

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 7: Long-Term Debt (continued)

Debt service requirements through maturity are as follows as of December 31, 2012:

Year ended December 31,	Principal	Interest	Total
2013	\$ 240,992	\$ 484,666	\$ 725,658
2014	254,880	470,136	725,016
2015	268,966	454,761	723,727
2016	283,262	438,533	721,795
2017	302,778	421,440	724,218
2018 to maturity	<u>6,304,659</u>	<u>3,525,330</u>	<u>9,829,989</u>
Totals	<u>\$ 7,655,537</u>	<u>\$ 5,794,866</u>	<u>\$ 13,450,403</u>

Note 8: Amortization of Contributed Capital

The Corporation has elected to amortize contributed capital over the estimated useful life of the plant and distribution system assets acquired for use by the Corporation through contribution from an outside source (i.e., residential development companies). This election is based on the same accounting principle used by a governmental enterprise fund to amortize contributed capital as a credit to retained earnings as an offset of depreciation expense on the above-mentioned assets. For the years ended December 31, 2012 and 2011, amortization of contributed capital amounted to \$140,732 and \$142,846, respectively.

Note 9: Net Assets

The Corporation's net assets are reported as either unrestricted or temporarily restricted as follows:

	2012	2011
Unrestricted Net Assets:		
Contributed capital	\$ 4,583,111	\$ 4,658,327
Retained earnings	<u>18,939,256</u>	<u>18,597,999</u>
Total Unrestricted Net Assets	<u>23,522,367</u>	<u>23,256,326</u>
Temporarily Restricted Net Assets:		
Memberships	672,070	660,020
Retained earnings (see Note 4)	<u>276,549</u>	<u>276,158</u>
Total Temporarily Restricted Net Assets	<u>948,619</u>	<u>936,178</u>
	<u>\$ 24,470,986</u>	<u>\$ 24,192,504</u>

BETHESDA WATER SUPPLY CORPORATION
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DECEMBER 31, 2012 AND 2011

Note 10: Retirement Plans

401(k) Retirement Plan

As of January 1, 2008, the Corporation established a 401(k) retirement plan for its employees. Employees are eligible to participate in the Plan after six months of service. In 2012 and 2011, an employee may contribute up to a maximum of \$17,000 and \$16,500, respectively (with an additional catch-up contribution of \$5,500 for qualified individuals) to the Plan. The Corporation contributes to the Plan through matching contributions. Participants are vested in the Corporation's contributions for its matching portion in 20% increments every year after two years of service and become fully vested after six years of service. The Corporation's contribution to the Plan for the years ended December 31, 2012 and 2011 was \$13,042 and \$12,541, respectively.

Profit Sharing Plan

The Corporation also has a non-contributory employee profit sharing retirement plan. Employees are eligible to participate in Plan contributions on the first day of the Plan year after six months of service and vest in 20% increments every year after two years of service and become fully vested after six years of service. The Corporation's profit sharing contribution is discretionary and is not limited to current or accumulated earnings. The amount contributed to the profit sharing plan is calculated on eligible employees' compensation excluding overtime and bonuses. The Corporation's contribution to the profit sharing plan for the year ended December 31, 2012 and 2011 amounted to \$82,318 and \$75,592, respectively.

Note 11: Compensated Absences

Regular full time employees are allowed sick leave after 90 days of employment. Employees earn one day per ten weeks of continuous service with a maximum of five days. Sick leave not used during the year in which it accrues accumulates and is available for use in succeeding years. Unused sick leave is not compensatory upon separation from employment until after ten years of continuous employment. Compensatory sick leave schedule then commences as follows: 120 months of continued employment may be compensated 50% of accumulated sick leave increasing at 5% increments per additional 12 months of employment up to 90 days maximum.

The Corporation's employees earn vacation based on their years of service as follows: new employees earn one day of vacation leave for every five weeks worked from the date of hire to December 31st of their employment, employees with one to ten years of service earn 10 days of vacation leave per year, employees with over ten years of service earn 15 days of vacation leave per year, and employees with over 20 years of service earn 20 days per year. Each December 31st, an employee may be paid for up to 50% of the amount accrued from the prior year and any remaining vacation days are forfeited. Therefore, compensated absences are not accrued as a liability in the accompanying statement of financial position.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 12: Commitments and Contingencies

Water Purchase Contract

In October 1992, the Corporation entered into a contract with the City of Fort Worth for the purpose of providing for surface water purchases. Under the terms of the contract, payments are based on consumption with annual rate adjustments effective each October 1st and payments are made monthly for the previous month's usage. In November 2010, the contract was revised with an effective date of January 1, 2011 and a termination date of September 30, 2031. The cost of water purchases amounted to \$2,172,782 and \$2,446,691 in 2012 and 2011, respectively.

Construction

Due to the continued residential growth in the Corporation's service area, several construction projects are in process or are in the planning stages for the distribution system.

Litigation

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

Note 13: Concentrations of Credit Risk

During the year ended December 31, 2012, the Corporation had cash balances in excess of FDIC coverage. As of December 31, 2012 and 2011, the reported amount of cash and cash equivalents in excess of FDIC coverage was \$1,804,191 and \$2,184,881, respectively.

Note 14: Subsequent Events

On February 8, 2013, the Corporation exercised its option to redeem all of the *Revenue Improvement and Refunding Bonds Taxable Series 2002* and elected to pay off the service complex building note by obtaining a new bank loan with Compass Bank. The refinancing of the debt enabled the Corporation to obtain more favorable terms regarding its payment obligations.

Subsequent events have been evaluated through March 1, 2013, the date the financial statements were available to be issued.

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Supplementary Schedules

BETHESDA WATER SUPPLY CORPORATION
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Distribution	Administration	Office	Total
Accounting and auditing fees	\$ -	\$ 13,000	\$ -	\$ 13,000
Advertising	-	3,498	-	3,498
Chemical analysis and testing	20,796	-	-	20,796
Communications	6,567	1,321	18,124	26,012
Contract billing	-	-	93,036	93,036
Contract labor	20,915	-	-	20,915
Customer notification	-	-	9,033	9,033
Dues and memberships	-	17,044	-	17,044
Filing fees	-	-	3,370	3,370
Health insurance	89,363	23,660	42,173	155,196
Insurance	70,619	6,795	-	77,414
Janitorial	-	-	7,515	7,515
Legal	-	5,937	-	5,937
Maintenance contracts	-	-	9,442	9,442
Meals and gatherings	-	7,472	-	7,472
Minor tools	1,243	-	-	1,243
Miscellaneous expense	-	3,844	67	3,911
Payroll taxes	33,245	16,883	12,365	62,493
Postage and freight	-	-	10,735	10,735
Pre-employment & other	125	-	25	150
Regulatory fees	-	21,344	-	21,344
Repairs and maintenance	617,164	-	12,961	630,125
Retirement and profit-sharing plan	47,933	27,043	20,384	95,360
Safety gear and uniforms	13,488	-	-	13,488
Salaries and wages	461,343	227,323	178,149	866,815
SCADA	30,685	-	-	30,685
Supplies	-	-	20,869	20,869
Training	2,143	6,711	-	8,854
Transportation	93,994	5,602	5	99,601
Uncollectible accounts	-	10,563	-	10,563
Utilities	498,865	-	21,988	520,853
Water treatment	40,056	-	-	40,056
Wholesale sewer expense	40,114	-	-	40,114
Wholesale water purchased	2,172,782	-	-	2,172,782
	<u>\$ 4,261,440</u>	<u>\$ 398,040</u>	<u>\$ 460,241</u>	<u>\$ 5,119,721</u>

BETHESDA WATER SUPPLY CORPORATION
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Distribution	Administration	Office	Total
Accounting and auditing fees	\$ -	\$ 12,875	\$ -	\$ 12,875
Advertising	-	3,500	-	3,500
Chemical analysis and testing	33,704	-	-	33,704
Communications	7,897	2,357	23,415	33,669
Contract billing	-	-	73,544	73,544
Contract labor	12,856	-	-	12,856
Customer notification	-	-	4,583	4,583
Dues and memberships	-	19,219	-	19,219
Filing fees	-	-	5,108	5,108
Health insurance	88,573	21,885	40,034	150,492
Insurance	76,310	4,959	-	81,269
Janitorial	-	-	5,189	5,189
Legal	-	22,998	-	22,998
Maintenance contracts	-	-	13,242	13,242
Meals and gatherings	-	4,569	-	4,569
Minor tools	498	-	-	498
Miscellaneous expense	-	4,266	112	4,378
Payroll taxes	36,921	17,220	12,989	67,130
Postage and freight	-	-	11,602	11,602
Pre-employment & other	237	-	136	373
Regulatory fees	-	20,866	-	20,866
Repairs and maintenance	681,487	-	18,312	699,799
Retirement plan	47,581	26,744	19,044	93,369
Safety gear and uniforms	13,671	-	-	13,671
Salaries and wages	473,350	222,866	174,102	870,318
SCADA	26,535	-	-	26,535
Supplies	-	-	20,544	20,544
Training	2,973	17,912	486	21,371
Transportation	91,471	6,156	-	97,627
Uncollectible accounts	-	15,583	-	15,583
Utilities	597,392	-	22,497	619,889
Water treatment	38,082	-	-	38,082
Wholesale sewer expense	38,794	-	-	38,794
Wholesale water purchased	2,446,691	-	-	2,446,691
	<u>\$ 4,715,023</u>	<u>\$ 423,975</u>	<u>\$ 444,939</u>	<u>\$ 5,583,937</u>

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BETHESDA WATER SUPPLY CORPORATION

Audited Financial Statements

December 31, 2011 and 2010

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

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BETHESDA WATER SUPPLY CORPORATION
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GILLIAM, WHARRAM & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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CLEBURNE, TEXAS 76033 • (817) 641-2274
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bethesda Water Supply Corporation
Burleson, Texas

We have audited the accompanying statements of financial position of Bethesda Water Supply Corporation (a nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bethesda Water Supply Corporation as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of operating expenses on pages 18 and 19 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gilliam, Wharram & Co., P.C.

Gilliam, Wharram & Co., P.C.
March 5, 2012



BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and cash equivalents	\$ 4,286,742	\$ 3,875,409
Investment in certificates of deposit	324,159	323,596
Accounts receivable (net)	392,243	407,997
Notes receivable	957	3,812
Inventory	92,896	119,940
Prepaid expenses	11,607	12,304
Total Current Assets	<u>5,108,604</u>	<u>4,743,058</u>
Restricted Assets:		
Interest and sinking fund	<u>276,158</u>	<u>278,730</u>
Total Restricted Assets	<u>276,158</u>	<u>278,730</u>
Property, Plant and Equipment:		
Property, plant and equipment, total	48,340,669	46,249,877
Less: Accumulated depreciation	<u>(21,789,281)</u>	<u>(20,489,330)</u>
Total Property, Plant and Equipment, net	<u>26,551,388</u>	<u>25,760,547</u>
Other Assets:		
Deferred debt issue costs, net of amortization	371,776	389,480
Deposits	<u>100</u>	<u>100</u>
Total Other Assets	<u>371,876</u>	<u>389,580</u>
Total Assets	<u><u>\$ 32,308,026</u></u>	<u><u>\$ 31,171,915</u></u>

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

LIABILITIES AND NET ASSETS

	2011	2010
Current Liabilities:		
Accounts payable	\$ 146,855	\$ 143,775
Other accrued expenses	91,520	63,227
Current portion of long-term debt	222,328	213,872
Total Current Liabilities	460,703	420,874
Long-term Debt:		
Bonds payable	6,570,000	6,715,000
Note payable	1,307,147	1,374,696
Less: Current portion of long-term debt	(222,328)	(213,872)
Total Long-Term Debt	7,654,819	7,875,824
Total Liabilities	8,115,522	8,296,698
Net Assets:		
Contributed Capital (Unrestricted)	4,658,327	4,721,881
Memberships (Temporarily Restricted)	660,020	648,655
Retained Earnings:		
Unrestricted	18,597,999	17,225,951
Temporarily Restricted	276,158	278,730
Total Retained Earnings	18,874,157	17,504,681
Total Net Assets	24,192,504	22,875,217
Total Liabilities and Net Assets	\$ 32,308,026	\$ 31,171,915

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Water and sewer sales	\$ 8,135,555	\$ 6,355,571
Water meter fees	309,297	284,421
Tie on fees	<u>89,440</u>	<u>84,830</u>
Total Operating Revenues	<u>8,534,292</u>	<u>6,724,822</u>
Operating Expenses:		
Distribution	4,715,023	3,852,401
Administration	423,975	390,292
Office	<u>444,939</u>	<u>438,328</u>
Total Operating Expenses	<u>5,583,937</u>	<u>4,681,021</u>
Income from Operations	<u>2,950,355</u>	<u>2,043,801</u>
Other Revenues (Expenses):		
Other income	165,632	174,172
Gain on sale of assets	9,000	-
Interest income	3,955	7,903
Interest expense	(509,039)	(497,486)
Amortization of bond issue costs	(17,704)	(17,704)
Depreciation expense	<u>(1,375,569)</u>	<u>(1,494,944)</u>
Total Other Revenues (Expenses)	<u>(1,723,725)</u>	<u>(1,828,059)</u>
Increase in Net Assets - Unrestricted Retained Earnings	<u>\$ 1,226,630</u>	<u>\$ 215,742</u>

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Contributed Capital (Unrestricted)	Memberships (Temporarily Restricted)	Retained Earnings		Total Net Assets
			Unrestricted	Temporarily Restricted	
Net assets, December 31, 2009	\$ 4,827,264	\$ 635,130	\$ 16,865,245	\$ 278,276	\$ 22,605,915
Increase in net assets - unrestricted retained earnings	-	-	215,742	-	215,742
Interest income earned on temporarily restricted cash	-	-	(454)	454	-
Increase in members	-	13,525	-	-	13,525
Distribution system contributed from new developments	40,035	-	-	-	40,035
Amortization of contributed capital	(145,418)	-	145,418	-	-
Change in net assets	(105,383)	13,525	360,706	454	269,302
Net assets, December 31, 2010	4,721,881	648,655	17,225,951	278,730	22,875,217
Increase in net assets - unrestricted retained earnings	-	-	1,226,630	-	1,226,630
Interest income earned on temporarily restricted cash	-	-	(413)	413	-
Release from restriction	-	-	2,985	(2,985)	-
Increase in members	-	11,365	-	-	11,365
Distribution system contributed from new developments	79,292	-	-	-	79,292
Amortization of contributed capital	(142,846)	-	142,846	-	-
Change in net assets	(63,554)	11,365	1,372,048	(2,572)	1,317,287
Net assets, December 31, 2011	<u>\$ 4,658,327</u>	<u>\$ 660,020</u>	<u>\$ 18,597,999</u>	<u>\$ 276,158</u>	<u>\$ 24,192,504</u>

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Activities:		
Increase in net assets - unrestricted retained earnings	\$ 1,226,630	\$ 215,742
Adjustments to reconcile increase in net assets - unrestricted retained earnings to cash provided by operating activities:		
Depreciation & amortization	1,393,273	1,512,648
Gain on sale of equipment	(9,000)	-
Increase (decrease) in working capital related to:		
Accounts receivable	15,754	(51,953)
Inventory	27,044	(2,225)
Prepaid expenses	697	-
Accounts payable	3,080	7,034
Accrued expenses	28,293	(12,092)
Net cash provided by operating activities	<u>2,685,771</u>	<u>1,669,154</u>
Investing Activities:		
Acquisition of plant and equipment	(2,179,719)	(1,913,707)
Proceeds from sale of assets	22,309	-
Reimbursements from developers	79,292	40,035
(Increase) decrease in notes receivable	2,855	8,368
(Increase) decrease in restricted cash	2,572	(454)
Increase in investments in certificates of deposit	(563)	(1,268)
(Increase) decrease in investments in mutual funds	-	98,621
Net cash used in investing activities	<u>(2,073,254)</u>	<u>(1,768,405)</u>
Financing Activities:		
Retirement of bonds payable	(212,549)	(187,379)
Note proceeds	-	1,410,448
Increase in memberships	11,365	13,525
Net cash provided by (used in) financing activities	<u>(201,184)</u>	<u>1,236,594</u>
Net increase (decrease) in cash	411,333	1,137,343
Cash and cash equivalents, at beginning of year	<u>3,875,409</u>	<u>2,738,066</u>
Cash and cash equivalents, at end of year	<u><u>\$ 4,286,742</u></u>	<u><u>\$ 3,875,409</u></u>
Supplemental disclosures:		
Cash paid for interest on debt	\$ 509,039	\$ 497,486

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

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 1: Nature of Activities and Significant Accounting Policies

Nature of Activities

Bethesda Water Supply Corporation (the Corporation) has been in operation since 1964. The Corporation supplies water to customers in the rural area surrounding Burleson, Texas. These services are primarily provided by a system of wells and water lines, which have been installed and are operated by the Corporation. Sale of water is the principal source of income.

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

Summary of Significant Accounting Policies

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

Basis of Presentation

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

The Corporation is also required to report information regarding its net assets according to the following three net asset classes: *unrestricted* which includes the operating funds expended in daily operations; *temporarily restricted* which includes amounts designated for memberships and amounts reserved in accordance with debt covenants (see Note 4); and *permanently restricted* which would be amounts restricted in perpetuity of which the Corporation has none.

Cash and Cash Equivalents

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

Investments

Investments are reported at fair value. As of December 31, 2011 and 2010, the Corporation's investments consisted of certificates of deposit. For purposes of the cash flow statement, these investments are not considered to be cash equivalents.

Investment Policy

The Corporation's investment policy is to invest in quality assets that produce a reasonable rate of return and liquidity that may include U.S. government securities, collective or pooled funds, money market funds, certificates of deposit, commercial paper, and stocks with an average rating of "A".

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

Accounts Receivable

Accounts receivable arise from the sale of water and related services. Water meters with accounts receivable past due more than one month are locked until the past due amount is paid in full. Bad debts resulting from non-payment of accounts receivable are written off directly to income, and members are terminated from membership for non-payment.

Inventory

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

Fixed Assets

Fixed assets are recorded at cost and depreciation is provided by the straight-line method over their estimated useful lives. Assets acquired through gifts or donations are recorded at their estimated fair market value at the time of acquisition and depreciated in the same manner as purchased assets. Depreciation is charged as an expense against operations.

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

Buildings	10-33 Years
Distribution system	10-33 Years
Machinery and equipment	5 Years
Vehicles	3 Years
Furniture and fixtures	5-10 Years

Maintenance and repairs are charged to expense as incurred and major renewals or betterments are capitalized. In 2011 and 2010, depreciation expense was \$1,375,569 and \$1,494,944, respectively.

Amortization of Debt Issue Costs

The Corporation is amortizing the costs associated with the issuance of the *Revenue Improvement and Refunding Bonds Taxable Series 2002* over the term of the bonds on the straight-line basis. In 2011 and 2010, amortization expense amounted to \$17,704 for both years.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities, and the amounts of revenue and expense of the period. Accordingly, actual results could differ from those estimates.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

Federal Income Tax

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

Note 2: Cash and Cash Equivalents

At December 31, 2011 and 2010, the balance of the Corporation's deposits (cash, checking, money market, and savings accounts) amounted to \$4,286,742 and \$3,875,409, respectively.

Note 3: Investments

At December 31, 2011 and 2010, the balance of the Corporation's certificates of deposit amounted to \$324,159 and \$323,596, respectively. The certificates of deposit have interest rates ranging from 0.40% to 0.75% and mature from March 2012 through December 2012.

Note 4: Restricted Assets

The Corporation's restricted assets consist of investments in pooled money market accounts at TexStar in an *Interest and Sinking Fund* was established for the payment of bonded indebtedness as required by debt covenants.

Note 5: Accounts Receivable

The Corporation's accounts receivable consist of billings for water usage in the amount of \$392,243 and \$407,997 as of December 31, 2011 and 2010, net of allowance for uncollectibles of \$36,874 and \$26,048, respectively.

Note 6: Notes Receivable

The Corporation has notes receivable from members. The amount due from notes receivable from members at December 31, 2011 and 2010 was \$957 and \$3,812, respectively. All amounts are due within one year.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 7: Property, Plant and Equipment

A summary of changes in property, plant and equipment during the year ended December 31, 2011, is as follows:

	Beginning Balance	Additions	Retirements & Reclassifications	Ending Balance
Land	\$ 1,194,781	\$ 42,500	\$ (13,309)	\$ 1,223,972
Buildings	2,252,006	-	-	2,252,006
Distribution system	39,827,305	2,835,224	-	42,662,529
Machinery and equipment	532,679	129,865	-	662,544
Vehicles	485,983	67,908	(75,618)	478,273
Furniture and fixtures	433,711	-	-	433,711
Construction in progress	1,523,412	1,901,567	(2,797,345)	627,634
	46,249,877	4,977,064	(2,886,272)	48,340,669
Less accumulated depreciation	(20,489,330)	(1,375,569)	75,618	(21,789,281)
	<u>\$ 25,760,547</u>	<u>\$ 3,601,495</u>	<u>\$ (2,810,654)</u>	<u>\$ 26,551,388</u>

A summary of changes in property, plant and equipment during the year ended December 31, 2010, is as follows:

	Beginning Balance	Additions	Retirements & Reclassifications	Ending Balance
Land	\$ 1,112,768	\$ 82,013	\$ -	\$ 1,194,781
Buildings	264,417	1,987,589	-	2,252,006
Distribution system	39,778,482	48,823	-	39,827,305
Machinery and equipment	513,031	19,648	-	532,679
Vehicles	447,037	38,946	-	485,983
Furniture and fixtures	426,211	7,500	-	433,711
Construction in progress	1,794,224	1,370,561	(1,641,373)	1,523,412
	44,336,170	3,555,080	(1,641,373)	46,249,877
Less accumulated depreciation	(18,994,386)	(1,494,944)	-	(20,489,330)
	<u>\$ 25,341,784</u>	<u>\$ 2,060,136</u>	<u>\$ (1,641,373)</u>	<u>\$ 25,760,547</u>

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 8: Long-Term Debt

The *Revenue Improvement and Refunding Bonds Taxable Series 2002* were issued for the purpose of upgrading and/or expanding the Corporation's water distribution system and refinancing existing debt. The debt is collateralized by the water distribution system and revenues therefrom.

The 2002 bonds were issued in three series with the final maturity of December 1, 2032; however, the Corporation has the option of redeeming the bonds on December 1, 2012, as a whole or in part in principal amounts of \$5,000 or any integral multiple thereof plus accrued interest thereon to the date of redemption.

On February 13, 2009, an interim construction note was entered into with a local financial institution in the amount of \$1,427,075 for the construction of a service complex building. The note has a term of fifteen years and nine months with an initial interest rate of 5%. The first nine months of the term require interest-only monthly payments, then monthly principal and interest payments of \$11,337. The interest rate adjusts every three years to the Wall Street Journal prime rate plus 1% with a floor of 5%. During 2010, the remaining available funds were drawn and monthly principal and interest payments began. The note is secured by 8.359 acres of land improved with a 3,464 square foot building, a 22,500 square foot building and a 4,800 square foot building with a net book value of \$2,241,321 and \$2,309,681, respectively, at December 31, 2011 and 2010.

A summary of long-term debt for the year ended December 31, 2011, is as follows:

Date of Issue	Payment Dates	Interest Rates	Original Amount	Beginning Balance	Additions	Retirements	Ending Balance
Dec. 20, 2002	6/1 & 12/1	5.40%-6.70%	\$ 7,500,000	\$ 6,715,000	\$ -	\$ 145,000	\$ 6,570,000
Feb. 23, 2009	10 th of the month	5.0%	1,427,075	1,374,696	-	67,549	1,307,147
Totals				\$ 8,089,696	\$ -	\$ 212,549	\$ 7,877,147

A summary of long-term debt for the year ended December 31, 2010, is as follows:

Date of Issue	Payment Dates	Interest Rates	Original Amount	Beginning Balance	Additions	Retirements	Ending Balance
Dec. 20, 2002	6/1 & 12/1	5.40%-6.70%	\$ 7,500,000	\$ 6,850,000	\$ -	\$ 135,000	\$ 6,715,000
Feb. 23, 2009	10 th of the month	5.0%	1,427,075	16,627	1,410,448	52,379	1,374,696
Totals				\$ 6,866,627	\$ 1,410,448	\$ 187,379	\$ 8,089,696

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 8: Long-Term Debt (continued)

Debt service requirements through maturity are as follows as of December 31, 2011:

Year ended December 31,	Principal	Interest	Total
2012	\$ 222,328	\$ 496,700	\$ 719,028
2013	241,028	484,629	725,657
2014	254,918	470,097	725,015
2015	269,007	454,721	723,728
2016	283,305	438,490	721,795
2016 to maturity	<u>6,606,561</u>	<u>3,946,356</u>	<u>10,552,917</u>
Totals	<u>\$ 7,877,147</u>	<u>\$ 6,290,993</u>	<u>\$ 14,168,140</u>

Note 9: Amortization of Contributed Capital

The Corporation has elected to amortize contributed capital over the estimated useful life of the plant and distribution system assets acquired for use by the Corporation through contribution from an outside source (i.e., residential development companies). This election is based on the same accounting principle used by a governmental enterprise fund to amortize contributed capital as a credit to retained earnings as an offset of depreciation expense on the above-mentioned assets. For the years ended December 31, 2011 and 2010, amortization of contributed capital amounted to \$142,846 and \$145,418, respectively.

Note 10: Net Assets

The Corporation's net assets are reported as either unrestricted or temporarily restricted as follows:

	2011	2010
Unrestricted Net Assets:		
Contributed capital	\$ 4,658,327	\$ 4,721,881
Retained earnings	18,597,999	17,225,951
Total Unrestricted Net Assets	<u>23,256,326</u>	<u>21,947,832</u>
Temporarily Restricted Net Assets:		
Memberships	660,020	648,655
Retained earnings (see Note 4)	276,158	278,730
Total Temporarily Restricted Net Assets	<u>936,178</u>	<u>927,385</u>
	<u>\$ 24,192,504</u>	<u>\$ 22,875,217</u>

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 11: Retirement Plans

401(k) Retirement Plan

As of January 1, 2008, the Corporation established a 401(k) retirement plan for its employees. Employees are eligible to participate in the Plan after six months of service. In 2011 and 2010, an employee may contribute up to a maximum of \$16,500 (with an additional catch-up contribution of \$5,500 for qualified individuals) to the Plan. The Corporation contributes to the Plan through matching contributions. Participants are vested in the Corporation's contributions for its matching portion in 20% increments every year after two years of service and become fully vested after six years of service. The Corporation's contribution to the Plan for the years ended December 31, 2011 and 2010 was \$12,541 and \$12,314, respectively.

Profit Sharing Plan

The Corporation also has a non-contributory employee profit sharing retirement plan. Employees are eligible to participate in Plan contributions on the first day of the Plan year after six months of service and vest in 20% increments every year after two years of service and become fully vested after six years of service. The Corporation's profit sharing contribution is discretionary and is not limited to current or accumulated earnings. The amount contributed to the profit sharing plan is calculated on eligible employees' compensation excluding overtime and bonuses. The Corporation's contribution to the profit sharing plan for the year ended December 31, 2011 and 2010 amounted to \$75,592 and \$71,771, respectively.

Note 12: Compensated Absences

Regular full time employees are allowed sick leave after 90 days of employment. Employees earn one day per ten weeks of continuous service with a maximum of five days. Sick leave not used during the year in which it accrues accumulates and is available for use in succeeding years. Unused sick leave is not compensatory upon separation from employment until after ten years of continuous employment. Compensatory sick leave schedule then commences as follows: 120 months of continued employment may be compensated 50% of accumulated sick leave increasing at 5% increments per additional 12 months of employment up to 90 days maximum.

The Corporation's employees earn vacation based on their years of service as follows: new employees earn one day of vacation leave for every five weeks worked from the date of hire to December 31st of their employment, employees with one to ten years of service earn 10 days of vacation leave per year, employees with over ten years of service earn 15 days of vacation leave per year, and employees with over 20 years of service earn 20 days per year. Each December 31st, an employee may be paid for up to 50% of the amount accrued from the prior year and any remaining vacation days are forfeited. Therefore, compensated absences are not accrued as a liability in the accompanying statement of financial position.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 13: Commitments and Contingencies

Water Purchase Contract

In October 1992, the Corporation entered into a contract with the City of Fort Worth for the purpose of providing for surface water purchases. Under the terms of the contract, payments are based on consumption with annual rate adjustments effective each October 1st and payments are made monthly for the previous month's usage. In November 2010, the contract was revised with an effective date of January 1, 2011 and a termination date of September 30, 2031. The cost of water purchases amounted to \$2,446,691 and \$1,853,572 in 2011 and 2010, respectively.

Construction

Due to the continued residential growth in the Corporation's service area, several construction projects are in process or are in the planning stages for the distribution system.

Litigation

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

Note 14: Concentrations of Credit Risk

During the year ended December 31, 2011, the Corporation had cash balances in excess of FDIC coverage. As of December 31, 2011 and 2010, the reported amount of cash and cash equivalents in excess of FDIC coverage was \$2,184,881 and \$1,457,579, respectively.

Note 15: Fair Value Measurements

The Corporation is subject to the provisions of Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements* which establishes a hierarchy that categorizes fair value measurements as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using significant other observable inputs, which may include quoted prices for similar securities, interest rates, prepayment speeds, loss severities, credit risk, etc.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. These reflect the entity's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 15: Fair Value Measurements (continued)

The following is a summary of the fair value measurements as of December 31, 2011, for the statement of financial position items that are required to be presented at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 324,159	\$ -	\$ 324,159

The following is a summary of the fair value measurements as of December 31, 2010, for the statement of financial position items that are required to be presented at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 323,596	\$ -	\$ 323,596

Note 16: Subsequent Events

Subsequent events have been evaluated through March 5, 2012, the date the financial statements were available to be issued.

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Supplementary Schedules

BETHESDA WATER SUPPLY CORPORATION
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Distribution	Administration	Office	Total
Accounting and auditing fees	\$ -	\$ 12,875	\$ -	\$ 12,875
Advertising	-	3,500	-	3,500
Chemical analysis and testing	33,704	-	-	33,704
Communications	7,897	2,357	23,415	33,669
Contract billing	-	-	73,544	73,544
Contract labor	12,856	-	-	12,856
Customer notification	-	-	4,583	4,583
Dues and memberships	-	19,219	-	19,219
Filing fees	-	-	5,108	5,108
Health insurance	88,573	21,885	40,034	150,492
Insurance	76,310	4,959	-	81,269
Janitorial	-	-	5,189	5,189
Legal	-	22,998	-	22,998
Maintenance contracts	-	-	13,242	13,242
Meals and gatherings	-	4,569	-	4,569
Minor tools	498	-	-	498
Miscellaneous expense	-	4,266	112	4,378
Payroll taxes	36,921	17,220	12,989	67,130
Postage and freight	-	-	11,602	11,602
Pre-employment & other	237	-	136	373
Regulatory fees	-	20,866	-	20,866
Repairs and maintenance	681,487	-	18,312	699,799
Retirement and profit-sharing plan	47,581	26,744	19,044	93,369
Safety gear and uniforms	13,671	-	-	13,671
Salaries and wages	473,350	222,866	174,102	870,318
SCADA	26,535	-	-	26,535
Supplies	-	-	20,544	20,544
Training	2,973	17,912	486	21,371
Transportation	91,471	6,156	-	97,627
Uncollectible accounts	-	15,583	-	15,583
Utilities	597,392	-	22,497	619,889
Water treatment	38,082	-	-	38,082
Wholesale sewer expense	38,794	-	-	38,794
Wholesale water purchased	2,446,691	-	-	2,446,691
	<u>\$ 4,715,023</u>	<u>\$ 423,975</u>	<u>\$ 444,939</u>	<u>\$ 5,583,937</u>

BETHESDA WATER SUPPLY CORPORATION
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Distribution	Administration	Office	Total
Accounting and auditing fees	\$ -	\$ 13,000	\$ -	\$ 13,000
Advertising	-	4,677	-	4,677
Chemical analysis and testing	14,288	-	-	14,288
Communications	7,032	1,573	14,160	22,765
Contract billing	-	-	83,760	83,760
Contract labor	15,809	-	-	15,809
Customer notification	-	-	4,461	4,461
Dues and memberships	-	12,163	-	12,163
Filing fees	-	-	4,148	4,148
Health insurance	76,320	20,897	45,710	142,927
Insurance	68,507	(907)	-	67,600
Janitorial	-	-	6,879	6,879
Legal	-	11,349	-	11,349
Maintenance contracts	-	-	12,785	12,785
Meals and gatherings	-	8,127	-	8,127
Minor tools	2,018	-	-	2,018
Miscellaneous expense	-	5,547	288	5,835
Payroll taxes	35,117	16,293	12,158	63,568
Postage and freight	-	-	7,901	7,901
Pre-employment & other	2,020	-	-	2,020
Regulatory fees	-	21,465	-	21,465
Repairs and maintenance	539,537	-	20,309	559,846
Retirement plan	45,390	26,071	20,224	91,685
Safety gear and uniforms	12,985	-	-	12,985
Salaries and wages	455,353	216,375	174,561	846,289
SCADA	12,937	-	-	12,937
Supplies	-	-	19,130	19,130
Training	1,823	22,384	400	24,607
Transportation	82,382	6,157	-	88,539
Uncollectible accounts	-	5,121	-	5,121
Utilities	550,728	-	11,454	562,182
Water treatment	29,247	-	-	29,247
Wholesale sewer expense	47,336	-	-	47,336
Wholesale water purchased	1,853,572	-	-	1,853,572
	<u>\$ 3,852,401</u>	<u>\$ 390,292</u>	<u>\$ 438,328</u>	<u>\$ 4,681,021</u>

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BETHESDA WATER SUPPLY CORPORATION

Audited Financial Statements

December 31, 2010 and 2009

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

BETHESDA WATER SUPPLY CORPORATION
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GILLIAM, WHARRAM & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bethesda Water Supply Corporation
Burleson, Texas

We have audited the accompanying statements of financial position of Bethesda Water Supply Corporation (a nonprofit organization) as of December 31, 2010 and 2009, and the related statements of activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bethesda Water Supply Corporation as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of operating expenses on pages 17 and 18 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gilliam, Wharram & Co., P.C.

Gilliam, Wharram & Co., P.C.
February 28, 2011



BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and cash equivalents	\$ 3,875,409	\$ 2,738,066
Investment in certificates of deposit	323,596	322,328
Investment in mutual funds	-	98,621
Accounts receivable (net)	407,997	356,044
Notes receivable	3,812	7,857
Inventory	119,940	117,715
Prepaid expenses	<u>12,304</u>	<u>12,304</u>
Total Current Assets	<u>4,743,058</u>	<u>3,652,935</u>
Restricted Assets:		
Interest and sinking fund	278,730	271,793
Construction fund	<u>-</u>	<u>6,483</u>
Total Restricted Assets	<u>278,730</u>	<u>278,276</u>
Property, Plant and Equipment:		
Property, plant and equipment, total	46,249,877	44,336,170
Less: Accumulated depreciation	<u>(20,489,330)</u>	<u>(18,994,386)</u>
Total Property, Plant and Equipment, net	<u>25,760,547</u>	<u>25,341,784</u>
Other Assets:		
Deferred debt issue costs, net of amortization	389,480	407,183
Notes receivable	-	4,324
Deposits	<u>100</u>	<u>100</u>
Total Other Assets	<u>389,580</u>	<u>411,607</u>
Total Assets	<u><u>\$ 31,171,915</u></u>	<u><u>\$ 29,684,602</u></u>

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

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current Liabilities:		
Accounts payable	\$ 143,775	\$ 136,741
Other accrued expenses	63,227	75,319
Current portion of long-term debt	<u>213,872</u>	<u>151,627</u>
Total Current Liabilities	<u>420,874</u>	<u>363,687</u>
Long-term Debt:		
Bonds payable	6,715,000	6,850,000
Note payable	1,374,696	16,627
Less: Current portion of long-term debt	<u>(213,872)</u>	<u>(151,627)</u>
Total Long-Term Debt	<u>7,875,824</u>	<u>6,715,000</u>
Total Liabilities	<u>8,296,698</u>	<u>7,078,687</u>
Net Assets:		
Contributed Capital (Unrestricted)	4,721,881	4,827,264
Memberships (Temporarily Restricted)	648,655	635,130
Retained Earnings:		
Unrestricted	17,225,951	16,865,245
Temporarily Restricted	<u>278,730</u>	<u>278,276</u>
Total Retained Earnings	<u>17,504,681</u>	<u>17,143,521</u>
Total Net Assets	<u>22,875,217</u>	<u>22,605,915</u>
Total Liabilities and Net Assets	<u>\$ 31,171,915</u>	<u>\$ 29,684,602</u>

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues:		
Water and sewer sales	\$ 6,355,571	\$ 6,341,494
Water meter fees	284,421	268,822
Tie on fees	<u>84,830</u>	<u>129,782</u>
Total Operating Revenues	<u>6,724,822</u>	<u>6,740,098</u>
Operating Expenses:		
Distribution	3,852,401	3,820,255
Administration	390,292	415,916
Office	<u>438,328</u>	<u>440,371</u>
Total Operating Expenses	<u>4,681,021</u>	<u>4,676,542</u>
Income from Operations	<u>2,043,801</u>	<u>2,063,556</u>
Other Revenues (Expenses):		
Other income	174,172	182,463
Interest income	7,903	12,028
Interest expense	(497,486)	(454,585)
Amortization of bond issue costs	(17,704)	(17,704)
Depreciation expense	<u>(1,494,944)</u>	<u>(1,396,449)</u>
Total Other Revenues (Expenses)	<u>(1,828,059)</u>	<u>(1,674,247)</u>
Increase in Net Assets - Unrestricted Retained Earnings	<u>\$ 215,742</u>	<u>\$ 389,309</u>

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Contributed Capital (Unrestricted)	Memberships (Temporarily Restricted)	Retained Earnings		Total Net Assets
			Unrestricted	Temporarily Restricted	
Net assets, December 31, 2008	\$ 4,976,561	\$ 615,115	\$ 16,331,122	\$ 273,793	\$ 22,196,591
Increase in net assets - unrestricted retained earnings	-	-	389,309	-	389,309
Interest income earned on temporarily restricted cash	-	-	(4,483)	4,483	-
Increase in members	-	20,015	-	-	20,015
Distribution system contributed from new developments	-	-	-	-	-
Amortization of contributed capital	(149,297)	-	149,297	-	-
Change in net assets	(149,297)	20,015	534,123	4,483	409,324
Net assets, December 31, 2009	4,827,264	635,130	16,865,245	278,276	22,605,915
Increase in net assets - unrestricted retained earnings	-	-	215,742	-	215,742
Interest income earned on temporarily restricted cash	-	-	(454)	454	-
Increase in members	-	13,525	-	-	13,525
Distribution system contributed from new developments	40,035	-	-	-	40,035
Amortization of contributed capital	(145,418)	-	145,418	-	-
Change in net assets	(105,383)	13,525	360,706	454	269,302
Net assets, December 31, 2010	\$ 4,721,881	\$ 648,655	\$ 17,225,951	\$ 278,730	\$ 22,875,217

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Operating Activities:		
Increase in net assets - unrestricted retained earnings	\$ 215,742	\$ 389,309
Adjustments to reconcile increase in net assets - unrestricted retained earnings to cash provided by operating activities:		
Depreciation & amortization	1,512,648	1,414,153
Increase (decrease) in working capital related to:		
Accounts receivable	(51,953)	12,576
Inventory	(2,225)	12,302
Accounts payable	7,034	(35,980)
Accrued expenses	(12,092)	6,428
Net cash provided by operating activities	<u>1,669,154</u>	<u>1,798,788</u>
Investing Activities:		
Acquisition of plant and equipment	(1,913,707)	(4,010,640)
Reimbursements from developers	40,035	-
(Increase) decrease in notes receivable	8,368	(2,494)
(Increase) decrease in restricted cash	(454)	(4,483)
Increase in investments in certificates of deposit	(1,268)	(2,067)
(Increase) decrease in investments in mutual funds	98,621	(20,493)
Net cash used in investing activities	<u>(1,768,405)</u>	<u>(4,040,177)</u>
Financing Activities:		
Retirement of bonds payable	(187,379)	(125,000)
Note proceeds	1,410,448	16,627
Increase in memberships	13,525	20,015
Net cash provided by (used in) financing activities	<u>1,236,594</u>	<u>(88,358)</u>
Net increase (decrease) in cash	1,137,343	(2,329,747)
Cash and cash equivalents, at beginning of year	<u>2,738,066</u>	<u>5,067,813</u>
Cash and cash equivalents, at end of year	<u>\$ 3,875,409</u>	<u>\$ 2,738,066</u>
Supplemental disclosures:		
Cash paid for interest on debt	\$ 497,486	\$ 454,585

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

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 1: Nature of Activities and Significant Accounting Policies

Nature of Activities

Bethesda Water Supply Corporation (the Corporation) has been in operation since 1964. The Corporation supplies water to customers in the rural area surrounding Burleson, Texas. These services are primarily provided by a system of wells and water lines, which have been installed and are operated by the Corporation. Sale of water is the principal source of income.

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

Summary of Significant Accounting Policies

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

Basis of Presentation

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

The Corporation is also required to report information regarding its net assets according to the following three net asset classes: *unrestricted* which includes the operating funds expended in daily operations; *temporarily restricted* which includes amounts designated for memberships and amounts reserved in accordance with debt covenants (see Note 4); and *permanently restricted* which would be amounts restricted in perpetuity of which the Corporation has none.

Cash and Cash Equivalents

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

Investments

Investments are reported at fair value. As of December 31, 2010, the Corporation's investments consisted of certificates of deposit. As of December 31, 2009, the Corporation's investments consisted of certificates of deposit and mutual funds. For purposes of the cash flow statement, these investments are not considered to be cash equivalents.

Investment Policy

The Corporation's investment policy is to invest in quality assets that produce a reasonable rate of return and liquidity that may include U.S. government securities, collective or pooled funds, money market funds, certificates of deposit, commercial paper, and stocks with an average rating of "A".

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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

Accounts Receivable

Accounts receivable arise from the sale of water and related services. Water meters with accounts receivable past due more than one month are locked until the past due amount is paid in full. Bad debts resulting from non-payment of accounts receivable are written off directly to income, and members are terminated from membership for non-payment.

Inventory

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

Fixed Assets

Fixed assets are recorded at cost and depreciation is provided by the straight-line method over their estimated useful lives. Assets acquired through gifts or donations are recorded at their estimated fair market value at the time of acquisition and depreciated in the same manner as purchased assets. Depreciation is charged as an expense against operations.

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

Buildings	10-33 years
Distribution system	10-33 years
Machinery and equipment	5 years
Vehicles	3 years
Furniture and fixtures	5-10 years

Maintenance and repairs are charged to expense as incurred and major renewals or betterments are capitalized. In 2010 and 2009, depreciation expense was \$1,494,944 and \$1,396,449, respectively.

Amortization of Debt Issue Costs

The Corporation is amortizing the costs associated with the issuance of the *Revenue Improvement and Refunding Bonds Taxable Series 2002* over the term of the bonds on the straight-line basis. In 2010 and 2009, amortization expense amounted to \$17,704.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities, and the amounts of revenue and expense of the period. Accordingly, actual results could differ from those estimates.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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

Federal Income Tax

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

Note 2: Cash and Cash Equivalents

At December 31, 2010 and 2009, the balance of the Corporation's deposits (cash, checking, money market, and savings accounts) amounted to \$3,875,409 and \$2,738,066, respectively.

Note 3: Investments

At December 31, 2010 and 2009, the balance of the Corporation's certificates of deposit amounted to \$323,596 and \$322,328, respectively. The certificates of deposit have interest rates ranging from 0.40% to 1.00% and mature from March 2011 through December 2011.

At December 31, 2009, the amount invested in mutual funds was \$98,621 which included an unrealized gain of \$20,493. During 2010, the mutual funds were sold at a realized gain of \$1,678 which was included in *other income* on the Statements of Activities.

Note 4: Restricted Assets

The Corporation's restricted assets consist of investments in pooled money market accounts at TexStar as follows:

Interest and Sinking Fund was established for the payment of bonded indebtedness as required by debt covenants.

Construction Fund was established from proceeds received from the issuance of bonds for construction and improvements to the water distribution system.

Note 5: Accounts Receivable

The Corporation's accounts receivable consist of billings for water usage in the amount of \$407,997 and \$356,044 as of December 31, 2010 and 2009, respectively, net of allowance for uncollectibles of \$26,048.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 6: Notes Receivable

The Corporation has notes receivable from members. The amount due from notes receivable from members at December 31, 2010 and 2009 is as follows:

	2010	2009
Current portion	\$ 3,812	\$ 7,857
Non-current portion	-	4,324
	<u>\$ 3,812</u>	<u>\$ 12,181</u>

Note 7: Property, Plant and Equipment

A summary of changes in property, plant and equipment during the year ended December 31, 2010, is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 1,112,768	\$ 82,013	\$ -	\$ 1,194,781
Buildings	264,417	1,987,589	-	2,252,006
Distribution system	39,778,482	48,823	-	39,827,305
Machinery and equipment	513,031	19,648	-	532,679
Vehicles	447,037	38,946	-	485,983
Furniture and fixtures	426,211	7,500	-	433,711
Construction in progress	1,794,224	1,370,561	(1,641,373)	1,523,412
	44,336,170	3,555,080	(1,641,373)	46,249,877
Less accumulated depreciation	(18,994,386)	(1,494,944)	-	(20,489,330)
	<u>\$ 25,341,784</u>	<u>\$ 2,060,136</u>	<u>\$ (1,641,373)</u>	<u>\$ 25,760,547</u>

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 7: Property, Plant and Equipment (continued)

A summary of changes in property, plant and equipment during the year ended December 31, 2009, is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 1,064,723	\$ 48,045	\$ -	\$ 1,112,768
Buildings	264,417	-	-	264,417
Distribution system	37,451,090	2,327,392	-	39,778,482
Machinery and equipment	460,002	53,029	-	513,031
Vehicles	344,327	102,710	-	447,037
Furniture and fixtures	383,269	42,942	-	426,211
Construction in progress	357,702	1,785,749	(349,227)	1,794,224
	40,325,530	4,359,867	(349,227)	44,336,170
Less accumulated depreciation	(17,597,937)	(1,396,449)	-	(18,994,386)
	<u>\$ 22,727,593</u>	<u>\$ 2,963,418</u>	<u>\$ (349,227)</u>	<u>\$ 25,341,784</u>

Note 8: Long-Term Debt

The *Revenue Improvement and Refunding Bonds Taxable Series 2002* were issued for the purpose of upgrading and/or expanding the Corporation's water distribution system and refinancing existing debt. The debt is collateralized by the water distribution system and revenues therefrom.

The 2002 bonds were issued in three series with the final maturity of December 1, 2032; however, the Corporation has the option of redeeming the bonds on December 1, 2012, as a whole or in part in principal amounts of \$5,000 or any integral multiple thereof plus accrued interest thereon to the date of redemption.

On February 13, 2009, an interim construction note was entered into with a local financial institution in the amount of \$1,427,075 for the construction of a service complex building. The note has a term of fifteen years and nine months with an initial interest rate of 5%. The first nine months of the term, being an interim construction period, requires interest only to be paid monthly, then monthly principal and interest payments of \$11,337. Thereafter, the interest rate is adjusted every three years to the Wall Street Journal prime rate plus 1% with a floor of 5%. As of December 31, 2009, \$16,627 was drawn and outstanding with \$1,410,448 remaining and available. During 2010, the entire remaining available funds were drawn and monthly principal and interest payments began. The note is secured by 8.359 acres of land improved with a 3,464 square foot building, a 22,500 square foot building and a 4,800 square foot building with a net book value of \$2,309,681 at December 31, 2010.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 8: Long-Term Debt (continued)

A summary of long-term debt for the year ended December 31, 2010, is as follows:

Date of Issue	Payment Dates	Interest Rates	Original Amount	Beginning Balance	Additions	Retirements	Ending Balance
Dec. 20, 2002	6/1 & 12/1	5.40%-6.70%	\$ 7,500,000	\$ 6,850,000	\$ -	\$ 135,000	\$ 6,715,000
Feb. 23, 2009	10 th of the month	5.0%	1,427,075	16,627	1,410,448	52,379	1,374,696
Totals				<u>\$ 6,866,627</u>	<u>\$ 1,410,448</u>	<u>\$ 187,379</u>	<u>\$ 8,089,696</u>

A summary of long-term debt for the year ended December 31, 2009, is as follows:

Date of Issue	Payment Dates	Interest Rates	Original Amount	Beginning Balance	Additions	Retirements	Ending Balance
Dec. 20, 2002	6/1 & 12/1	5.40%-6.70%	\$ 7,500,000	\$ 6,975,000	\$ -	\$ 125,000	\$ 6,850,000
Feb. 23, 2009	10 th of the month	5.0%	1,427,075	-	16,627	-	16,627
Totals				<u>\$ 6,975,000</u>	<u>\$ 16,627</u>	<u>\$ 125,000</u>	<u>\$ 6,866,627</u>

Debt service requirements through maturity are as follows as of December 31, 2010:

Year ended December 31,	Principal	Interest	Total
2011	\$ 213,872	\$ 507,986	\$ 721,858
2012	222,396	496,632	719,028
2013	241,099	484,558	725,657
2014	254,993	470,022	725,015
2015	269,086	454,642	723,728
2016 to maturity	<u>6,888,250</u>	<u>4,383,910</u>	<u>11,272,160</u>
Totals	<u>\$ 8,089,696</u>	<u>\$ 6,797,750</u>	<u>\$ 14,887,446</u>

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 9: Amortization of Contributed Capital

The Corporation has elected to amortize contributed capital over the estimated useful life of the plant and distribution system assets acquired for use by the Corporation through contribution from an outside source (i.e., residential development companies). This election is based on the same accounting principle used by a governmental enterprise fund to amortize contributed capital as a credit to retained earnings as an offset of depreciation expense on the above-mentioned assets. For the years ended December 31, 2010 and 2009, amortization of contributed capital amounted to \$145,418 and \$149,297, respectively.

Note 10: Net Assets

The Corporation's net assets are reported as either unrestricted or temporarily restricted as follows:

	2010	2009
Unrestricted Net Assets:		
Contributed capital	\$ 4,721,881	\$ 4,827,264
Retained earnings	17,225,951	16,865,245
Total Unrestricted Net Assets	<u>21,947,832</u>	<u>21,692,509</u>
Temporarily Restricted Net Assets:		
Memberships	648,655	635,130
Retained earnings (see Note 4)	278,730	278,276
Total Temporarily Restricted Net Assets	<u>927,385</u>	<u>913,406</u>
	<u>\$ 22,875,217</u>	<u>\$ 22,605,915</u>

Note 11: Retirement Plans

401(k) Retirement Plan

As of January 1, 2008, the Corporation established a 401(k) retirement plan for its employees. Employees are eligible to participate in the Plan after six months of service. In 2010 and 2009, an employee may contribute up to a maximum of \$16,500 (with an additional catch-up contribution of \$5,500 for qualified individuals) to the Plan. The Corporation contributes to the Plan through matching contributions. Participants are vested in the Corporation's contributions for its matching portion in 20% increments every year after two years of service and become fully vested after six years of service. The Corporation's contribution to the Plan for the years ended December 31, 2010 and 2009 was \$12,314 and \$14,027, respectively.

Profit Sharing Plan

The Corporation also has a non-contributory employee profit sharing retirement plan. Employees are eligible to participate in Plan contributions on the first day of the Plan year after six months of service and vest in 20% increments every year after two years of service and become fully vested

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 11: Retirement Plans (continued)

after six years of service. The Corporation's profit sharing contribution is discretionary and is not limited to current or accumulated earnings. The amount contributed to the profit sharing plan is calculated on eligible employees' compensation excluding overtime and bonuses. The Corporation's contribution to the profit sharing plan for the year ended December 31, 2010 and 2009 amounted to \$71,771 and \$68,343, respectively.

Note 12: Compensated Absences

Regular full time employees are allowed sick leave after 90 days of employment. Employees earn one day per ten weeks of continuous service with a maximum of five days. Sick leave not used during the year in which it accrues accumulates and is available for use in succeeding years. Unused sick leave is not compensatory upon separation from employment until after ten years of continuous employment. Compensatory sick leave schedule then commences as follows: 120 months of continued employment may be compensated 50% of accumulated sick leave increasing at 5% increments per additional 12 months of employment up to 90 days maximum.

The Corporation's employees earn vacation based on their years of service as follows: new employees earn one day of vacation leave for every five weeks worked from the date of hire to December 31st of their employment, employees with one to ten years of service earn 10 days of vacation leave per year, employees with over ten years of service earn 15 days of vacation leave per year, and employees with over 20 years of service earn 20 days per year. Each December 31st, an employee may be paid for up to 50% of the amount accrued from the prior year and any remaining vacation days are forfeited. Therefore, compensated absences are not accrued as a liability in the accompanying statement of financial position.

Note 13: Commitments and Contingencies

Water Purchase Contract

In October 1992, the Corporation entered into a contract with the City of Fort Worth for the purpose of providing for surface water purchases. Under the terms of the contract, payments are based on consumption with annual rate adjustments effective each October 1st and payments are made monthly for the previous month's usage. In November 2010, the contract was revised with an effective date of January 1, 2011 and a termination date of September 30, 2031. The cost of water purchases amounted to \$1,853,572 and \$1,775,964 in 2010 and 2009, respectively.

Construction

Due to the continued residential growth in the Corporation's service area, several construction projects are in process or are in the planning stages for the distribution system.

Litigation

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

BETHESDA WATER SUPPLY CORPORATION
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Distribution	Administration	Office	Total
Accounting and auditing fees	\$ -	\$ 12,420	\$ -	\$ 12,420
Advertising	-	5,077	-	5,077
Chemical analysis and testing	30,162	-	-	30,162
Communications	8,266	1,806	26,169	36,241
Contract billing	-	-	81,186	81,186
Contract labor	28,849	-	-	28,849
Customer notification	-	-	4,830	4,830
Dues and memberships	-	17,514	-	17,514
Filing fees	-	-	16,300	16,300
Health insurance	75,517	20,324	45,112	140,953
Insurance	57,582	150	-	57,732
Janitorial	-	-	4,083	4,083
Legal	-	9,971	-	9,971
Maintenance contracts	-	-	12,476	12,476
Meals and gatherings	-	8,400	-	8,400
Meters and settings	25,287	-	-	25,287
Minor tools	872	-	-	872
Miscellaneous expense	-	6,239	110	6,349
Payroll taxes	32,358	15,973	12,181	60,512
Postage and freight	-	-	16,158	16,158
Pre-employment & other	1,753	-	-	1,753
Regulatory fees	-	20,174	-	20,174
Repairs and maintenance	603,633	-	13,245	616,878
Retirement plan	36,529	25,185	18,594	80,308
Safety gear and uniforms	10,959	-	-	10,959
Salaries and wages	419,931	209,872	163,496	793,299
SCADA	19,992	-	-	19,992
Supplies	-	-	17,544	17,544
Training	1,335	19,733	-	21,068
Transportation	56,513	5,618	-	62,131
Uncollectible accounts	-	37,460	-	37,460
Utilities	561,552	-	8,887	570,439
Water treatment	32,132	-	-	32,132
Wholesale sewer expense	41,069	-	-	41,069
Wholesale water purchased	1,775,964	-	-	1,775,964
	<u>\$ 3,820,255</u>	<u>\$ 415,916</u>	<u>\$ 440,371</u>	<u>\$ 4,676,542</u>

See independent auditor's report.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 14: Concentrations of Credit Risk

During the year ended December 31, 2010, the Corporation had cash balances in excess of FDIC coverage. As of December 31, 2010 and 2009, the reported amount of cash and cash equivalents in excess of FDIC coverage was \$1,207,579 and \$2,057,357, respectively.

Note 15: Fair Value Measurements

The Corporation is subject to the provisions of Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements* which establishes a hierarchy that categorizes fair value measurements as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using significant other observable inputs, which may include quoted prices for similar securities, interest rates, prepayment speeds, loss severities, credit risk, etc.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. These reflect the entity's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

The following is a summary of the fair value measurements as of December 31, 2010, for the statement of financial position items that are required to be presented at fair value:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 323,596	\$ -	\$ 323,596

The following is a summary of the fair value measurements as of December 31, 2009, for the statement of financial position items that are required to be presented at fair value:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 322,328	\$ -	\$ 322,328
Mutual funds	98,621	-	-	98,621

Note 16: Subsequent Events

Subsequent events have been evaluated through February 28, 2011, the date the financial statements were available to be issued.