oath for Transferee (Acquiring Entity)

STATE OF Texas

COUNTY OF Parker

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

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

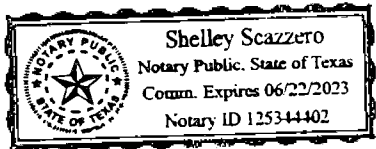
I further state that I have been provided with a copy of the 16 TAC § 24.239 Commission rules. I am also authorized to agree and do agree to be bound by and comply with any outstanding enforcement orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas or the Attorney General which have been issued to the system or facilities being acquired and recognize that I will be subject to administrative penalties or other enforcement actions if I do not comply.

[Signature] AFFIANT (Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN BEFORE ME, a Notary Public in and for the State of Texas this day the 26th of September, 2022

SEAL



[Signature] NOTARY PUBLIC IN AND FOR THE STATE OF TEXAS

Shelley Scazzero PRINT OR TYPE NAME OF NOTARY

My commission expires: June 22, 2023

Attachment 1
Contingent Sale Agreement

AGREEMENT FOR THE SALE AND PURCHASE OF WATER SYSTEM

This Agreement for the Sale and Purchase of Water System (“**Agreement**”) is made on this the 24TH day of October, 2022, by and between Rhett G. Micheletti, as Independent Executor of the Estate of Richard Micheletti, Deceased, (“**Seller**”), and the City of Hudson Oaks, Texas (“**Buyer**”) a Type A general law municipal corporation. Seller and Buyer are collectively called the “**Parties**,” or singularly as a “**Party**”.

RECITALS:

Seller owns and operates the Palo Duro Service Company, Inc. water system, located in Tarrant County, Texas, under retail water Certificate of Convenience and Necessity No. 12200 (“**Water CCN No. 12200**”), issued by the Texas Commission on Environmental Quality (“**TCEQ**”).

Seller provides water service to the residential customers of Trinity River Estates, through the Trinity River Estates Public Water System - PWS #1840099 (the “**Trinity River Water System**,”).

On July 1, 2022, (“**Date of Sale**”), Buyer purchased approximately 20.415 acres of real property (“**Real Property**”) from Seller, which included the purchase of the Trinity River Water System, including all related water rights, water wells, water system facilities, and appurtenances located on the Real Property, .

Buyer owns and operates its own retail water system serving the residents of Hudson Oaks, under Water CCN No. 12273 (“**Water CCN No. 12273**”) issued by the TCEQ.

In accordance with Texas Water Code Section 13.301 and other applicable regulations, Seller desires to transfer and release all management and operational rights and obligations of Trinity River Water System to the Buyer, and Buyer desires to acquire and merge Trinity River Water System into its Water CCN No. 12273 through an application for sale, transfer or merger of a retail public utility (**STM**) with the Public Utility Commission of Texas (**PUC**). After such transfer, (i) the City shall have the sole right to provide retail water service within the Trinity River Water System area, (ii) all existing customers of the Trinity River Water System shall become customers of the City of Hudson Oaks, and (iii) Seller shall continue to own and operate Palo Duro Service Company, Inc. and retain the sole right to provide retail water service to all customers under the Water CCN No. 12200 through its other Public Water Systems which are not included in this agreement.

To the best of Seller’s knowledge, the Trinity River Water System has no existing debt(s) or liabilities of any kind.

The purpose of this Agreement is to set forth the terms for the sale of the assets and the transfer of the ownership and management rights and obligations of the Trinity River Water System, as more fully described below, from Seller to Buyer for the consideration hereafter set forth.

I.
Definitions

Terms used in this Agreement are defined throughout this Agreement, and shall have the meaning assigned to them as follows.

"Trinity River Water System" shall mean and include: (a) the wells, any and all existing water intake structures, storage facilities, pump stations, water lines, meters, tanks, transmission mains, lighting, and all other facilities and appurtenances currently operated by Seller in connection with the Trinity River Water System, including those situated within the geographical area included in the Trinity River Water System, (b) all land upon which the foregoing may be located that is owned by Seller, (c) easements upon and in which the foregoing may be located for purposes of obtaining water and transporting and delivering to retail customers, and (d) all other assets of Seller that are described in Section 2.01 related to the Water System.

"TCEQ" means the Texas Commission on Environmental Quality or any successor entity thereto.

"Title Company" means Legacy Land and Title, Willow Park, Texas.

II.
Sale and Purchase of Assets

2.01 **The Assets**. Seller hereby agrees to sell, grant, convey, and assign to Buyer, and Buyer hereby agrees to purchase from Seller, free of liens and encumbrances (unless hereinafter specifically provided), and subject to the terms, covenants, conditions, and provisions herein set forth all of the Trinity River Water System and the following (collectively, the **"Assets"**), described on Exhibit A, attached hereto and incorporated herein by reference, to-wit:

- (a) to the extent not already conveyed to the Buyer, all of the real property of the Trinity River Water System owned by Seller in fee (**"Real Property"**). The Real Property will be conveyed to Buyer by Seller by special warranty deed;
- (b) all easements and rights-of-way granted or assigned to Seller, or reserved for the benefit of Seller, in Parker County, Texas (collectively, the **"Easements"**), which are for the benefit of the Trinity River Water System or any portion thereof. The Easements will be assigned and transferred to Buyer from Seller by recordable assignment;
- (c) all permits, licenses, authorizations, and governmental approvals, if any, granted or issued by any governmental authority for the specific operation of the Trinity River Water System, same to be transferred and assigned, to the extent transferrable or assignable, by Seller to Buyer by bill of sale and assignment. To the extent that transfer and assignment of such matters are subject to governmental approval or consent, Seller and Buyer agree to work together and exercise reasonable efforts to

obtain all approvals and consents that are necessary to effect the assignments and transfers contemplated herein;

- (d) all improvements and personal property located within the Real Property or within the Easements (the "**Improvements**"). At closing ("**Closing**") such Improvements shall be conveyed by Seller to Buyer by Bill of Sale;
- (e) all right, title, and interest of Seller in and to the plans, specifications, shop drawings, sketches, drawings, operating manuals, diagrams, and other documents depicting the Improvements and their location ("**Plans**"), to the extent existing and within the possession or control of Seller and/or the engineering consultants of Seller. The Plans will be assigned by Seller to Buyer by Bill of Sale;
- (f) all right, title, and interest of Seller in and under service contracts (but only to the extent that Buyer agrees to accept the liabilities of Seller thereunder) and warranties,. At Closing, Seller and Buyer will execute a Bill of Sale to assign such service contracts and warranties to Buyer;
- (g) all deposits of every nature, including security deposits, guaranty fees, prepaid tap fees, and other sums paid to Seller by Customers, and which are held in trust for or are reimbursable to one or more Customers ("**Customer Deposits**"), if any, upon the occurrence of future conditions or events
- (h) all books, records, and financial data of Seller related to the Trinity River Water System;
- (i) all appurtenances, if any, benefiting or pertaining to any of the foregoing, including all right, title, and interest of Seller in and to all streets, roads, driveways, parking areas, alleys, rights-of-way, and easements belonging to the Trinity River Water System; and
- (j) all permits, if any, granted by groundwater conservation districts (GCDs), all rights to permits granted by GCDs, and all rights to groundwater, if any, necessary to serve the Customers of the Trinity River Water System.

2.02 **Non Assumption of Liabilities.** This is an asset sale only, and except as otherwise provided in this Agreement, Buyer shall only assume and be liable for obligations of Seller that are expressly assumed in this Agreement and not otherwise. All liabilities and obligations of Seller not expressly assumed by Buyer shall remain the sole responsibility of Seller.

III. Purchase Price

3.01 **Purchase Price.** Buyer and Seller stipulate and agree that the consideration to be paid by Buyer to Seller for the sale and conveyance of the Assets is the consideration already paid

by Buyer and received by Seller for the purchase of the Real Property. No additional consideration is to be paid for the transfer of the Trinity River Water system or for the sale of the Assets.

3.02 **Earnest Money**. No earnest money deposit is required.

IV. Title

4.01 **Documents Provided**. Seller has provided or will provide Buyer with full access to or copies of all customer lists, customer deposits and/or account balances, deeds, easements, rights-of-way, and surveys in its possession or the possession of its engineering consultants or the Title Company, covering the Trinity River Water System ("**Documents**").

4.02 **Additional Title Commitment**. Seller shall provide Buyer with a title commitment ("**Additional Title Commitment**") setting forth as insurable, subject to the express terms thereof, all easements and rights-of-way, if any, held by Seller relating to Trinity River Water System. The cost of the Additional Title Commitment, if any, desired by Buyer and any title policies issued pursuant to thereto shall be paid by Buyer.

4.03 **Objections**. On or before the expiration of ten (10) business days following Buyer's receipt of the Additional Title Commitment, and the Title Review Documents, Buyer shall provide Seller with written notice of any Material Adverse Objections (defined below). A "Material Adverse Objection" is an exception that is shown on the Additional Title Commitment, and/or the Title Review Documents and which exception materially and adversely affects the ability of the owner of the Real Property to own and operate the Improvements that are situated thereon. Seller shall use reasonable efforts to remedy or remove all Material Adverse Objections within fifteen (15) days after delivery of Buyer's notice of such Material Adverse Objections. In the event Seller is unable to cause the removal of any Material Adverse Objection within such time period and despite such efforts, Seller shall notify Buyer in writing of Seller's inability to cure such Material Adverse Objections, and Buyer may, on or before twenty (20) days after Seller's delivery to Buyer of written notice of inability to cure Material Adverse Objections: (i) terminate this Agreement in its entirety by giving Seller written notice of termination, whereupon the Parties shall be released and relieved of further obligations, liabilities or claims under this Agreement; (ii) extend the time period for curing the matters which are the subject of the Objections; or (iii) waive, in writing, any such Material Adverse Objections and close. If Buyer elects to extend the cure period under clause (ii) of the preceding sentence and the Material Adverse Objections have not been cured by the end of the extended cure period, Buyer may thereafter elect to proceed under clause (i), (ii) or (iii) of the preceding sentence, on one or more occasions until all Material Adverse Objections are either cured or waived or this Agreement is terminated. The term "**Permitted Exceptions**" as used herein shall include and be limited to: (i) all exceptions reflected on Schedule B of the Commitment which are not Material Adverse Objections timely objected to by Buyer during the objection period herein provided; and (ii) any Material Adverse Objections which are waived by Buyer in the manner herein provided. Items set forth on Schedule C of the Commitment shall not be considered to be Permitted Exceptions. Seller shall, without necessity of objection by Buyer, satisfy all requirements set forth on Schedule C of the Commitment and cause all items set

forth thereon to be deleted from the Commitment at or prior to Closing. Seller shall keep the Commitment in full force and effect throughout the term of this Agreement.

4.04. **Additional Objections.** In the event that any additional title exceptions or other matters affecting the Assets or Water System are revealed by any update of the Commitment, Buyer shall have ten (10) business days after receipt of any updated Commitment(s) to raise Material Adverse Objections to such matters. Any objection so made shall be considered a Material Adverse Objection as defined above and shall be subject to the same cure requirements, time deadlines for cure, and remedies for failure to cure as are set forth above with respect to Material Adverse Objections.

V. Closing

5.01 **Closing Date.**

(a) Subject to the satisfaction of the conditions precedent set out in Section IV, Section V, and Section VI of this Agreement and the times for objecting to and curing Objections, this transaction shall close ("**Closing Date**") at the Title Company's offices or at such other location acceptable to the Parties on the first day of the normal monthly billing cycle of Seller with respect to the Trinity River Water System following the latter to occur of the following: (A) 30 days after the TCEQ Approval Date (defined below), or (B) 20 days after all objections to title made by Buyer pursuant to Section IV have been cured or waived by Buyer. The term "**TCEQ Approval Date**" means the first to occur of: (i) receipt by Buyer of a waiver of hearing from the Executive Director of the TCEQ regarding the sale, transfer, and merger application to be filed by Buyer in connection with this Agreement, (ii) receipt of the final order approving such sale, transfer and merger of Trinity River Water System to Buyer from the TCEQ, (iii) such date which satisfies the statutory requirements of Chapter 13 of the Texas Water Code regarding the sale, transfer, and merger of a retail public utility in Texas.. Seller agrees to exercise reasonable efforts to assist the Buyer in obtaining such sale, transfer and merger approval from the TCEQ and obtaining any waivers of hearing that are available from the TCEQ with respect thereto.

(b) On or before thirty (30) days after this Agreement becomes effective, Buyer shall file an application for sale, transfer and merger with the TCEQ for the approvals associated with this Agreement.

5.02 **Seller's Closing Obligations.** At the Closing, Seller shall deliver to Buyer the Trinity River Water System, including, without limitation, performing the following obligations:

- (a) if required by Buyer, cause the Additional Title Policy to be issued to Buyer, at Buyer's expense, covering the Easements described in Section 4.03.
- (b) execute and deliver to Buyer the special warranty deed, conveying to Buyer good and indefeasible title to the Real Property in fee simple absolute subject only to the Permitted Exceptions applicable thereto.

- (c) execute and deliver to Buyer the bills of sale and assignment described above in this Agreement regarding the transfer of the Assets, free and clear of all liens, security interests and rights of any creditor or lender, in their "as-is, where is" condition.
- (d) deliver possession of the Assets to Buyer.
- (e) deliver evidence of Seller's authority to act hereunder in form reasonably satisfactory to Buyer and the Title Company.
- (f) execute closing statements, affidavits, non-foreign certificates, and other documents reasonably required by the Title Company as conditions precedent to Closing and the issuance of the Title Policy.
- (g) pay all costs required to be paid by Seller under this Agreement.

5.03 Conditions Precedent to Buyer's Obligations.

- (a) All obligations of Seller under this Agreement have been fulfilled or satisfied by Seller, or waiver by Buyer, prior to or at the Closing Date.
- (b) Buyer shall have received all governmental authorizations needed for the transfer of Trinity River Water System, including, but not limited to, TCEQ's authorization to close, authorizing: (a) the transfer of the Trinity River Water System as contemplated by this Agreement; (b) Buyer to provide water service to the customers in the Trinity River Water System service areas.

5.04. Buyer's Closing Obligations. At the Closing, Buyer shall perform the following obligations:

- (a) execute duplicate originals of the bills of sale and assignment described above in this Agreement regarding the transfer of the Assets which will include documentation as may be required by TCEQ to reflect Buyer's obligation to assume the liabilities for customer deposits (if any), customer contracts, and customer accounts assigned to it.
- (b) deliver evidence of Buyer's authority to act hereunder in form reasonably satisfactory to Seller and the Title Company.
- (c) execute closing statements, affidavits, non-foreign certificates, and other documents reasonably required by the Title Company as conditions precedent to Closing and the issuance of the Title Policy.
- (d) pay all costs required to be paid by Buyer under this Agreement.

5.05 **Closing Costs.** Buyer shall pay all closing costs, except that each Party shall be responsible for the payment of its own attorney's fees, copying expenses, and other costs incurred in connection with this transaction.

VI.
Covenants of Seller

6.01. **General.** To the extent not previously disclosed to Buyer, Seller shall immediately give notice to Buyer of any of the following that is or prior to Closing comes within the actual knowledge of Seller:

- (a) Any significant event that materially affects the operation of the Trinity River Water System, including any notice of possible violation of governmental regulation.
- (b) Any right, title or interest in or to the Assets or any portion thereof vested in or claimed by any party or parties other than Seller.
- (c) Any pending condemnation proceeding or assessment currently existing of which Seller has been notified.

6.02 **Covenants of Seller.** Seller agrees that, between the Effective Date of this Agreement and the Closing Date:

- (a) Seller shall continue to operate, maintain and service the Trinity River Water System consistent with TCEQ rules, and Seller shall pay all normal operating costs for the continued operation, maintenance and service of the Trinity River Water System during this period. Normal operating costs shall include personnel wages, lab testing, chemicals, electric and other utility expenses, and routine daily maintenance.
- (b) Seller will use its best efforts to maintain its relations and goodwill with its suppliers, customers and any others having business relations with it.
- (c) Seller will promptly advise Buyer in writing of the threat or commencement of any dispute, claim, action, suit, arbitration or investigation involving a potential liability against or involving the Trinity River Water System.
- (d) Seller will give to Buyer the right to inspect, during normal business hours, all of the premises, properties, assets, records, contracts and other documents relating to the Trinity River Water System business and operations, and shall permit them to consult with the officers, employees, accountants, counsel and agents of Seller for the purpose of making such investigation of the Trinity River Water System business and operations of Seller as Buyer shall desire to make, provided that such investigation shall not unreasonably interfere with the business or operations of Seller.

- (e) Except as required by TCEQ, Seller shall not, except in the ordinary course of business, prior to Closing, initiate, expansion of or alteration to the Trinity River Water System.
- (f) In connection with the Closing, Seller will provide Buyer with the necessary information for any customer notices that in Buyer's reasonable judgment are necessary or desirable in connection with the transactions contemplated herein.
- (g) Seller will not enter into or create any debt or encumbrance, grant any liens, leases, easements, restrictive covenants or other agreements creating property rights or interests of any kind which would survive the Closing and which would affect title to the Assets, without the prior written approval of Buyer.
- (h) Seller will not sell, transfer, convey, demolish, destroy, dispose of, relinquish, amend, alter, change or modify the Assets or any portion thereof, in any way, without the prior written consent of Buyer.
- (i) Seller will not use, occupy or knowingly allow the use or occupancy of the Assets in any manner which violates any applicable laws, ordinances, rules, regulations, restrictive covenants, easements, or rights-of-way.
- (j) Seller will immediately notify Buyer of any damage to or destruction of the Assets or any portion thereof which materially affects the value or operation of the Palo Duro Water System.

VII. **Covenants of Buyer**

7.01. **General.** To the extent not previously disclosed to Seller, Buyer shall immediately give notice to Seller of any of the following that is or prior to Closing comes within the actual knowledge of Buyer:

- (a) Any significant event that materially affects the progress of the sale or transfer of the Trinity River Water System to Buyer.
- (b) Any regulatory action or decision by the TCEQ, PUC, or other governing body that may be relevant to this transaction or the operations of the Trinity River Water System.

7.02. **Covenants of Buyer.** Buyer agrees that, between the Effective Date of this Agreement and the Closing Date:

- (a) Buyer shall reimburse Seller for all reasonable and verifiable extraordinary expenses incurred by Seller as required to operate, maintain and service the Trinity River Water System consistent with TCEQ rules during this period. Extraordinary expenses shall mean expenses not covered as a normal operating cost under Section 6.02(a) above. Seller must obtain Buyer's prior written consent before incurring any extraordinary expense for the Trinity River Water System.

VIII.

8.01 **Covenant to Cooperate.** The Parties shall cooperate with each other, with timely assistance, in all reasonable and necessary ways to facilitate the closing of the transaction contemplated by this Agreement. Buyer and Seller shall cooperate in performing the actions required to prepare and submit a STM application to the TCEQ and obtain all necessary approvals from the TCEQ to transfer the Trinity River Water System to the Buyer.

IX.

Remedies

9.01. **Buyer's Remedies.** Notwithstanding any provision of this Agreement to the contrary, in the event Seller fails or refuses to timely comply with Seller's obligations hereunder or is unable to do so as the result of Seller's act or failure to act, or at Closing a material breach of any of Seller's obligations or covenants contained herein has occurred and remains uncured, Buyer shall have the following options: (i) to terminate this Agreement by giving Seller timely written notice of such election prior to or at Closing, and thereupon this Agreement shall terminate, and Seller and Buyer shall be relieved and released of all further obligations, claims, and liabilities hereunder; (ii) to waive, prior to or at Closing, as applicable, the applicable objection or condition and proceed to close the transaction contemplated hereby in accordance with the remaining terms hereof; (iii) to enforce specific performance of Seller's obligations hereunder; and/or to pursue any and all remedies available to Buyer at law and/or at equity, and/or (iv) to extend the time of Closing to allow the condition to be corrected. In the event Seller fails or refuses to timely perform any obligations required by it under this Agreement to be performed after Closing, Buyer may: (i) enforce specific performance of Seller's post-closing obligations, and/or (ii) pursue any and all remedies available to Buyer at law and/or at equity.

9.02 **Seller's Remedies.** Notwithstanding any provision of this Agreement to the contrary, in the event Buyer fails or refuses to timely comply with Buyer's obligations hereunder or is unable to do so as the result of Buyer's act or failure to act, or at Closing a material breach of any of Buyer's obligations or covenants contained herein has occurred and remains uncured, Seller may terminate this Agreement and Seller shall have the following options: (i) to terminate this Agreement by giving Buyer timely written notice of such election prior to or at Closing, and thereupon this Agreement shall terminate, and Seller and Buyer shall be relieved and released of all further obligations, claims, and liabilities hereunder, (ii) to enforce specific performance of Buyer's obligations hereunder, (iii) to pursue any and all remedies available to Seller at law and/or at equity, (iv) to waive, prior to or at Closing, as applicable, the applicable objection or condition and proceed to close the transaction contemplated hereby in accordance with the remaining terms hereof; and (v) to extend the time of Closing to allow the condition to be corrected. In the event

Buyer fails or refuses to timely perform any obligations required by it under this Agreement to be performed after Closing, Seller may: (i) enforce specific performance of Buyer's post-closing obligations, and/or (ii) pursue any and all remedies available to Seller at law and/or at equity.

9.03 **Attorney's Fees.** In the event of any administrative action or legal proceeding is commenced by either Seller or Buyer to construe, interpret or enforce this Agreement, the prevailing Party in any dispute shall be entitled to recover from the non-prevailing Party reasonable attorney's fees, expenses and costs of court.

X.
Miscellaneous Provisions

10.01 **Binding Effect.** This Agreement, and the terms, covenants, and conditions herein contained, shall be covenants running with the Assets and shall inure to the benefit of and be binding upon the heirs, personal representatives, successors, and assigns of each of the Parties hereto.

10.02. **Notice.** Any notice, communication, request, reply or advice (severally and collectively referred to as "Notice") in this Agreement provided or permitted to be given, made or accepted by either party to the other must be in writing. Notice may, unless otherwise provided herein, be given or served: (i) by depositing the same in the United States Mail, certified, with return receipt requested, addressed to the party to be notified and with all charges prepaid; or (ii) by depositing the same with Federal Express or another service guaranteeing "next day delivery", addressed to the party to be notified and with all charges prepaid; (iii) by delivering the same to such party, or an agent of such party; or (iv) by transmitting the same to the party to be notified by telecopy, provided that receipt for such telecopy is verified by the sender and followed by a notice sent in accordance with one of the other provisions set forth above. Notices hereunder shall be effective on the date of delivery, deposit or transmittal in the manner described hereinabove. For the purposes of notice, the addresses of the parties shall, until changed as provided below, be as follows:

SELLER:

RHETT MICHELETTI
2310 ASHLEY FALLS LANE
LEAGUE CITY, TX 77573
(832) 541-5909

BUYER:

City of Hudson Oaks
210 Hudson Oaks Drive
Hudson Oaks, Texas 76087
Telephone: (682) 229-2400

The parties hereto shall have the right from time to time to change their respective addresses, and each shall have the right to specify as its address any other address within the United States of America by at least five (5) days written notice to the other party. If any date or any period provided in this Agreement ends on a Saturday, Sunday or legal holiday, the applicable period shall be extended to the first business day following such Saturday, Sunday or legal holiday.

10.04. **Real Estate Commissions.** Seller and Buyer each represent and warrant to the other that no real estate brokerage commission or other finders fee or commission of any kind is

payable to any person or entity in connection with this transaction, and, to the extent permitted by law, each indemnifies and holds the other harmless against the payment of any commission to any person or entity claiming by, through or under Seller or Buyer, as applicable.

1.05. **Time**. Time is of the essence in the performance of this Agreement.

10.06. **Assignment**. This Agreement may not be assigned by either Seller or Buyer without the consent of the other.

10.07. **Survival of Obligations**. The terms, conditions, obligations and rights set forth herein shall not be deemed terminated at the time of Closing, nor shall they merge into the various documents executed and delivered at the time of Closing, but rather they shall survive Closing.

10.08. **Severability**. If any provision of this Agreement is illegal, invalid, or unenforceable under present or future laws, then, and in that event, it is the intention of the parties hereto that the remainder of this Agreement shall not be affected thereby, and it is also the intention of the parties to this Agreement that in lieu of each provision of this Agreement that is illegal, invalid, or unenforceable, there be added as a part of this Agreement a provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible, and be legal, valid, and enforceable.

10.09. **Waiver**. Any failure by a Party hereto to insist, or any election by a Party hereto not to insist, upon strict performance by the other Party of any of the terms, provisions, or conditions of this Agreement shall not be deemed to be a waiver thereof or of any other term, provision, or condition hereof, and such party shall have the right at any time or times thereafter to insist upon strict performance of any and all of the terms, provisions, and conditions hereof.

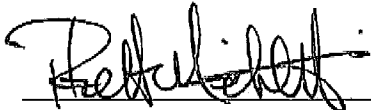
10.10. **Applicable Law**. The construction and validity hereof shall be governed by the laws of Texas.

10.11. **Grammatical Construction**. Wherever appropriate, the masculine gender may include the feminine or neuter, and the singular may include the plural, and vice versa.

10.12. **Counterpart Execution**. This Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document, and all counterparts will constitute one and the same agreement.

EXECUTED by the undersigned on the dates set forth herein below.

SELLER: Rhett G. Micheletti, Independent Executor of the Estate
of Richard Micheletti, Deceased.

By: 
Its: INDEPENDENT EXECUTOR
Date: 10 | 24 | 2022

BUYER: CITY OF HUDSON OAKS, TEXAS

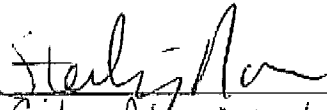
By: 
Its: City Administrator
Date: 11/7/2022

EXHIBIT LIST

EXHIBIT A Description of the assets of the Trinity River Water System

Attachment 2
Palo Duro Service Tariff



WATER UTILITY TARIFF
Docket Number: 53311

Palo Duro Service Company, Inc.
(Utility Name)

3505 Williams Road
(Business Address)

Fort Worth, Texas 76116
(City, State, Zip Code)

(817) 675-2845 / (817) 992-4051
(Area Code/Telephone)

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

12200

This tariff is effective in the following counties:

Parker and Wise

This tariff is effective in the following cities or unincorporated towns (if any):

None

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

Duchane Chateaux (PWS #1840100), Glider Base Estates (PWS #2490028), Trinity River Estates (PWS #1840099) and Aledo Ridge (PWS #1840185)

TABLE OF CONTENTS

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

SECTION 1.0 -- RATE SCHEDULE.....	2
SECTION 2.0 -- SERVICE RULES AND POLICIES.....	4
SECTION 3.0 -- EXTENSION POLICY.....	10
APPENDIX A -- DROUGHT CONTINGENCY PLAN	
APPENDIX B -- SAMPLE SERVICE AGREEMENT	
APPENDIX C -- APPLICATION FOR SERVICE	

(Utility Name)

Duchane Chateaux, Glider Base Estates, and Trinity River Estates

SECTION 1.0 -- RATE SCHEDULE

Section 1.01 - Rates

<u>Meter Size:</u>	<u>Monthly Minimum Charge</u>	<u>Gallorage Charge</u> (Includes 0 gallons)
5/8" or 3/4" gallons)	<u>\$51.19</u> (Includes 2,000 gallons)	<u>\$3.12</u> per 1,000 gallons (2,001 and over)

FORM OF PAYMENT: The utility will accept the following forms of payment:

Cash Check Money Order Credit Card Other (specify)

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

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

Section 1.02 - Miscellaneous Fee

TAP FEE \$650.00
 TAP FEE COVERS THE UTILITY'S COSTS FOR MATERIALS AND LABOR TO INSTALL A STANDARD RESIDENTIAL 5/8" or 3/4" METER. AN ADDITIONAL FEE TO COVER UNIQUE COSTS IS PERMITTED IF LISTED ON THIS TARIFF.

TAP FEE (Unique Costs) Actual Cost
 FOR EXAMPLE, A ROAD BORE FOR CUSTOMERS OUTSIDE OF SUBDIVISIONS OR RESIDENTIAL AREAS.

TAP FEE (Large Meter) Actual Cost
 TAP FEE IS THE UTILITY'S ACTUAL COST FOR MATERIALS AND LABOR FOR METER SIZE INSTALLED.

METER RELOCATION FEE Actual Relocation Cost, Not to Exceed Tap Fee
 THIS FEE MAY BE CHARGED IF A CUSTOMER REQUESTS THAT AN EXISTING METER BE RELOCATED.

METER TEST FEE \$25.00
 THIS FEE WHICH SHOULD REFLECT THE UTILITY'S COST MAY BE CHARGED IF A CUSTOMER REQUESTS A SECOND METER TEST WITHIN A TWO-YEAR PERIOD AND THE TEST INDICATES THAT THE METER IS RECORDING ACCURATELY. THE FEE MAY NOT EXCEED \$25.

(Utility Name)

Duchane Chateaux, Glider Base Estates, and Trinity River Estates

SECTION 1.0 – RATE SCHEDULE (Continued)

RECONNECTION FEE

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

a) Nonpayment of bill (Maximum \$25.00).....\$25.00

LATE CHARGE (EITHER \$5.00 OR 10% OF THE BILL)..... \$5.00

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

RETURNED CHECK CHARGE..... \$25.00

RETURNED CHECK CHARGES MUST BE BASED ON THE UTILITY'S DOCUMENTABLE COST.

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

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

GOVERNMENTAL TESTING, INSPECTION AND COSTS SURCHARGE

WHEN AUTHORIZED IN WRITING BY TCEQ AND AFTER NOTICE TO CUSTOMERS, THE UTILITY MAY INCREASE RATES TO RECOVER INCREASED COSTS FOR INSPECTION FEES AND WATER TESTING. [16 TAC § 24.25(b)(2)(G)]

LINE EXTENSION AND CONSTRUCTION CHARGES

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

SECTION 1.0 - RATE SCHEDULE

Section 1.01 - Rates

<u>Meter Size</u>	<u>Monthly Minimum Charge</u> (Includes 1,500 gallons)	<u>Gallonage Charge</u>
5/8" or 3/4"	<u>\$60.64</u>	<u>\$4.14</u> per 1000 gallons from 1,501 to 2,000 gallons <u>\$6.34</u> per 1000 gallons from 2,001 to 4,000 gallons <u>\$8.55</u> per 1000 gallons from 4,001 gallons and thereafter

FORM OF PAYMENT: The utility will accept the following forms of payment:

Cash X, Check X, Money Order X, Credit Card , Other (specify)
THE UTILITY MAY REQUIRE EXACT CHANGE FOR PAYMENTS AND MAY REFUSE TO ACCEPT PAYMENTS MADE USING MORE THAN \$1.00 IN SMALL COINS. A WRITTEN RECEIPT WILL BE GIVEN FOR CASH PAYMENTS.

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

Section 1.02 - Miscellaneous Fees

TAP FEE \$1,200.00
TAP FEE COVERS THE UTILITY'S COSTS FOR MATERIALS AND LABOR TO INSTALL A STANDARD RESIDENTIAL 5/8" or 3/4" METER. AN ADDITIONAL FEE TO COVER UNIQUE COSTS IS PERMITTED IF LISTED ON THIS TARIFF.

TAP FEE (Unique Costs) Actual Cost
FOR EXAMPLE, A ROAD BORE FOR CUSTOMERS OUTSIDE OF SUBDIVISION OR RESIDENTIAL AREAS.

TAP FEE (Large meter) Actual Cost
TAP FEE IS THE UTILITY'S ACTUAL COST FOR MATERIALS AND LABOR FOR METER SIZE INSTALLED.

METER RELOCATION FEE Actual Relocation Cost, Not to Exceed Tap Fee

METER TEST FEE \$25.00
THIS FEE WHICH SHOULD REFLECT THE UTILITY'S COST MAY BE CHARGED IF A CUSTOMER REQUESTS A SECOND METER TEST WITHIN A TWO-YEAR PERIOD AND THE TEST INDICATES THAT THE METER IS RECORDING ACCURATELY. THE FEE MAY NOT EXCEED \$25.

SECTION 1.0 - RATE SCHEDULE (Continued)

RECONNECTION FEE

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

- a) Non-payment of bill (Maximum \$25.00)..... \$25.00
- b) Customer's request that service be disconnected..... \$50.00

TRANSFER FEE..... \$50.00

THE TRANSFER FEE WILL BE CHARGED FOR CHANGING AN ACCOUNT NAME AT THE SAME SERVICE LOCATION WHEN THE SERVICE IS NOT DISCONNECTED.

LATE CHARGE (EITHER \$5.00 OR 10% OF THE BILL) \$5.00

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

RETURNED CHECK CHARGE \$25.00

RETURNED CHECK CHARGES MUST BE BASED ON THE UTILITY'S DOCUMENTABLE COST.

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

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

GOVERNMENTAL TESTING, INSPECTION AND COSTS SURCHARGE:

WHEN AUTHORIZED IN WRITING BY PUC AND AFTER NOTICE TO CUSTOMERS, THE UTILITY MAY INCREASE RATES TO RECOVER INCREASED COSTS FOR INSPECTION FEES AND WATER TESTING. [16 TAC 24.25(b)(2)(G)]

LINE EXTENSION AND CONSTRUCTION CHARGES:

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

SECTION 2.0 -- SERVICE RULES AND POLICIES

The utility will have the most current Public Utility Commission of Texas (Commission or PUC) Rules, Chapter 24, available at its office for reference purposes. The Rules and this tariff shall be available for public inspection and reproduction at a reasonable cost. The latest Rules or Commission approved changes to the Rules supersede any rules or requirements in this tariff.

Section 2.01 - Application for Water Service

All applications for service will be made on the utility's standard application or contract form (attached in the Appendix to this tariff), will be signed by the applicant, any required fees (deposits, reconnect, tap, extension fees, etc. as applicable) will be paid and easements, if required, will be granted before service is provided by the utility. A separate application or contract will be made for each service location.

Section 2.02 - Refusal of Service

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

Section 2.03 - Fees and Charges & Easements Required Before Service Can Be Connected

(A) Customer Deposits

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

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

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

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

(B) Tap or Reconnect Fees

A new customer requesting service at a location where service has not previously been provided must pay a tap fee as provided in Section 1. A customer requesting service where service has previously been provided must pay a reconnect fee as provided in Section 1.

SECTION 2.0 – SERVICE RULES AND POLICIES (Continued)

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

Fees in addition to the regular tap fee may be charged if listed specifically in Section 1 to cover unique costs not normally incurred as permitted by 16 TAC § 24.163(a)(1)(C). For example, a road bore for customers outside a subdivision or residential area could be considered a unique cost.

(C) Easement Requirement

Where recorded public utility easements on the service applicant's property do not exist or public road right-of-way easements are not available to access the applicant's property, the Utility may require the applicant to provide it with a permanent recorded public utility easement on and across the applicant's real property sufficient to provide service to that applicant. Such easement(s) shall not be used for the construction of production, storage, transmission or pressure facilities unless they are needed for adequate service to that applicant.

Section 2.04 - Utility Response to Applications for Service

After the applicant has met all the requirements, conditions and regulations for service, the utility will install tap, meter and utility cut-off valve and/or take all necessary actions to initiate service. The utility will serve each qualified applicant for service within 5 working days unless line extensions or new facilities are required. If construction is required to fill the order and if it cannot be completed within 30 days, the utility will provide the applicant with a written explanation of the construction required and an expected date of service.

Except for good cause where service has previously been provided, service will be reconnected within one working day after the applicant has met the requirements for reconnection.

Section 2.05 - Customer Responsibility

The customer will be responsible for furnishing and laying the necessary customer service pipe from the meter location to the place of consumption. Customers will not be allowed to use the utility's cutoff valve on the utility's side of the meter. Existing customers may install cutoff valves on their side of the meter and are encouraged to do so. All new customers may be required to install and maintain a cutoff valve on their side of the meter.

No direct connection between a public water supply system and any potential source of contamination or between a public water supply system and a private water source (ex. private well) will be allowed. A customer shall not connect, or allow any other person or party to connect, onto any water lines on his premises.

SECTION 2.0 – SERVICE RULES AND POLICIES (Continued)

Section 2.06 - Customer Service Inspections

Applicants for new service connections or facilities which have undergone extensive plumbing modifications are required to furnish the utility a completed customer service inspection certificate. The inspection certificate shall certify that the establishment is in compliance with the Texas Commission on Environmental Quality (TCEQ) Rules and Regulations for Public Water Systems, 30 TAC § 290.46(j). The Utility is not required to perform these inspections for the applicant/customer, but will assist the applicant/customer in locating and obtaining the services of a certified inspector.

Section 2.07 - Back Flow Prevention Devices

No water connection shall be allowed to any residence or establishment where an actual or potential contamination hazard exists unless the public water facilities are protected from contamination by either an approved air gap, backflow prevention assembly, or other approved device. The type of device or backflow prevention assembly required shall be determined by the specific potential hazard identified in 30 TAC § 290.47(f) Appendix F, Assessment of Hazards and Selection of Assemblies of the TCEQ Rules and Regulations for Public Water Systems.

The use of a backflow prevention assembly at the service connection shall be considered as additional backflow protection and shall not negate the use of backflow protection on internal hazards as outlined and enforced by local plumbing codes. When a customer service inspection certificate indicates that an adequate internal cross-connection control program is in effect, backflow protection at the water service entrance or meter is not required.

At any residence or establishment where it has been determined by a customer service inspection, that there is no actual or potential contamination hazard, as referenced in 30 TAC § 290.47(f) Appendix F, Assessment of Hazards and Selection of Assemblies of the TCEQ Rules and Regulations for Public Water Systems, then a backflow prevention assembly or device is not required. Outside hose bibs do require, at a minimum, the installation and maintenance of a working atmospheric vacuum breaker.

All backflow prevention assemblies or devices shall be tested upon installation by a TCEQ certified backflow prevention assembly tester and certified to be operating within specifications. Backflow prevention assemblies which are installed to provide protection against health hazards must also be tested and certified to be operating within specifications at least annually by a certified backflow prevention assembly tester.

If the utility determines that a backflow prevention assembly or device is required, the utility will provide the customer or applicant with a list of TCEQ certified backflow prevention assembly testers. The customer will be responsible for the cost of installation and testing, if any, of backflow prevention assembly or device. The customer should contact several qualified installers to compare prices before installation. The customer must pay for any required maintenance and annual testing and must furnish a copy of the test results demonstrating that the assembly is functioning properly to the utility within 30 days after the anniversary date of the installation unless a different date is agreed upon.

SECTION 2.0 – SERVICE RULES AND POLICIES (Continued)

Section 2.08 - Access to Customer's Premises

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

All customers or service applicants shall provide access to meters and utility cutoff valves at all times reasonably necessary to conduct ordinary utility business and after normal business hours as needed to protect and preserve the integrity of the public drinking water supply.

Section 2.09 - Meter Requirements, Readings, and Testing

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

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

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

Section 2.10 - Billing

(A) Regular Billing

Bills from the utility will be mailed monthly unless otherwise authorized by the Commission. The due date of bills for utility service will be at least sixteen (16) days from the date of issuance.

SECTION 2.0 -- SERVICE RULES AND POLICIES (Continued)

The postmark on the bill or, if there is no postmark on the bill, the recorded date of mailing by the utility will constitute proof of the date of issuance. Payment for utility service is delinquent if full payment, including late fees and the regulatory assessment, is not received at the utility or the utility's authorized payment agency by 5:00 p.m. on the due date. If the due date falls on a holiday or weekend, the due date for payment purposes will be the next workday after the due date.

(B) Late Fees

A late penalty of either \$5.00 or 10.0% will be charged on bills received after the due date. The penalty on delinquent bills will not be applied to any balance to which the penalty was applied in a previous billing. The utility must maintain a record of the date of mailing to charge the late penalty.

(C) Information on Bill

Each bill will provide all information required by the PUC Rules. For each of the systems it operates, the utility will maintain and note on the monthly bill a local or toll-free telephone number (or numbers) to which customers can direct questions about their utility service.

(D) Prorated Bills

If service is interrupted or seriously impaired for 24 consecutive hours or more, the utility will prorate the monthly base bill in proportion to the time service was not available to reflect this loss of service.

Section 2.11- Payments

All payments for utility service shall be delivered or mailed to the utility's business office. If the business office fails to receive payment prior to the time of noticed disconnection for non-payment of a delinquent account, service will be terminated as scheduled. Utility service crews shall not be allowed to collect payments on customer accounts in the field.

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

Section 2.12 - Service Disconnection

(A) With Notice

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

The utility is encouraged to offer a deferred payment plan to a customer who cannot pay an outstanding bill in full and is willing to pay the balance in reasonable installments. However, a customer's utility service may be disconnected if a bill has not been paid or a deferred payment agreement entered into within 26 days from the date of issuance of a bill and if proper notice of termination has been given.

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

SECTION 2.0 -- SERVICE RULES AND POLICIES (Continued)

B) Without Notice

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

Section 2.13 - Reconnection of Service

Utility personnel must be available during normal business hours to accept payments on the day service is disconnected and the following day unless service was disconnected at the customer's request or due to a hazardous condition.

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

Section 2.14 - Service Interruptions

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

Section 2.15 - Quality of Service

The utility will plan, furnish, and maintain production, treatment, storage, transmission, and distribution facilities of sufficient size and capacity to provide a continuous and adequate supply of water for all reasonable consumer uses. Unless otherwise authorized by the Commission, the utility will maintain facilities as described in the TCEQ Rules and Regulations for Public Water Systems.

Section 2.16 - Customer Complaints and Disputes

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

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

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

Section 2.17 - Customer Liability

Customer shall be liable for any damage or injury to utility-owned property shown to be caused by the customer.

SECTION 3.0--EXTENSION POLICY

Section 3.01 - Standard Extension Requirements

Line Extensions and Construction Charges: No Contribution in Aid of Construction may be required of any customer except as provided for in this approved extension policy.

The Utility is not required to extend service to any applicant outside of its certified service area and will only do so under terms and conditions mutually agreeable to the Utility and the applicant, in compliance with PUC rules and policies, and upon extension of the Utility's certified service area boundaries by the PUC.

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

The Utility is not required to extend service to any applicant outside of its certificated service area and will only do so under terms and conditions mutually agreeable to the Utility and the applicant, in compliance with PUC rules and policies, and upon extension of the Utility's certificated service area boundaries by the PUC.

Section 3.02 - Costs Utilities and Service Applicants Shall Bear

Within its certified area, the utility will pay the cost of the first 200 feet of any water main or distribution line necessary to extend service to an individual residential customer within a platted subdivision.

However, if the residential customer requesting service purchased the property after the developer was notified in writing of the need to provide facilities to the utility, the utility may charge for the first 200 feet. The utility must also be able to document that the developer of the subdivision refused to provide facilities compatible with the utility's facilities in accordance with the utility's approved extension policy after receiving a written request from the utility.

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

Unless an exception is granted by the PUC, the residential service applicant shall not be required to pay for costs of main extensions greater than 2" in diameter for water distribution and pressure wastewater collection lines and 6" in diameter for gravity wastewater lines.

Exceptions may be granted by the PUC if:

- adequate service cannot be provided to the applicant using the maximum line sizes listed due to distance or elevation, in which case, it shall be the utility's burden to justify that a larger diameter pipe is required for adequate service;
- or larger minimum line sizes are required under subdivision platting requirements or building codes of municipalities within whose corporate limits or extraterritorial jurisdiction the point of use is located; or the residential service applicant is located outside the CCN service area.

SECTION 3.0 -- EXTENSION POLICY (Continued)

If an exception is granted, the Utility shall establish a proportional cost plan for the specific extension or a rebate plan which may be limited to seven years to return the portion of the applicant's costs for oversizing as new customers are added to ensure that future applicants for service on the line pay at least as much as the initial service applicant.

For purposes of determining the costs that service applicants shall pay, commercial customers with service demands greater than residential customer demands in the certified area, industrial, and wholesale customers shall be treated as developers. A service applicant requesting a one-inch meter for a lawn sprinkler system to service a residential lot is not considered nonstandard service.

If an applicant requires service other than the standard service provided by the utility, such applicant will be required to pay all expenses incurred by the utility in excess of the expenses that would be incurred in providing the standard service and connection beyond 200 feet and throughout his property including the cost of all necessary transmission facilities.

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

Section 3.03 - Contributions in Aid of Construction

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

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

Any service extension to a subdivision (recorded or unrecorded) may be subject to the provisions and restrictions of 16 TAC § 24.163(d). When a developer wishes to extend the system to prepare to service multiple new connections, the charge shall be the cost of such extension, plus a pro-rata charge for facilities which must be committed to such extension compliant with the TCEQ minimum design criteria. As provided by 16 TAC § 24.163(d)(4), for purposes of this section, commercial, industrial, and wholesale customers shall be treated as developers.

SECTION 3.0 -- EXTENSION POLICY (Continued)

A utility may only charge a developer standby fees for unrecovered costs of facilities committed to a developer's property under the following circumstances:

- Under a contract and only in accordance with the terms of the contract; or
- if service is not being provided to a lot or lots within two years after installation of facilities necessary to provide service to the lots has been completed and if the standby fees are included on the utilities approved tariff after a rate change application has been filed. The fees cannot be billed to the developer or collected until the standby fees have been approved by the commission or executive director.
- for purposes of this section, a manufactured housing rental community can only be charged standby fees under a contract or if the utility installs the facilities necessary to provide individually metered service to each of the rental lots or spaces in the community.

Section 3.04 - Appealing Connection Costs

The imposition of additional extension costs or charges as provided by Sections 3.0 - Extension Policy of this tariff shall be subject to appeal as provided in this tariff, PUC rules, or the rules of such other regulatory authority as may have jurisdiction over the utility's rates and services. Any applicant required to pay for any costs not specifically set forth in the rate schedule pages of this tariff shall be given a written explanation of such costs prior to payment and/or commencement of construction. If the applicant does not believe that these costs are reasonable or necessary, the applicant shall be informed of the right to appeal such costs to the PUC or such other regulatory authority having jurisdiction over the utility's rates in that portion of the utility's service area in which the applicant's property(ies) is located.

Section 3.05 - Applying for Service

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

Where a new tap or service connection is required, the service applicant shall be required to submit a written service application and request that a tap be made. A diagram, map, plat, or written metes and bounds description of precisely where the applicant desires each tap or service connection is to be made and, if necessary, where the meter is to be installed, along the applicant's property line may also be required with the tap request. The actual point of connection and meter installation must be readily accessible to Utility personnel for inspection, servicing, and meter reading while being reasonably secure from damage by vehicles and mowers. If the Utility has more than one main adjacent to the service applicant's property, the tap or service connection will be made to the Utility's nearest service main with adequate capacity to service the applicant's full potential service demand.

SECTION 3.0 -- EXTENSION POLICY (Continued)

Beyond the initial 200 feet, the customer shall bear only the equivalent cost of extending from the nearest main. If the tap or service connection cannot be made at the applicant's desired location, it will be made at another location mutually acceptable to the applicant and the Utility. If no agreement on location can be made, the applicant may refer the matter to the PUC for resolution.

Section 3.06 - Qualified Service Applicant

A "qualified service applicant" is an applicant who has: (1) met all of the Utility's requirements for service contained in this tariff, PUC rules and/or PUC order, (2) has made payment or made arrangement for payment of tap fees, (3) has provided all easements and rights-of-way required to provide service to the requested location, (4) delivered an executed customer service inspection certificate to the Utility, if applicable, and (5) has executed a customer service application for each location to which service is being requested.

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

Section 3.07 - Developer Requirements

As a condition of service to a new subdivision, the Utility shall require a developer (as defined by PUC rule) to provide permanent recorded public utility easements as a condition of service to any location within the developer's property.

APPENDIX A - DROUGHT CONTINGENCY PLAN

“This page incorporates by reference the utility’s Draught Contingency Plan, as approved and periodically amended by the Texas Commission on Environmental Quality.”

APPENDIX B – SAMPLE SERVICE AGREEMENT
(Utility Must Attach Blank Copy)

APPENDIX C -- APPLICATION FOR SERVICE
(Utility Must Attach Blank Copy)

Attachment 3
COHO Financial Audit

the annual comprehensive
financial report of the
City of Hudson Oaks, TX
for the fiscal year ending
September 30, 2021



CITY OF HUDSON OAKS, TEXAS

**ANNUAL COMPREHENSIVE
FINANCIAL REPORT**

FOR THE YEAR ENDED SEPTEMBER 30, 2021

Prepared by the Finance Department

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CITY OF HUDSON OAKS, TEXAS
Annual Comprehensive Financial Report
For the Year Ended September 30, 2021

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INTRODUCTORY SECTION



HUDSON OAKS

March 15, 2022

Honorable Mayor and City Council
City of Hudson Oaks, TX

Dear Mayor and City Council:

The City Administrator's Office is pleased to present the Annual Comprehensive Financial Report for the City of Hudson Oaks, Texas, for the fiscal year ended September 30, 2021.

This report is published to provide the City Council, residents, bondholders, city staff and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

To the best of our knowledge and belief the enclosed data are accurate in all respects and are organized in a manner designed to fairly present the financial position and results of City operations, which are measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

THE REPORT

The reporting model issued by the Governmental Accounting Standards Board (GASB) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). We believe our presentation provides better information to use the annual comprehensive financial report. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Hudson Oaks' MD&A can be found immediately following the independent auditor's report.

CITY PROFILE

Location

Hudson Oaks is located in Parker County, just 20 miles west of Fort Worth. Hudson Oaks is home to approximately 2,633 people and serves as a prime location for residents who desire a short commute time with the luxury of living in a city with no property tax. There are currently 2.6 square miles of land within the City's boundaries.

Government Structure

Founded in 1978, Hudson Oaks is a Type A General Law Municipality that operates under a Council-Manager form of government. The City Council is comprised of a mayor and five at-large council members and is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing members of various statutory and advisory boards, the

City Administrator, City Attorney, the City Secretary and the Municipal Judge. The City Administrator is responsible for the enforcement of laws and ordinances, the appointment and supervision of the directors and department heads, and the performance of functions within the municipal organization.

Services Provided

The City provides services that are meant to be necessary and meaningful to the City, while maintaining a low cost to the citizens, including the benefit of no property tax. Major services provided under the general government and enterprise functions are: police, water and wastewater utility services, stormwater utility services, park facilities, streets, and administrative services.

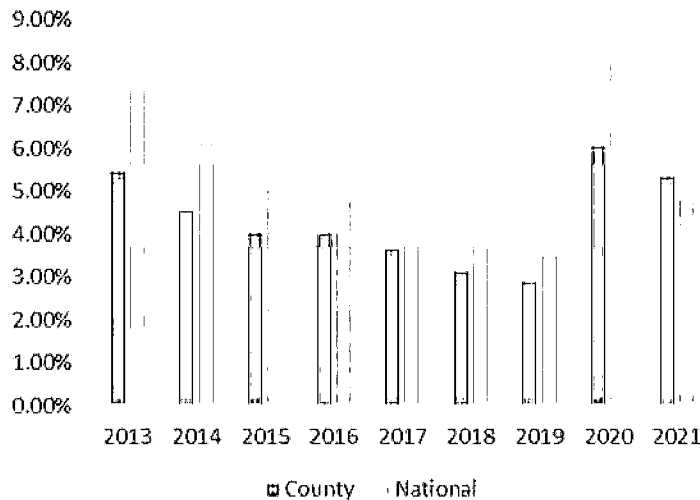
ECONOMIC CONDITIONS AND OUTLOOK

The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Regional Economy

Hudson Oaks is 20 miles west of downtown Fort Worth, which makes it an ideal location for people to live and commute. Hudson Oaks has had strong economic growth over the past years, thriving on commercial development as a sales tax dependent City. Unemployment rates have dropped, while City and County sales tax receipts continue to increase.

Unemployment Rates



Local Economy

Hudson Oaks is a thriving economy between Weatherford and Fort Worth. Customers come from all over to shop in Hudson Oaks. Approximately 70,000 vehicles a day travel through Hudson Oaks, which makes it an ideal place to do business. The stability of the local Wal-Mart and HEB Grocery store along with a variety of food establishments and large employers consistently brings consumers to the area. Sales tax has maintained consistent growth and is the pillar of the City’s income. The COVID-19 pandemic did not significantly affect the City and the sales tax during 2020-2021. Hudson Oaks has a wide variety of outlets that consistently bring in sales tax. The sales tax revenue for 2020-2021 has been conservatively budgeted. The new apartment complex which is approximately 100% occupied will bring more population to the City and provide a base for even more growth.

Sales Tax Collections (in millions)



The City's residential developments are almost at capacity which in turn has begun to generate fewer residential building permits. The increase in valuation is due to the large commercial projects ongoing in the City. The City expects more density in the future, with larger commercial projects.

Building Permits Issued (in thousands)



FINANCIAL INFORMATION

Accounting System and Budgetary Control

The City's accounting records for general governmental operations are maintained on a modified accrual basis, revenues are recorded when available and measurable, and expenditures are recorded when the services or goods are received, and the liabilities are incurred. Accounting records for the City's utilities are maintained on the accrual basis.

In developing and maintaining the City's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but no absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City code provides that the City Council shall adopt the annual budget prepared by the City Administrator. This budget is reviewed by the City Council and is formally adopted by the passage of a budget ordinance. The City Administrator is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgetary control has been established at the individual fund and department level. Financial reports are produced showing budget and actual expenditures by line item and are distributed monthly to City department management and to others upon request.

Individual line items are reviewed and analyzed for budgetary compliance. Personnel expenditures are monitored and controlled at a position level and capital expenditures are monitored and controlled item by item. Revenue budgets are reviewed monthly.

In addition, the City has implemented a five-year strategic plan process that projects full line-item and capital expenditure detail for all departments. The first year of this strategic plan is utilized as a starting basis for the annual budget.

Cash Management

As of October 1, 2020, the City's depository contract is with First Financial Bank, N.A. It is a three-year relationship period with two one-year extension options.

The remaining idle cash is invested in government securities and government investment pools as allowed by the State of Texas Statutes and by the City's investment policy.

The ending balance of the City's investment portfolio for Fiscal Year 2019-2020 was approximately \$1,968,764. The overall portfolio provided \$6,053 in investment income, representing interest revenue net of realized gains, unrealized gains and losses and investment expenses.

It is the City's policy that all demand deposits and time deposits will have a collateralization level of not less than 102% of market value of principal and accrued interest, less an amount of \$250,000, which represents insurance by the FDIC or FSLIC on certain types of bank deposits. Evidence of pledged collateral shall be documented by safekeeping or a master repurchase agreement with the collateral pledged clearly listed in the agreement and safekeeping confirmations. Collateral is monitored monthly to ensure that the market value of the pledged securities equals or exceeds the related deposit of investment balance.

All investments transacted by the City are purchased using the delivery versus payment method. That is, funds are not wired or paid until verification has been made that the correct security has been received by the Custodian. Securities are held in the name of the City or held on behalf of the City. The original copy of the safekeeping statements is delivered to the City.

The City will not accept as depository collateral any security that is not specifically allowed to be held as a direct investment by the City's portfolio, and the maximum maturity of the collateral securities may be no greater than five years. Collateral is held by an independent third party with whom the depository bank has a custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) is supplied to the City and retained. The safekeeping institution will be the Federal Reserve Bank, Federal Home Loan Bank, or an institution not affiliated with the depository bank or the broker/dealer pledging the security. The safekeeping agreement includes the authorized signatories of the City and the depository bank.

All collateral shall be subject to verification and audit by the Financial Analyst or the City's independent auditors.

Long-Term Financing

The City intends that the length of any long-term financing matches the life of assets purchased with the financing. The City will generally use lease-purchase options of larger pieces of equipment with an expected useful life of at least five years. Certificates of Obligation or bonded indebtedness are issued for projects and other significant capital improvements with longer useful lives.

Long-Term Financial Planning

The City develops a multi-year blueprint annually for planning the City's future capital expenditures, which coordinates and integrates community planning, development and financial capacity. This blueprint is the Capital Improvement Plan (CIP). The CIP's goal is to implement necessary infrastructure and facility issues related to city growth and increased service demands and improve efficiency in the city. This strategic capital plan ensures that infrastructure needs projected over the next several years are identified, prioritized and properly funded.

Transparency

The City has been recognized by GFOA for both the Distinguished Budget award program and the Certificate of Achievement in Financial Reporting for the Annual Comprehensive Financial Report.

OTHER INFORMATION

Independent Audit

Section 7.13 of the City code requires the City Council to direct that an independent annual audit be made of all accounts of the City. This requirement has been complied with, and the independent auditor's report has been included in this report.

It should be noted that the auditors included all funds in their audit, performed their audit in accordance with generally accepted auditing standards, and stated that, in their opinion, the statements herein present fairly, in all material aspects, the financial position of the City at September 30, 2021, and the results of its operations and the cash flows of its proprietary fund type for the year ended in conformity with accounting principles generally accepted in the United States of America.

Certificate of Achievement

The Government Finance Officers Association of the United States of America and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Hudson Oaks for its annual comprehensive financial report for the fiscal year ended September 30, 2020. This was the fourth year that the government has achieved this prestigious award.

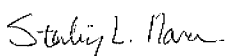
To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report could not have been accomplished without the full support and involvement of the City Administrator and staff that provided information and analyses contained within this document. In addition, we acknowledge the thorough, professional, and timely way our independent auditors, George, Morgan and Sneed, P.C., conducted the audit. Finally, we express appreciation to the Mayor and City Council for their continued support for maintaining the highest standard and professionalism of the management of the City's finances.

Sincerely,



Sterling Naron
City Administrator

CITY OF HUDSON OAKS, TEXAS

MAYOR

Marc Povero

MAYOR PRO-TEM

Tom Fitzpatrick

COUNCIL MEMBERS

Place 1 – Tom Marquardt

Place 2 - Brian Lixey

Place 3 – Marty Schrantz

Place 5 – Daniel Cross

CITY ADMINISTRATOR

Sterling Naron

DEPARTMENT DIRECTORS

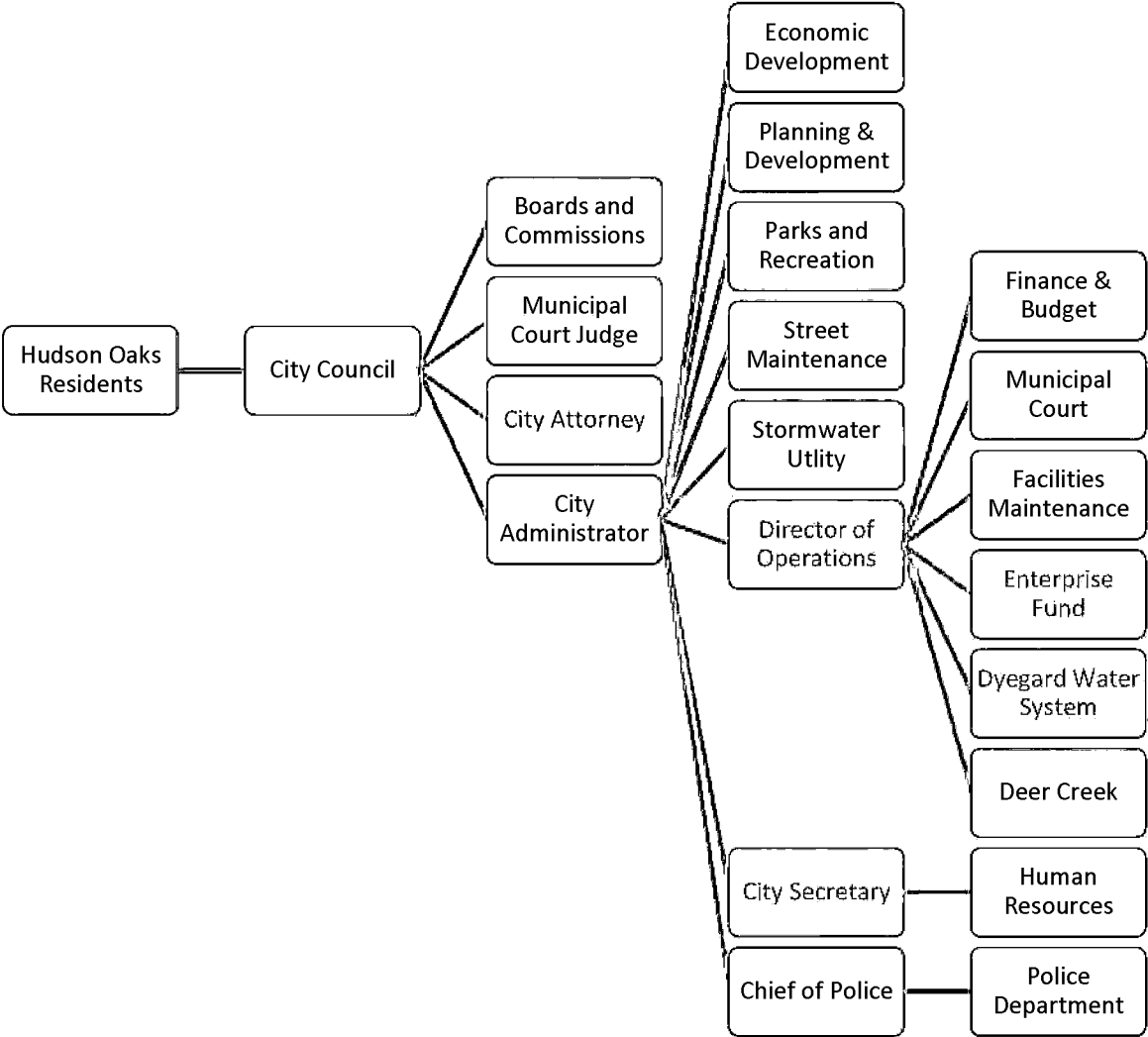
Ricky King – Public Works

Hayden Brodowsky - Operations

Shelley Scazzero – City Secretary

Paul Conner – Municipal Court Judge

ORGANIZATIONAL CHART





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Hudson Oaks
Texas**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

September 30, 2020

Christopher P. Morrill

Executive Director/CEO

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Hudson Oaks, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hudson Oaks, Texas, (the "City") as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-13 and budgetary comparison information, schedule of changes in net pension liability and related ratios, schedule of employer contributions and related ratios and schedule of changes in OPEB liability and related ratios on pages 56 – 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

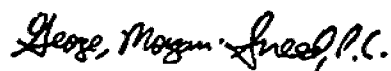
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 general 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 introductory section, enterprise fund supplementary information and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2022, on our consideration of the City of Hudson Oaks, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hudson Oaks, Texas' internal control over financial reporting and compliance.



Weatherford, Texas
March 15, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of The City of Hudson Oaks, Texas, we offer readers of The City of Hudson Oaks' financial statements this narrative overview and analysis of the financial activities of The City of Hudson Oaks for the year ended September 30, 2021.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Hudson Oaks exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$16,862,895 (*net position*) compared to \$15,371,459 for the prior year. Of this amount, \$4,380,416 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$1,491,436. The City's operations increased the governmental activities and increased business-type activities by \$896,821 and \$594,615 respectively.
- As of the close of the current fiscal year, the City of Hudson Oaks' governmental funds reported combined ending fund balances of \$1,161,223 compared to \$1,443,158 for the prior year. 100% is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,954,326, or 57% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Hudson Oaks' basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the differences reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and fees).

Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets and parks, mayor and council, and planning and development. The business-type activities of the City include waterworks, wastewater and stormwater. The government-wide financial statements can be found on Exhibits 1 and 2 of this report.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The City maintains ten individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, General Capital Projects, and Debt Service Fund, which are considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The City adopts an annual appropriated budget for the general fund. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

Proprietary funds. The City maintains two types of proprietary funds. The Enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and wastewater operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for reimbursements for employee health care costs. Because this service predominately benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, wastewater and stormwater utility funds. The basic proprietary fund financial statements can be found on Exhibits 7 through 9 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-55 of this report.

Other information.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. Required supplementary information can be found on Exhibit A-1 through A-4.

The combining and individual nonmajor governmental funds and enterprise fund statements and schedules are presented immediately following the required supplementary information. These statements can be found on Exhibits B-1 through B-2 and Schedules 1 through 3 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$16,862,895 as of September 30, 2021. Below is a summary of the City’s Statement of Net Position.

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 3,861,508	\$ 3,226,734	\$ 3,502,675	\$ 3,408,925	\$ 7,364,183	\$ 6,635,659
Capital assets	16,175,362	15,569,638	18,690,531	16,182,105	34,865,893	31,751,743
Total Assets	20,036,870	18,796,372	22,193,206	19,591,030	42,230,076	38,387,402
Deferred Outflow of Resources	203,720	230,011	61,367	73,239	265,087	303,250
Total Deferred Outflow of Resources	203,720	230,011	61,367	73,239	265,087	303,250
Current liabilities	1,728,698	764,332	231,652	463,547	1,960,350	1,227,879
Long-term liabilities	8,920,945	9,751,254	14,262,317	12,085,324	23,183,262	21,836,578
Total liabilities	10,649,643	10,515,586	14,493,969	12,548,871	25,143,612	23,064,457
Deferred Inflow of Resources	375,222	191,893	113,434	62,843	488,656	254,736
Total Deferred Inflow of Resources	375,222	191,893	113,434	62,843	488,656	254,736
Net Position:						
Net investment						
in capital assets	7,623,997	6,444,911	4,525,560	4,294,233	12,149,557	10,739,144
Restricted Net Position (expendable)	99,247	30,618	233,675	368,387	332,922	399,005
Unrestricted Net Position	1,492,481	1,843,375	2,887,935	2,389,935	4,380,416	4,233,310
Total Net Position	\$ 9,215,725	\$ 8,318,904	\$ 7,647,170	\$ 7,052,555	\$ 16,862,895	\$ 15,371,459

The largest portion of the City’s net position (72%) reflects its investment in capital assets (e.g. land, buildings, equipment, automobiles, improvements, infrastructure and construction in progress); less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay

this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (\$332,922) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$4,380,416 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The following is a summary of the City's Statement of Activities.

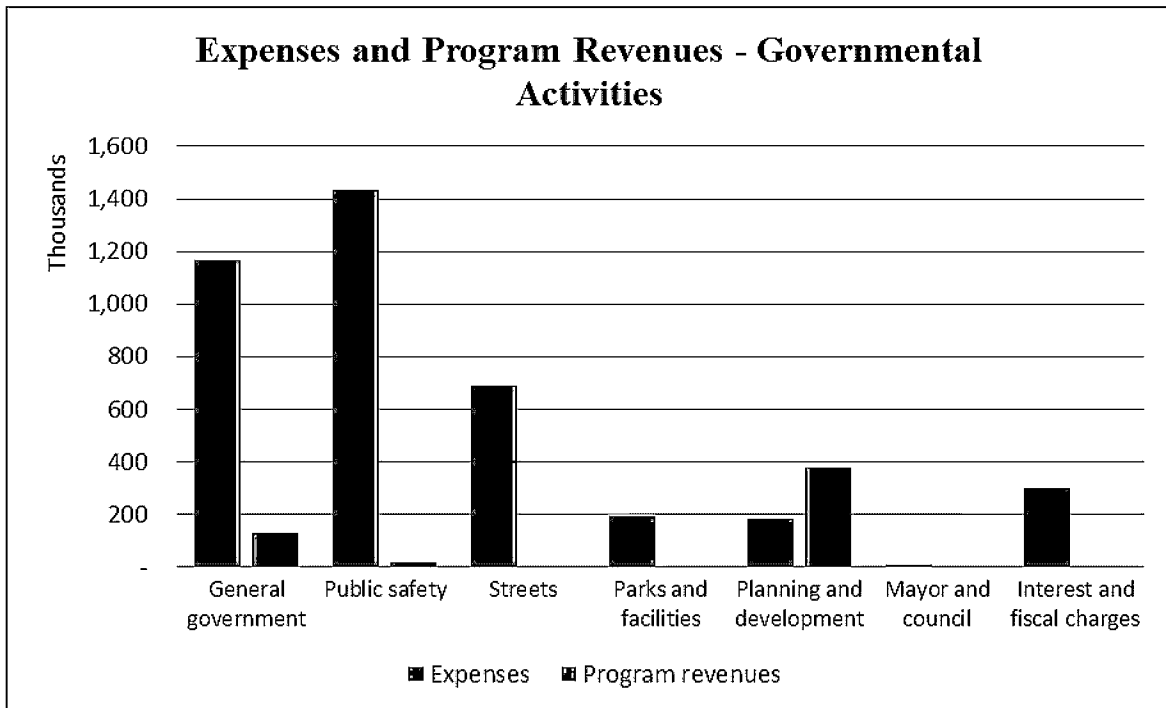
Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ 471,390	\$ 314,028	\$ 2,930,853	\$ 2,787,318	\$ 3,402,243	\$ 3,101,346
Operating grants and contributions	50,658	68,152	-	-	50,658	68,152
Capital grants and contributions	-	59,900	-	-	-	59,900
General revenues:						
Sales taxes	3,844,619	3,380,340	-	-	3,844,619	3,380,340
Franchise taxes	173,610	185,197	-	-	173,610	185,197
Investment earnings	5,595	33,143	458	5,860	6,053	39,003
Other Revenue	293,236	264,263	-	-	293,236	264,263
Total revenues	4,839,108	4,305,023	2,931,311	2,793,178	7,770,419	7,098,201
Expenses						
General government	1,166,363	1,334,749	-	-	1,166,363	1,334,749
Public safety	1,432,360	1,496,194	-	-	1,432,360	1,496,194
Streets	689,805	602,786	-	-	689,805	602,786
Parks and facilities	191,756	122,729	-	-	191,756	122,729
Planning and development	181,560	253,688	-	-	181,560	253,688
Mayor and council	5,468	8,679	-	-	5,468	8,679
Interest and fiscal charges	300,899	290,930	-	-	300,899	290,930
Hudson Oaks water	-	-	1,595,882	1,621,068	1,595,882	1,621,068
Dyegard Water System	-	-	173,989	172,839	173,989	172,839
Deercreek Management	-	-	138,290	122,961	138,290	122,961
Wastewater	-	-	388,516	327,188	388,516	327,188
Stormwater	-	-	14,094	20,982	14,094	20,982
Total expenses	3,968,211	4,109,755	2,310,772	2,265,038	6,278,983	6,374,793
Increase (decrease) in net position before transfers	870,897	195,268	620,539	528,140	1,491,436	723,408
Transfers	25,924	-	(25,924)	-	-	-
Increase (decrease) in net position	896,821	195,268	594,615	528,140	1,491,436	723,408
Net Position, Beginning	8,318,904	8,123,636	7,052,555	6,524,415	15,371,459	14,648,051
Net Position, Ending	\$ 9,215,725	\$ 8,318,904	\$ 7,647,170	\$ 7,052,555	\$ 16,862,895	\$ 15,371,459

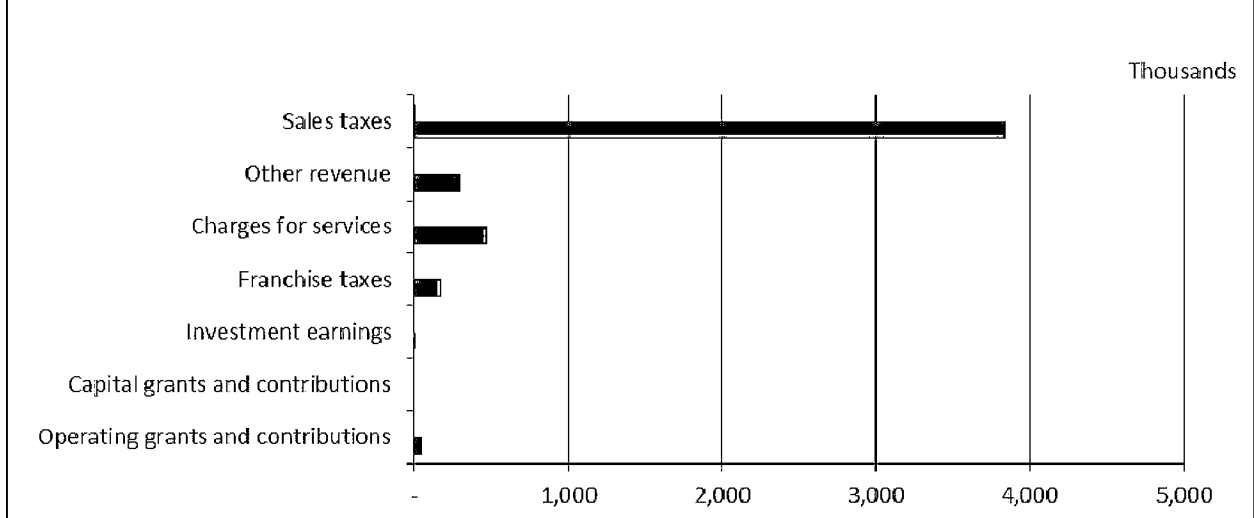
Governmental Activities. Governmental activities increased the City’s net position by \$896,821. Key elements are as follows.

- Revenues increased \$534,085. Charges for services increased \$157,362 due to additional permits for large commercial projects. Sales tax increased \$464,279 primarily due to growth, new businesses built in the city and inflation factors.
- Expenses decreased \$141,544. General governmental expenses decreased approximately \$168,386 mainly due to economic development agreement expenses incurred in the prior year. Streets increased \$87,019 due to additional maintenance. Parks and facilities increased \$69,027. Planning and development expenses decreased \$72,128.

Below are two graphs summarizing governmental revenue and expense:



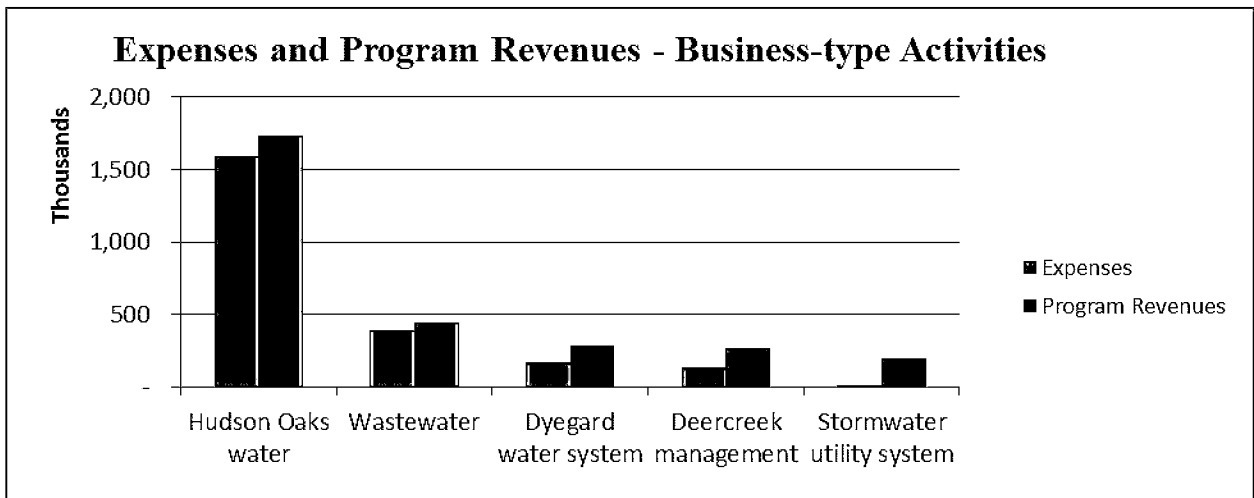
Revenues by Source - Governmental Activities

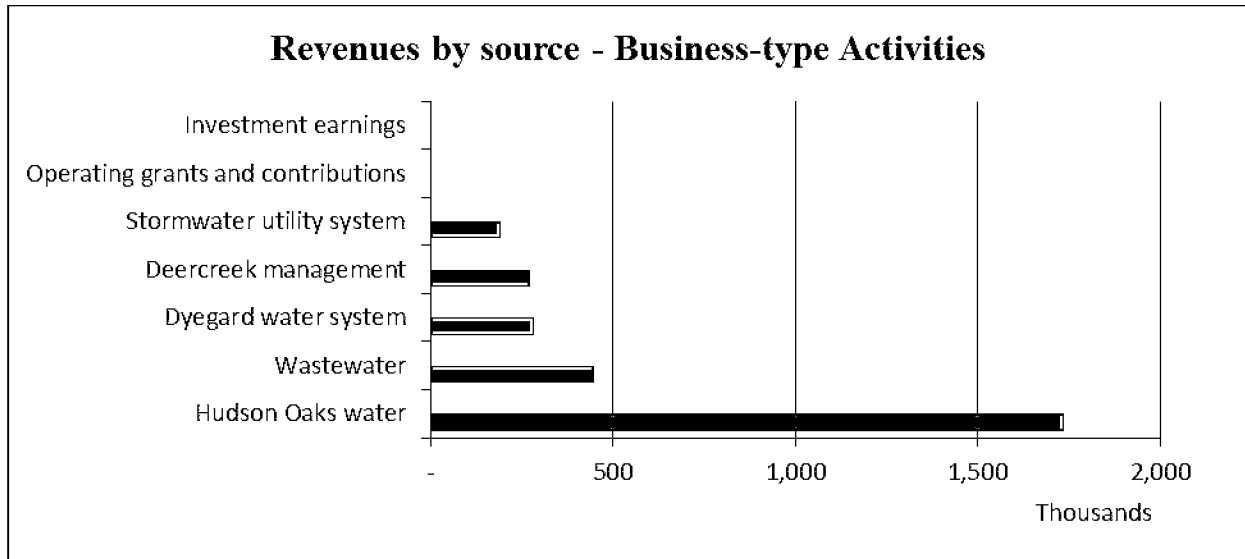


Business-type activities. Business-type activities increased the City’s net position by \$594,615. Key elements are as follows.

- Revenues increased \$138,133. Charges for service increased \$143,535 due to an increase in water consumption. Investment earnings decreased \$5,402 due to decreasing interest rates.
- Expenses increased \$45,734. Waterworks expenses decreased \$25,186 primarily due to a change in employees. Wastewater expenses increased \$61,328 due to additional repairs and improvements made on the wastewater system.

Below are two graphs summarizing business-type activities revenue and expense:





Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At year end, the City's governmental funds reported combined ending fund balances of \$1,161,223. (100%) of the ending fund balance constitutes unassigned fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,954,326. During the current fiscal year, the fund balance of the City's general fund increased by \$436,253. Key factors in this increase are as follows:

- Revenues increased about 11% or \$447,681. The City's sales tax revenues increased significantly during the year due to additional business and increased spending. Licenses and permit revenue increased 27% due to additional permits for large construction projects.
- Expenditures increased about 4% or \$127,416. General government expenditures decreased \$102,928 or about 10% as economic development incentive decreased. Public safety expenditures increased approximately 1% on increased police presence and overtime. Parks increased the most due to the purchase of land.

Below is a comparison of the general fund's net change in fund balance for the fiscal year ended September 30, 2021, and September 30, 2020.

	2021	2020	Increase (Decrease)	Percent Increase (Decrease)
Revenues:				
Taxes				
Sales and use	\$ 3,777,991	\$ 3,347,576	\$ 430,415	13%
Franchise	177,967	184,251	(6,284)	-3%
Licenses and permits	376,812	296,401	80,411	27%
Charges for services	11,419	4,962	6,457	130%
Municipal court fines	15,603	12,247	3,356	27%
Interest	5,352	30,366	(25,014)	-82%
Intergovernmental	49,523	25,201	24,322	0%
Miscellaneous	285,328	351,310	(65,982)	-19%
Total revenues	<u>4,699,995</u>	<u>4,252,314</u>	<u>447,681</u>	<u>11%</u>
Expenditures:				
Current:				
General government	912,390	1,015,318	(102,928)	-10%
Public safety	1,462,237	1,450,893	11,344	1%
Streets	319,270	426,391	(107,121)	-25%
Parks and facilities	521,863	146,267	375,596	257%
Planning and development	181,560	253,688	(72,128)	-28%
Mayor and council	5,468	8,679	(3,211)	-37%
Debt service				
Principal	53,157	27,012	26,145	97%
Interest and fiscal charges	2,492	2,773	(281)	-10%
Total expenditures	<u>3,458,437</u>	<u>3,331,021</u>	<u>127,416</u>	<u>4%</u>
Other financing sources (uses):				
Transfers In	-	55,146	(55,146)	0%
Transfers Out	(830,498)	(869,416)	38,918	-4%
Proceeds from capital lease	25,193	50,606	(25,413)	-50%
Net change in fund balance	<u>\$ 436,253</u>	<u>\$ 157,629</u>	<u>\$ 278,624</u>	<u>177%</u>

The general debt service fund is the other major government fund. Changes in this fund include transfers in from other funds to pay debt service and debt service payment. Proceeds and payments to escrow agents also contributed to changes in this funds balance.

Proprietary funds. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Proprietary Fund at the end of the fiscal year amounted to \$2,887,935. The change in net position was a \$594,615 increase. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City amended the general fund budget once during fiscal year 2021. Budgeted revenues were increased \$751,468. Budgeted expenditures were increased \$249,654. The most significant changes to expenditures were to increase the parks and facilities budget to account for the purchase of land. General fund budget exceeded expenditures by \$46,651.

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of September 30, 2021, amounts to \$34,865,893 (net of accumulated depreciation). This investment in capital assets includes land, buildings, water and wastewater systems, improvements, equipment, and infrastructure.

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

Governmental Activities:

- \$328,186 for land
- \$707,210 for an additional cost to the Lakeshore bridge project
- \$201,759 for trail system improvements
- \$50,173 for new police vehicles

Business-type activities:

- \$12,875 for a new mower
- \$3,009,600 construction in progress for the new water line from the City of Fort Worth

The City of Hudson Oaks Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 942,382	\$ 942,382	\$ 559,867	\$ 559,867	\$ 1,502,249	\$ 1,502,249
Buildings	2,055,104	1,796,749	28,815	30,002	2,083,919	1,826,751
Water plant	-	-	2,443,887	2,602,652	2,443,887	2,602,652
Distribution systems	-	-	2,903,515	2,525,782	2,903,515	2,525,782
Wastewater systems	-	-	2,251,989	2,383,831	2,251,989	2,383,831
Automobiles	131,303	118,767	41,750	55,291	173,053	174,058
Intangible Assets	-	-	434,135	462,683	434,135	462,683
Equipment	145,724	137,837	30,869	29,075	176,593	166,912
Improvements	76,410	89,644	-	-	76,410	89,644
Infrastructure	12,530,016	9,593,228	-	-	12,530,016	9,593,228
Construction in progress	294,423	2,891,031	9,995,704	7,532,921	10,290,127	10,423,952
Total	\$ 16,175,362	\$ 15,569,638	\$ 18,690,531	\$ 16,182,104	\$ 34,865,893	\$ 31,751,742

Additional information on the City's capital assets can be found in note 3 to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the City of Hudson Oaks had total bonded debt, notes payable and capital leases payable of \$22,716,336.

City of Hudson Oaks' Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Capital leases	\$ 55,382	\$ 82,507	\$ 34,341	\$ 59,306	\$ 89,723	\$ 141,813
Certificates of Obligation	6,436,983	8,917,220	10,219,430	9,458,568	16,656,413	18,375,788
General Obligation bonds	2,059,000	125,000	3,911,200	2,370,000	5,970,200	2,495,000
Total	<u>\$ 8,551,365</u>	<u>\$ 9,124,727</u>	<u>\$ 14,164,971</u>	<u>\$ 11,887,874</u>	<u>\$ 22,716,336</u>	<u>\$ 21,012,601</u>

More detailed information about the City's debt is presented in note 5 to the financial statements.

Economic factors and the Next Year's Budgets and Rates

The City of Hudson Oaks commercial development again increased significantly in 2021. The new apartments are approximately 100% occupied bringing new residents into town. A new retail center has opened, and more major commercial construction projects are underway. As the City continues its mission for a no property tax City, the reliance on commercial development to produce sales tax is extremely important.

Looking ahead to 2022, inflation continues to impact sales tax. Although the City is still seeing growth from new business and growth from previous businesses, inflation is still The City has many essential businesses which increased the City's revenue. Infrastructure continues to improve in the City with additional access points, exits and other streets seeing improvements, paving the way for future development and more growth.

Much of the focus continues to be on growing the sales tax base as the City maintains its functionality without a property tax. A focus towards being a full-service City without a property tax is the main goal in Hudson Oaks and building a comprehensive and competitive sales tax marketplace accomplishes what the City strives to achieve.

Due to the pandemic in 2020 and 2021, the City did not hold many major special events. A return to normalcy is expected in 2022 and the City plans to continue to host its marquee events such as Boomin 4th, Craft and Cork wine and beer festival, and the annual Christmas events.

The fiscal year 2022 general fund budget continues the City's conservative approach to fiscal matters. The budget includes additional funds for street maintenance, police protection, and employee retention while holding sales tax projections related to the developments to a minimum. This conservative approach will allow the City more flexibility if revenues exceed budget in the future to expand on developments to continue to grow the City. While the City expects business to continue to increase, some events have led to a more conservative approach than normal for 2022.

Request for Information

The financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, 210 Hudson Oaks Drive, Hudson Oaks, Texas 76087.

BASIC FINANCIAL STATEMENTS

CITY OF HUDSON OAKS, TEXAS
Statement of Net Position
September 30, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 998,150	\$ 2,524,479	\$ 3,522,629
Investments	1,457,784	510,980	1,968,764
Receivables (Net of allowances for uncollectibles)			
Accounts	-	376,774	376,774
Sales tax	692,856	-	692,856
Franchise taxes	85,063	-	85,063
Fines	37,594	-	37,594
Miscellaneous receivables	581,279	65,411	646,690
Prepaid items	16,520	10,015	26,535
Internal Balances	(7,738)	7,738	-
Restricted assets:			
Cash and cash equivalents	-	7,278	7,278
Capital assets (net of accumulated depreciation):			
Nondepreciable	1,236,805	10,555,571	11,792,376
Depreciable, net of accumulated depreciation	14,938,557	8,134,960	23,073,517
Total Assets	<u>20,036,870</u>	<u>22,193,206</u>	<u>42,230,076</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows on pensions	187,531	56,266	243,797
Deferred outflows on OPEB	16,189	5,101	21,290
Total Deferred Outflow of Resources	<u>203,720</u>	<u>61,367</u>	<u>265,087</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 20,240,590</u>	<u>\$ 22,254,573</u>	<u>\$ 42,495,163</u>
LIABILITIES:			
Accounts Payable	1,344,127	143,302	1,487,429
Accrued payroll	35,840	8,936	44,776
Unearned grant revenue	307,131	-	307,131
Accrued interest payable	41,600	79,414	121,014
Noncurrent liabilities:			
Due within one year	741,727	762,186	1,503,913
Due in more than one year	8,179,218	13,500,131	21,679,349
Total Liabilities	<u>10,649,643</u>	<u>14,493,969</u>	<u>25,143,612</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows on pensions	326,234	102,796	429,030
Deferred inflows on OPEB	2,114	666	2,780
Deferred inflows on refunding	46,874	9,972	56,846
Total Deferred Inflow of Resources	<u>375,222</u>	<u>113,434</u>	<u>488,656</u>
NET POSITION:			
Net Investments in Capital Assets	7,623,997	4,525,560	12,149,557
Restricted Net Position - Public Safety	18,216	-	18,216
Restricted Net Position - Debt Service	103	7,278	7,381
Restricted Net Position - Impact Fees	-	226,397	226,397
Restricted Net Position - Capital Projects	68,022	-	68,022
Restricted Net Position - Other	12,906	-	12,906
Unrestricted Net Position	1,492,481	2,887,935	4,380,416
Total Net Position	<u>9,215,725</u>	<u>7,647,170</u>	<u>16,862,895</u>
Total Liability, Deferred Inflows of Resources, and Net Position	<u>\$ 20,240,590</u>	<u>\$ 22,254,573</u>	<u>\$ 42,495,163</u>

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

CITY OF HUDSON OAKS, TEXAS
Statement of Activities
For the Year Ended September 30, 2021

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 1,166,363	\$ 78,480	\$ 50,658	\$ -
Public safety	1,432,360	16,098	-	-
Streets	689,805	-	-	-
Parks and facilities	191,756	-	-	-
Planning and development	181,560	376,812	-	-
Mayor and council	5,468	-	-	-
Interest and fiscal charges	300,899	-	-	-
Total governmental activities	<u>3,968,211</u>	<u>471,390</u>	<u>50,658</u>	<u>-</u>
Business-type activities:				
Hudson Oaks water	1,595,882	1,736,314	-	-
Wastewater	388,516	447,526	-	-
Dyegard water system	173,989	281,438	-	-
Deercreek management	138,290	272,055	-	-
Stormwater utility system	14,094	193,520	-	-
Total business-type activities	<u>2,310,772</u>	<u>2,930,853</u>	<u>-</u>	<u>-</u>
Total primary government	<u>6,278,983</u>	<u>3,402,243</u>	<u>50,658</u>	<u>-</u>

General Revenues:

Taxes:

Sales Taxes

Franchise Taxes

Investment Earnings

Other Revenue

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position October 1

Net Position September 30

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,037,225)	\$ -	\$ (1,037,225)
(1,416,262)	-	(1,416,262)
(689,805)	-	(689,805)
(191,756)	-	(191,756)
195,252	-	195,252
(5,468)	-	(5,468)
(300,899)	-	(300,899)
(3,446,163)	-	(3,446,163)
-	140,432	140,432
-	59,010	59,010
-	107,449	107,449
-	133,765	133,765
-	179,426	179,426
-	620,081	620,081
(3,446,163)	620,081	(2,826,082)
3,844,619	-	3,844,619
173,610	-	173,610
5,595	458	6,053
293,236	-	293,236
25,924	(25,924)	-
4,342,984	(25,466)	4,317,518
896,821	594,615	1,491,436
8,318,904	7,052,555	15,371,459
\$ 9,215,725	\$ 7,647,170	\$ 16,862,895

CITY OF HUDSON OAKS, TEXAS
Balance Sheet
Governmental Funds
September 30, 2021

	General Fund	General Debt Service Fund	General Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets:					
Cash	\$ 556,931	\$ 103	\$ 40,824	\$ 394,619	\$ 992,477
Investments	1,457,754	-	30	-	1,457,784
Receivables					
Sales Tax	692,856	-	-	-	692,856
Franchise Tax	85,063	-	-	-	85,063
Fines and fees	37,594	-	-	-	37,594
Miscellaneous	567,605	-	-	13,674	581,279
Prepaid items	16,520	-	-	-	16,520
Due from other funds	182,211	-	-	-	182,211
	<u>3,596,534</u>	<u>103</u>	<u>40,854</u>	<u>408,293</u>	<u>4,045,784</u>
Total assets	<u>\$ 3,596,534</u>	<u>\$ 103</u>	<u>\$ 40,854</u>	<u>\$ 408,293</u>	<u>\$ 4,045,784</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	564,614	-	770,040	9,473	1,344,127
Accrued payroll	35,840	-	-	-	35,840
Unearned grant revenue	-	-	-	307,131	307,131
Due to Other Funds	7,738	-	102,242	79,969	189,949
	<u>608,192</u>	<u>-</u>	<u>872,282</u>	<u>396,573</u>	<u>1,877,047</u>
Total liabilities	<u>608,192</u>	<u>-</u>	<u>872,282</u>	<u>396,573</u>	<u>1,877,047</u>
Deferred inflows of resources:					
Deferred revenue	1,007,514	-	-	-	1,007,514
	<u>1,007,514</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,007,514</u>
Total deferred inflows of resources	<u>1,007,514</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,007,514</u>
Fund balances:					
Nonspendable	16,520	-	-	-	16,520
Restricted fund balance					
Public, educational, and government access fees	9,982	-	-	-	9,982
Public Safety	-	-	-	18,216	18,216
Parks	-	-	-	2,924	2,924
Capital Projects	-	-	-	68,022	68,022
Debt Service	-	103	-	-	103
Assigned fund balance					
Construction Projects	-	-	-	-	-
Unassigned fund balance	1,954,326	-	(831,428)	(77,442)	1,045,456
	<u>1,980,828</u>	<u>103</u>	<u>(831,428)</u>	<u>11,720</u>	<u>1,161,223</u>
Total fund balances	<u>1,980,828</u>	<u>103</u>	<u>(831,428)</u>	<u>11,720</u>	<u>1,161,223</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 3,596,534</u>	<u>\$ 103</u>	<u>\$ 40,854</u>	<u>\$ 408,293</u>	<u>\$ 4,045,784</u>

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

CITY OF HUDSON OAKS, TEXAS
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
September 30, 2021

Total Fund Balances - Governmental Funds	\$ 1,161,223
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of these assets was \$21,287,807 and the accumulated depreciation was \$5,112,445.	16,175,362
Long-term liabilities, including \$8,496,818 bonds payable, \$55,382 of capital leases payable and \$140,928 compensated absences payable are not due and payable in the current period, and, therefore are not reported as a liability in the fund financial statements.	(8,692,293)
Interest payable is not expected to be liquidated with available financial resources and is not reported as a liability in the fund financial statements.	(41,600)
Franchise taxes receivable, sales tax receivable, and fines and fees receivable are not available soon enough to pay for the current period's expenditures and therefore are deferred revenue in the fund financial statements.	1,007,514
Deferred inflows on refunding is not reported as a liability in the fund financial statements. This resulted in a decrease to net position.	(46,874)
Included in the items related to noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of \$172,861, a deferred resource inflow related to pensions of \$326,234 and a deferred resource outflow related to pensions in the amount of \$187,531. This resulted in a decrease to net position.	(311,564)
Included in the items related to noncurrent liabilities is the recognition of the City's Other Post Employment Benefits (OPEB) as required by GASB 75 in the amount of \$55,791, a deferred inflow related to OPEB of \$2,114, a deferred outflow to OPEB of \$16,189. This results in a decrease to net position.	(41,716)
The City uses an internal service fund to charge costs of reimbursements to employees for health care costs above deductible amounts. The adjustment is to reflect the consolidation of the internal service fund activities related to governmental activities.	5,673
Net Position of Governmental Activities	<u>\$ 9,215,725</u>

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

CITY OF HUDSON OAKS, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2021

	General Fund	General Debt Service Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes					
Sales and Use	\$ 3,777,991	\$ -	\$ -	\$ -	\$ 3,777,991
Franchise	177,967	-	-	-	177,967
Licenses and permits	376,812	-	-	-	376,812
Charges for services	11,419	-	-	-	11,419
Municipal court fines	15,603	-	-	495	16,098
Interest	5,352	131	112	-	5,595
Intergovernmental	49,523	-	-	-	49,523
Miscellaneous	285,328	-	-	190,941	476,269
Total revenues	<u>4,699,995</u>	<u>131</u>	<u>112</u>	<u>191,436</u>	<u>4,891,674</u>
EXPENDITURES:					
Current:					
General government	912,390	-	-	128,299	1,040,689
Public safety	1,462,237	-	-	-	1,462,237
Streets	319,270	-	-	-	319,270
Parks and facilities	521,863	-	-	-	521,863
Planning and development	181,560	-	-	-	181,560
Mayor and council	5,468	-	-	-	5,468
Capital outlay	-	-	831,540	-	831,540
Debt service:					
Principal	53,157	512,250	-	-	565,407
Interest and fiscal charges	2,492	261,872	-	-	264,364
Bond issuance costs	-	59,794	-	-	59,794
Total expenditures	<u>3,458,437</u>	<u>833,916</u>	<u>831,540</u>	<u>128,299</u>	<u>5,252,192</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,241,558</u>	<u>(833,785)</u>	<u>(831,428)</u>	<u>63,137</u>	<u>(360,518)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	806,422	-	50,000	856,422
Transfers out	(830,498)	-	-	-	(830,498)
Issuance of capital lease	25,193	-	-	-	25,193
Issuance of bonds	-	1,974,000	-	-	1,974,000
Payment to refunding escrow agent	-	(1,946,534)	-	-	(1,946,534)
Total other financing sources (uses):	<u>(805,305)</u>	<u>833,888</u>	<u>-</u>	<u>50,000</u>	<u>78,583</u>
Net change in fund balance	436,253	103	(831,428)	113,137	(281,935)
Fund balance, October 1	<u>1,544,575</u>	<u>-</u>	<u>-</u>	<u>(101,417)</u>	<u>1,443,158</u>
Fund balance, September 30	<u>\$ 1,980,828</u>	<u>\$ 103</u>	<u>\$ (831,428)</u>	<u>\$ 11,720</u>	<u>\$ 1,161,223</u>

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

CITY OF HUDSON OAKS, TEXAS
Reconciliation of Statement of Revenues,
Expenditures and Changes in Fund Balances of
The Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2021

Total Net Change in Fund Balances - Governmental Funds	\$ (281,935)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including \$1,207,367 of capital outlays and \$564,572 of debt principal payments is to increase net position.	1,772,774
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(601,643)
Current year issuance of capital lease payables are other financing sources in the fund financial statements. The effect of \$25,193 increase in capital lease payable is a decrease to net position.	(25,193)
Current year interest payable and compensated absences of the governmental funds are not due and payable in the current period, and, therefore are not reported as liabilities in the fund financial statements. The net effect of the \$9,519 decrease in interest payable, \$3,970 decrease in compensated absences payable and \$13,740 amortization of deferred charges, premiums and discounts is to decrease net position.	27,229
Transactions involving the issuance of refunding bonds are expenditures and other financing sources (uses) in the fund financial statements but change in deferred charges for refunding and noncurrent liabilities in the government-wide financial statements. The net effect is a decrease to net position.	(27,466)
Sales tax, franchise tax, fines and fees, and other intergovernmental revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the fund statements.	(52,566)
GASB required the City to recognize their net pension liability, deferred resource inflow related to pensions and deferred resource outflow related to pensions. The changes in these balances decreased net position.	96,290
GASB required the City to recognize their other post employment benefit liability and deferred inflows related to OPEB. The changes in these balances decreased net position.	(6,059)
The City uses and internal service fund to charge the costs of health costs reimbursable to employees to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	(4,610)
Change in Net Position of Governmental Activities	<u>\$ 896,821</u>

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

CITY OF HUDSON OAKS, TEXAS

Statement of Net Position
Proprietary Fund
September 30, 2021

	Business-type Activities			Governmental
	Water & Wastewater	Other Enterprise Funds	Total Enterprise Funds	Internal Service Fund
Assets				
Current Assets:				
Cash	\$ 2,214,206	\$ 310,273	\$ 2,524,479	\$ 5,673
Investments	510,980	-	510,980	-
Accounts receivable (net of allowance for doubtful accounts)	356,262	20,512	376,774	-
Miscellaneous receivables	65,411	-	65,411	-
Due from other funds	7,738	-	7,738	-
Prepaid expense	10,015	-	10,015	-
Restricted cash	221	7,057	7,278	-
Total current assets	<u>3,164,833</u>	<u>337,842</u>	<u>3,502,675</u>	<u>5,673</u>
Noncurrent Assets:				
Capital Assets:				
Nondepreciable	10,555,571	-	10,555,571	-
Depreciable, net of accumulated depreciation	7,575,911	559,049	8,134,960	-
Total noncurrent assets	<u>18,131,482</u>	<u>559,049</u>	<u>18,690,531</u>	<u>-</u>
Total assets	<u>21,296,315</u>	<u>896,891</u>	<u>22,193,206</u>	<u>5,673</u>
Deferred Outflow of Resources				
Deferred Outflow Related to Pensions	56,266	-	56,266	-
Deferred Outflow Related to OPEB	5,101	-	5,101	-
Total deferred outflow of resources	<u>61,367</u>	<u>-</u>	<u>61,367</u>	<u>-</u>
Liabilities				
Current Liabilities:				
Accounts payable	143,302	-	143,302	-
Accrued payroll	8,936	-	8,936	-
Compensated absences payable	25,299	-	25,299	-
Due to other funds	-	-	-	-
Current liabilities payable from restricted assets:				
Current portion of long-term debt	710,848	26,039	736,887	-
Accrued interest payable	77,627	1,787	79,414	-
Total current liabilities	<u>966,012</u>	<u>27,826</u>	<u>993,838</u>	<u>-</u>
Noncurrent Liabilities:				
Capital lease payable	17,399	-	17,399	-
Net pension liability	54,467	-	54,467	-
OPEB liability	17,580	-	17,580	-
Certificates of obligation	12,986,391	424,294	13,410,685	-
Total noncurrent liabilities	<u>13,075,837</u>	<u>424,294</u>	<u>13,500,131</u>	<u>-</u>
Total liabilities	<u>14,041,849</u>	<u>452,120</u>	<u>14,493,969</u>	<u>-</u>
Deferred Inflow of Resources				
Deferred Inflow Related to Pensions	102,796	-	102,796	-
Deferred Inflow Related to OPEB	666	-	666	-
Deferred Inflow on refunding	9,972	-	9,972	-
Total deferred outflow of resources	<u>113,434</u>	<u>-</u>	<u>113,434</u>	<u>-</u>
Net Position				
Net Investment in capital assets	4,416,844	108,716	4,525,560	-
Restricted for debt service (expendable)	221	7,057	7,278	-
Restricted for impact fees (expendable)	226,397	-	226,397	-
Unrestricted	2,558,937	328,998	2,887,935	5,673
Total net position	<u>\$ 7,202,399</u>	<u>\$ 444,771</u>	<u>\$ 7,647,170</u>	<u>\$ 5,673</u>

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

CITY OF HUDSON OAKS, TEXAS
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended September 30, 2021

	Business-type Activities			Governmental
	Water & Wastewater	Other Enterprise Funds	Total Enterprise Funds	Internal Service Fund
Operating revenues:				
Water, wastewater and Stormwater	\$ 2,377,002	\$ 193,520	\$ 2,570,522	\$ -
Management contract charges	272,055	-	272,055	-
Late payment charges	11,940	-	11,940	-
Tap Fees	7,100	-	7,100	-
Impact fees	10,699	-	10,699	-
Customer assessment fees	5,826	-	5,826	-
Miscellaneous fees & charges	52,711	-	52,711	25,000
Total operating revenues	<u>2,737,333</u>	<u>193,520</u>	<u>2,930,853</u>	<u>25,000</u>
Operating expenses:				
Personal services	490,478	-	490,478	-
Professional services	117,489	-	117,489	29,622
Supplies	108,111	-	108,111	-
Operations	577,417	-	577,417	-
Maintenance and repairs	191,192	2,100	193,292	-
Well utilities	106,713	-	106,713	-
Depreciation	513,405	644	514,049	-
Total operating expenses	<u>2,104,805</u>	<u>2,744</u>	<u>2,107,549</u>	<u>29,622</u>
Operating income (loss)	<u>632,528</u>	<u>190,776</u>	<u>823,304</u>	<u>(4,622)</u>
Nonoperating revenues (expenses)				
Interest	448	10	458	12
Interest expense	(155,021)	(9,685)	(164,706)	-
Debt issuance costs	(38,517)	-	(38,517)	-
Total nonoperating revenues (expenses)	<u>(193,090)</u>	<u>(9,675)</u>	<u>(202,765)</u>	<u>12</u>
Contributions and transfers:				
Transfers out	(25,924)	-	(25,924)	-
	<u>(25,924)</u>	<u>-</u>	<u>(25,924)</u>	<u>-</u>
Change in net position	413,514	181,101	594,615	(4,610)
Net Position, Beginning	<u>6,788,885</u>	<u>263,670</u>	<u>7,052,555</u>	<u>10,283</u>
Net Position, Ending	<u>\$ 7,202,399</u>	<u>\$ 444,771</u>	<u>\$ 7,647,170</u>	<u>\$ 5,673</u>

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

CITY OF HUDSON OAKS, TEXAS
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2021

	Business-type Activities			Governmental Activities
	Water & Wastewater	Other Enterprise Funds	Total Enterprise Funds	Internal Service Fund
Cash flows from operating activities:				
Cash received from customers and users	\$ 2,744,404	\$ 190,002	\$ 2,934,406	\$ 25,000
Cash paid to suppliers	(1,392,031)	(2,100)	(1,394,131)	(29,622)
Cash paid to employees	(539,114)	-	(539,114)	-
Net cash provided (used) by operating activities	<u>813,259</u>	<u>187,902</u>	<u>1,001,161</u>	<u>(4,622)</u>
Cash flow from noncapital financing activities:				
Due to other funds	102,533	-	102,533	-
Due from other funds	-	24,243	24,243	-
Transfers in (out)	(25,924)	-	(25,924)	-
Net cash provided (used) by noncapital financing activities	<u>76,609</u>	<u>24,243</u>	<u>100,852</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Principal payments - certificates of obligation	(688,557)	(25,000)	(713,557)	-
Principal payments - capital leases	(24,965)	-	(24,965)	-
Purchase of property, plant and equipment	(3,009,600)	(12,875)	(3,022,475)	-
Proceeds from bond issuance	3,009,600	-	3,009,600	-
Special assessments	41,026	-	41,026	-
Contribution for refunding bonds	(21,489)	-	(21,489)	-
Interest payments	(95,702)	(11,349)	(107,051)	-
Net cash flows provided by (used in) capital and related financing activities	<u>(789,687)</u>	<u>(49,224)</u>	<u>(838,911)</u>	<u>-</u>
Cash flows from investing activities:				
Interest received	448	10	458	12
(Purchase) sale of investments	(203)	-	(203)	-
Net cash provided by (used in) investing activities	<u>245</u>	<u>10</u>	<u>255</u>	<u>12</u>
Net increase (decrease) in cash	<u>100,426</u>	<u>162,931</u>	<u>263,357</u>	<u>(4,610)</u>
Cash, October 1	<u>2,114,001</u>	<u>154,399</u>	<u>2,268,400</u>	<u>10,283</u>
Cash, September 30	<u>\$ 2,214,427</u>	<u>\$ 317,330</u>	<u>\$ 2,531,757</u>	<u>\$ 5,673</u>
Reconciliation of income from operations to net cash provided by operating activities:				
Income (loss) from operations	\$ 632,528	190,776	823,304	(4,622)
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities				
Depreciation	513,405	644	514,049	-
Disposal of capital assets	-	-	-	-
(Increase) decrease in accounts receivable	(7,128)	(3,518)	(10,646)	-
(Increase) decrease in miscellaneous receivables	14,199	-	14,199	-
(Increase) decrease in prepaid expenses	(1,545)	-	(1,545)	-
(Increase) decrease in deferred outflow of resources	11,872	-	11,872	-
Increase (decrease) in accounts payable	(289,564)	-	(289,564)	-
Increase (decrease) in accrued payroll	(1,023)	-	(1,023)	-
Increase (decrease) in compensated absences	(14,421)	-	(14,421)	-
Increase (decrease) in net pension liability	(89,625)	-	(89,625)	-
Increase (decrease) in OPEB liability	3,942	-	3,942	-
Increase (decrease) in deferred inflow of resources	40,619	-	40,619	-
Net adjustments	<u>180,731</u>	<u>(2,874)</u>	<u>177,857</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 813,259</u>	<u>\$ 187,902</u>	<u>\$ 1,001,161</u>	<u>\$ (4,622)</u>
Noncash Investing, Capital and Financing Activities				
Decrease in bond refunding	\$ 48,150	\$ -	\$ 48,150	-
Capital lease	-	-	-	-
	<u>\$ 48,150</u>	<u>\$ -</u>	<u>\$ 48,150</u>	<u>\$ -</u>

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

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CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Hudson Oaks (the "City") is a General Law Type A city which adopted a council-administrator form of government by ordinance in 2007. The City provides the following services as authorized by the State of Texas Local Government Code: public safety (police), public works, parks and recreation, water, wastewater, stormwater, and general administration.

The accounting and reporting policies of the City relating to the funds are included in the accompanying financial statements and conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the City are described below.

B. Financial Reporting Entity

The City's financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Hudson Oaks has no component units.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all on the nonfiduciary activities of the primary government and the internal service fund. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 30 days after year-end. Expenditures generally are recorded when the related fund liability is incurred, however, debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized when payment is due.

Sales taxes, franchise taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when the government receives payment.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges and transfers between the governmental activities and the business-type activities, which cannot be eliminated.

The City reports the following major governmental funds:

The *general fund* is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax receipts and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The *general capital projects fund* is used to account for the acquisition and construction of the government's major capital facilities and equipment, other than those financed by the proprietary fund.

The *debt service fund* is used to account for the principal and interest payments on the city's general debt. Monthly transfers are made into this fund and debt payments are subsequently paid from this fund.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City reports the following major proprietary funds:

The *water and wastewater fund* is used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Combining schedules can be found on page 64 - 66 of the financial statements, under enterprise fund supplementary information. There are no external parties that require separate segment reporting for the supplementary information.

The City reports other enterprise funds as nonmajor funds:

The *stormwater utility fund* accounts for the operation of the Stormwater Utility and provides funding for storm drainage capital improvements and enhanced maintenance of the storm drainage system in order to reduce stormwater related pollutants from entering the City's waterways. The fund also accounts for the accumulation of resources for and the payment of long-term principal and interest for the stormwater debt.

Additionally, the government reports the following fund types:

The *internal service fund* accounts for health insurance reimbursements and health card advancements to employees of the government. The internal service fund charges various other funds containing personnel to provide these services for employees. Because these services predominately benefit the governmental rather than the business-type functions, they have been included within governmental activities in the government-wide financial statements.

Amounts reported as program revenues include 1) charges for customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expense from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and wastewater fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities and Net Position or Equity

1) Cash, Cash Equivalents, and Investments

For the purposes of the statement of cash flows for the proprietary fund, investments are considered to be cash equivalents if they are highly liquid with maturity within three months or less when purchased. The City does not include cash in broker accounts pending investment or amounts invested in TexPool or TexStar as cash equivalents.

2) Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as Due To/From Other Funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All receivables are presented net of allowance for uncollectible accounts. Water, dyegard, wastewater, and stormwater funds accounts receivable with final status comprise the allowance for uncollectible accounts of \$17,494. In the governmental activities the fines and fees receivable are reported net of an allowance of \$150,377 which is 80% of the outstanding receivable.

3) Unbilled Services

Utility operating revenues (water, dyegard, wastewater and stormwater) are billed on monthly cycles. The City records estimated revenues for services delivered during the current fiscal year, which will be billed during the next fiscal year. \$156,109 of unbilled services is reported with accounts receivable in the proprietary fund.

4) Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

5) Restricted Assets

The City has established Interest and Sinking Fund accounts in the utility capital projects fund. The use of these accounts is limited by bond ordinances and other legal restrictions.

6) Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental activities or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. The



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the primary government and proprietary funds are depreciated using the straight-line method over the following estimated useful lives.

Buildings	40 years
Water plant	7-25 years
Distribution system	30 years
Office equipment	5-7 years
Automobiles and trucks	3-5 years

7) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualifies in this category. Deferred outflows related to pensions and deferred outflows related to OPEB, both reported in the government-wide statement of net position and proprietary funds statement of net position.

In addition to liabilities, the statement of financial position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until that time. The City has three types of items in this category. Unavailable revenues for governmental funds and deferred inflows related to pensions and deferred inflows related to OPEB in the government-wide statement of net position and proprietary funds statements are reported as deferred inflows of resources. At the end of the fiscal year the components of deferred inflows in the governmental funds were as follows:

Deferred Revenue	
Sales taxes	\$ 361,608
Franchise taxes	80,804
Court fines	36,214
Roadway assessments	528,888
	\$ 1,007,514