

Supplementary Schedules

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 and profit-sharing 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>

See independent auditor's report.

BETHESDA WATER SUPPLY CORPORATION

Audited Financial Statements

December 31, 2009 and 2008

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

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

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2009 and 2008, 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, 2009 and 2008, 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 16 and 17 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.

March 1, 2010



BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash and cash equivalents	\$ 2,738,066	\$ 5,067,813
Investment in certificates of deposit	322,328	320,261
Investment in mutual funds	98,621	78,128
Accounts receivable (net)	356,044	368,620
Notes receivable	7,857	6,248
Inventory	117,715	130,017
Prepaid expenses	12,304	12,304
Total Current Assets	<u>3,652,935</u>	<u>5,983,391</u>
Restricted Assets:		
Interest and sinking fund	271,793	267,337
Construction fund	6,483	6,456
Total Restricted Assets	<u>278,276</u>	<u>273,793</u>
Property, Plant and Equipment:		
Property, plant and equipment, total	44,336,170	40,325,530
Less: Accumulated depreciation	<u>(18,994,386)</u>	<u>(17,597,937)</u>
Total Property, Plant and Equipment, net	<u>25,341,784</u>	<u>22,727,593</u>
Other Assets:		
Deferred debt issue costs, net of amortization	407,183	424,887
Notes receivable	4,324	3,439
Deposits	100	100
Total Other Assets	<u>411,607</u>	<u>428,426</u>
Total Assets	<u><u>\$ 29,684,602</u></u>	<u><u>\$ 29,413,203</u></u>

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

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current Liabilities:		
Accounts payable	\$ 136,741	\$ 172,721
Other accrued expenses	75,319	68,891
Current portion of long-term debt	<u>151,627</u>	<u>125,000</u>
Total Current Liabilities	<u>363,687</u>	<u>366,612</u>
Long-term Debt:		
Bonds payable	6,850,000	6,975,000
Note payable	16,627	-
Less: Current portion of long-term debt	<u>(151,627)</u>	<u>(125,000)</u>
Total Long-Term Debt	<u>6,715,000</u>	<u>6,850,000</u>
Total Liabilities	<u>7,078,687</u>	<u>7,216,612</u>
Net Assets:		
Contributed Capital (Unrestricted)	4,827,264	4,976,561
Memberships (Temporarily Restricted)	635,130	615,115
Retained Earnings:		
Unrestricted	16,865,245	16,331,122
Temporarily Restricted	<u>278,276</u>	<u>273,793</u>
Total Retained Earnings	<u>17,143,521</u>	<u>16,604,915</u>
Total Net Assets	<u>22,605,915</u>	<u>22,196,591</u>
Total Liabilities and Net Assets	<u><u>\$ 29,684,602</u></u>	<u><u>\$ 29,413,203</u></u>

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues:		
Water and sewer sales	\$ 6,341,494	\$ 6,334,972
Water meter fees	268,822	252,527
Tie on fees	<u>129,782</u>	<u>178,460</u>
Total Operating Revenues	<u>6,740,098</u>	<u>6,765,959</u>
Operating Expenses:		
Distribution	3,820,255	3,756,577
Administration	415,916	363,116
Office	<u>440,371</u>	<u>363,307</u>
Total Operating Expenses	<u>4,676,542</u>	<u>4,483,000</u>
Income from Operations	<u>2,063,556</u>	<u>2,282,959</u>
Other Revenues (Expenses):		
Gain on sale of assets	-	15,400
Other income	182,463	259,098
Interest income	12,028	112,193
Interest expense	(454,585)	(461,065)
Amortization of bond issue costs	(17,704)	(17,704)
Depreciation expense	<u>(1,396,449)</u>	<u>(1,342,133)</u>
Total Other Revenues (Expenses)	<u>(1,674,247)</u>	<u>(1,434,211)</u>
Increase in Net Assets - Unrestricted Retained Earnings	<u>\$ 389,309</u>	<u>\$ 848,748</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, 2009 AND 2008

	Contributed Capital (Unrestricted)	Memberships (Temporarily Restricted)	Retained Earnings		Total Net Assets
			Unrestricted	Temporarily Restricted	
Net assets, December 31, 2007	\$ 5,076,401	\$ 588,164	\$ 15,291,028	\$ 312,048	\$ 21,267,641
Increase in net assets - unrestricted retained earnings	-	-	848,748	-	848,748
Interest income earned on temporarily restricted cash	-	-	(8,797)	8,797	-
Transfers for debt service, net	-	-	47,052	(47,052)	-
Increase in members	-	26,951	-	-	26,951
Distribution system contributed from new developments	53,251	-	-	-	53,251
Amortization of contributed capital	(153,091)	-	153,091	-	-
Change in net assets	(99,840)	26,951	1,040,094	(38,255)	928,950
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
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

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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating Activities:		
Increase in net assets - unrestricted retained earnings	\$ 389,309	\$ 848,748
Adjustments to reconcile increase in net assets - unrestricted retained earnings to cash provided by operating activities:		
Depreciation & amortization	1,414,152	1,359,837
Gain on sale of assets	-	(15,400)
Increase (decrease) in working capital related to:		
Accounts receivable	12,576	(9,481)
Inventory	12,302	(18,860)
Accounts payable	(35,980)	43,643
Accrued expenses	<u>6,428</u>	<u>2,381</u>
Net cash provided by operating activities	<u>1,798,787</u>	<u>2,210,868</u>
Investing Activities:		
Acquisition of plant and equipment	(4,010,640)	(1,645,274)
Proceeds from sale of assets	-	15,400
Reimbursements from developers	-	53,251
(Increase) decrease in notes receivable	(2,494)	1,421
(Increase) decrease in restricted cash	(4,483)	38,255
Increase in investments in certificates of deposit	(2,067)	(3,691)
(Increase) decrease in investments in mutual funds	<u>(20,493)</u>	<u>31,895</u>
Net cash used in investing activities	<u>(4,040,177)</u>	<u>(1,508,743)</u>
Financing Activities:		
Retirement of bonds payable	(125,000)	(120,000)
Note proceeds	16,627	-
Increase in memberships	<u>20,015</u>	<u>26,951</u>
Net cash used in financing activities	<u>(88,358)</u>	<u>(93,049)</u>
Net increase in cash	(2,329,748)	609,076
Cash and cash equivalents, at beginning of year	<u>5,067,813</u>	<u>4,458,737</u>
Cash and cash equivalents, at end of year	<u>\$ 2,738,065</u>	<u>\$ 5,067,813</u>
Supplemental disclosures:		
Cash paid for interest on debt	\$ 454,585	\$ 461,065

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

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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 principle 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, 2009 and 2008, 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, 2009 AND 2008

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 depreciated 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 2009 and 2008, depreciation expense was \$1,396,449 and \$1,342,133, 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 2009 and 2008, 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, 2009 AND 2008

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, 2009 and 2008, the balance of the Corporation's deposits (cash, checking, money market, and savings accounts) amounted to \$2,738,066 and \$5,067,813, respectively.

Note 3: Investments

At December 31, 2009 and 2008, the balance of the Corporation's certificates of deposit amounted to \$322,328 and \$320,261, respectively. The certificates of deposit have interest rates ranging from 1.00% to 1.35% and mature from April 2010 through October 2010.

During 2009 and 2008, the Corporation invested in mutual funds. At December 31, 2009 and 2008, the amount invested in mutual funds was \$98,621 and \$78,128, respectively. The mutual funds had unrealized gains of \$20,493 and unrealized losses of \$35,359 in 2009 and 2008, respectively, and are 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 \$356,044 (net of allowance for uncollectibles of \$26,048) and \$368,620 as of December 31, 2009 and 2008, respectively.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Note 6: Notes Receivable

The Corporation has notes receivable from members. The amount due from notes receivable from members at December 31, 2009 and 2008 is as follows:

	2009	2008
Current portion	\$ 7,857	\$ 6,248
Non-current portion	4,324	3,439
	<u>\$ 12,181</u>	<u>\$ 9,687</u>

Note 7: Property, Plant and Equipment

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.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Note 8: Long-Term Debt (continued)

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. 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. The note has an initial interest rate of 5% which will be adjusted every three years to the Wall Street Journal prime rate plus 1%. The estimated annual maturities will be \$38,210 - 2010; \$68,147 - 2011; \$71,634 - 2012; \$75,298 - 2013; \$79,151 - 2014 and \$1,094,635 - 2015 through maturity on February 10, 2025. As of December 31, 2009, \$16,627 was drawn and outstanding with \$1,410,448 remaining and available.

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, 2009:

Year ended December 31,	Principal	Interest	Total
2010	\$ 151,627	\$ 448,105	\$ 599,732
2011	145,000	440,815	585,815
2012	150,000	432,985	582,985
2013	165,000	424,615	589,615
2014	175,000	413,973	588,973
2015 to maturity	<u>6,080,000</u>	<u>4,541,427</u>	<u>10,621,427</u>
Totals	<u>\$ 6,866,627</u>	<u>\$ 6,701,920</u>	<u>\$ 13,568,547</u>

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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, 2009 and 2008, amortization of contributed capital amounted to \$149,297 and \$153,091, respectively.

Note 10: Net Assets

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

	2009	2008
Unrestricted Net Assets:		
Contributed capital	\$ 4,827,264	\$ 4,976,561
Retained earnings	16,865,245	16,331,122
Total Unrestricted Net Assets	<u>21,692,509</u>	<u>21,307,683</u>
Temporarily Restricted Net Assets:		
Memberships	635,130	615,115
Retained earnings (see Note 4)	278,276	273,793
Total Temporarily Restricted Net Assets	<u>913,406</u>	<u>888,908</u>
	<u>\$ 22,605,915</u>	<u>\$ 22,196,591</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 2009 and 2008, an employee may contribute up to a maximum of \$16,500 and \$15,500 (with an additional catch-up contribution of \$5,500 and \$5,000 for qualified individuals), respectively, 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, 2009 and 2008 was \$14,027 and \$11,166, 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, 2009 AND 2008

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, 2009 and 2008 amounted to \$68,343 and \$65,216, 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. The term of the contract is perpetual in nature. 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. The cost of water purchases amounted to \$1,775,964 and \$1,832,429 in 2009 and 2008, 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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Note 14: Concentrations of Credit Risk

During the year ended December 31, 2009, the Corporation had cash balances in excess of FDIC coverage. As of December 31, 2009 and 2008, the reported amount of cash and cash equivalents in excess of FDIC coverage was \$2,057,357 and \$4,435,129, 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, 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 March 1, 2010, the date the financial statements were available to be issued.

Supplementary Schedules

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 and profit-sharing 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
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Distribution	Administration	Office	Total
Accounting and auditing fees	\$ -	\$ 11,200	\$ -	\$ 11,200
Advertising	-	4,826	-	4,826
Chemical analysis and testing	20,513	-	-	20,513
Chemical and mechanical	9,016	1,640	-	10,656
Communications	-	-	9,606	9,606
Contract billing	-	-	63,878	63,878
Contract labor	33,015	-	-	33,015
Customer notification	-	-	4,969	4,969
Dues and memberships	-	17,622	-	17,622
Filing fees	-	-	5,138	5,138
Health insurance	63,935	19,042	36,394	119,371
Insurance	65,799	2,921	-	68,720
Janitorial	-	-	4,148	4,148
Legal	-	14,050	-	14,050
Maintenance contracts	-	-	12,720	12,720
Meals and gatherings	-	10,626	-	10,626
Meters and settings	33,813	-	-	33,813
Minor tools	1,507	-	-	1,507
Miscellaneous expense	-	1,200	80	1,280
Payroll taxes	29,285	15,378	10,580	55,243
Postage and freight	-	-	9,175	9,175
Pre-employment & other	5,602	-	56	5,658
Regulatory fees	-	5,243	-	5,243
Repairs and maintenance	369,381	-	14,649	384,030
Retirement plan	35,835	23,426	17,121	76,382
Safety gear and uniforms	9,707	-	-	9,707
Salaries and wages	384,555	201,564	150,083	736,202
SCADA	15,285	-	-	15,285
Supplies	-	-	14,155	14,155
Training	2,154	22,518	565	25,237
Transportation	78,719	7,721	-	86,440
Uncollectible accounts	-	4,139	-	4,139
Utilities	696,450	-	9,990	706,440
Water treatment	38,906	-	-	38,906
Wholesale sewer expense	30,671	-	-	30,671
Wholesale water purchased	1,832,429	-	-	1,832,429
	<u>\$ 3,756,577</u>	<u>\$ 363,116</u>	<u>\$ 363,307</u>	<u>\$ 4,483,000</u>

See independent auditor's report.