

purchase price is based upon a fee of Two Thousand Five Hundred Dollars (\$2,500.00) for each active water and \$2,500.00 for each active wastewater connection transferred to Aqua on the date of Closing and shall be adjusted in the event there are more or fewer active connections receiving service at Closing.

- (b) Aqua shall loan One Hundred Eighty-Four Thousand Two Hundred Dollars (\$184,200.00) to Seller at the time of execution of this document by all parties. This loan shall be evidenced by a Note from Seller to Buyer bearing interest at an annual rate of One Percent (1%), and shall be secured by security agreements, financing statements and deeds of trust, against Seller's real property, all as more particularly described in the documents attached hereto as Exhibit 1 and incorporated herein as Schedule 1.3 (b). The Note shall be due and payable in full, including all principal and interest, without regard as to whether the Closing described herein has occurred, on the earlier of a) the one year anniversary of the Effective Date of this Agreement; b) the date this Agreement is terminated by either party, regardless as to the reason for termination; or c) the Closing date described in this Agreement. If the Closing described herein occurs, the Note and all accrued interest will be repaid out of the sales proceeds due to Seller via a credit to Aqua at Closing. This Note is an integral part of the consideration for this Agreement, and Seller would not have entered into this Agreement without the Note. Similarly, the liens securing the Note are an integral part of the consideration; and Aqua would not have extended the loan to Seller if the Note was in any way conditional or contingent or if the Note was not collateralized as provided in the Note, Security Agreements, Financing Statements, and Deeds of Trust.
- (c) The parties acknowledge that under this Agreement Buyer is not obligated to Close under the following conditions: 1) Seller fails to comply with any term or provision of this Agreement; 2) a Condition Precedent under Section 5 of this Agreement does not occur and Aqua exercises its right to terminate the Agreement; or 3) Closing has not occurred within one year from the date listed in the first paragraph of this Agreement. In the event that Closing does not occur because Buyer has breached this Agreement or otherwise failed to perform its obligations hereunder, Seller shall be entitled to liquidated damages in the amount of \$184,200, which shall be its sole remedy against Buyer.

1.4 Contractual Obligations

Aqua shall not assume any obligations of Seller under any contract, agreement, commitment, lease, certificate, permit or other instrument, whether oral, written, express or implied, except with respect to those contracts and other instruments listed on Schedule 1.4 attached hereto, made part hereof and incorporated ~~herein~~ by reference. Provided, however, that Seller shall retain responsibility for all payments that were due and payable under such agreements prior to Closing, including the payment of any settlements for amounts that may have been disputed under such agreements.

1.5 Non-Assumption of Liabilities

With the exception of the assumption of contractual duties to be performed after the date of Closing under the surviving contracts listed on Schedule 1.4 attached hereto together with the ongoing obligation to provide water and/or service to the customers of the Seller served by the Systems (the "Assumed Obligations"), all liabilities and obligations of Seller shall remain the sole responsibility of Seller, including any and all liabilities or obligations under any employee benefit plan, practice or arrangement or pension, retirement or savings plan. Except for the Assumed Obligations, Aqua shall not assume and shall not be liable for any liabilities or obligations of Seller of any nature whatsoever, whether express or implied, fixed or contingent.

2. CLOSING

(a) The Parties shall exercise reasonable efforts to close by May 30, 2014. However, subject to the provisions of **Sections 4 and 5**, Closing hereunder (the "Closing") shall actually take place at the offices of Aqua, located at 1106 Clayton Lane, Suite 400 W, Austin, Texas, commencing at 10:00 a.m. local time, on or before a date thirty five (35) days after the receipt of regulatory approvals, including without limitation those described in **Section 5.6** below. The date of the Closing is referred to herein as the "Closing Date" or "Closing". The effective time of the legal transfer hereunder shall be 12:01 a.m. on the day following the Closing Date. Notwithstanding the foregoing, if the initial Closing has not occurred within one year of the date of this Agreement, either Party shall have the right to terminate this Agreement in accordance with the provisions of this Agreement, provided that such termination shall be without prejudice to the rights of either party which has performed its obligations under this Agreement, if Closing does not occur because of a material breach of this Agreement by the other party.

2.1 Items to be delivered at Closing

At the Closing and subject to the terms and conditions herein contained:

- (a) Seller shall deliver to Aqua the Assets, including, without limitation, the following:
 - (i) instruments and documents of conveyance and transfer, all in form reasonably satisfactory to Aqua and its counsel, as shall be necessary and effective to transfer and assign to, and vest in, Aqua good and marketable title to the Assets and all rights to operate the Systems as such is now being operated, including, but not limited to the following documents: a Deed for each parcel to be conveyed; a Bill of Sale and Assignments; an Assignment and Grant of Easement for any easement Aqua requires to utilize, maintain, repair and replace any facilities located outside of any parcels to be conveyed and/or publicly dedicated roadways; and an appropriate Sanitary Control Easement for each well within the well protection area Aqua requires.
 - (ii) Assignment and copies of, or the originals as appropriate, of all the agreements, contracts, commitments, leases, plans, bids, quotations, proposals, instruments, certificates, permits and other instruments belonging to Seller that are part of or related to the Assets;

- (iii) a complete and accurate list of the names and addresses of all customers of Seller, both in paper form and in electronic form on a compact disk (CD) that can be downloaded to a computer, along with a billing history for each customer;
- (iv) a certificate, in form and substance satisfactory to Aqua, executed by each third party to any contract listed on Schedule 1.4 confirming that all representations and warranties of Seller with respect to such contract are true and correct, and that there is no defense, counterclaim or asserted set off by such party under the contract, and that Seller and such party are each in compliance with the requirements of the contract, and to the extent such party's consent is required to an assignment of the contract to Aqua, such consent;
- (v) keys to any and all buildings and gates;

and simultaneously with such delivery, all such steps shall be taken as may be required to put Aqua in actual possession and operating control of the Assets.

- (b) Seller shall deliver to Aqua, the agreements, opinions, certificates and other documents and instruments referred to in **Section 5** hereof.
- (c) Aqua and Seller agree that final meter readings shall be conducted on a date stipulated by the parties that is within seven (7) days immediately prior to Closing. These readings shall be utilized by the Seller for the purpose of issuing final bills, and shall constitute the opening readings for Aqua. Aqua shall use these readings to begin the billing cycle for its new customers following Closing.
- (d) The meter readings obtained under Section 2.1(c) shall be included within a Schedule of Accounts Receivable that will be developed jointly by the Parties. The Schedule of Accounts Receivable shall include any unpaid amounts of prior billings for utility services that are owed to Seller by customers for utility services provided prior to Closing. Seller shall be entitled to bill and collect, in its own name, for receivables attributable to utility services it provided prior to Closing and shall retain all such receivables. Aqua shall not be responsible to collect, or to pay Seller or any third party, for utility services Seller provided prior to Closing and Buyer shall be entitled to retain all accounts receivable for services provided after Closing. At Closing, Seller shall transfer to Aqua any prepaid fees that Seller collected for services, taps or connections that were not provided by Seller prior to Closing.

2.2 Prorations and Closing Agreements

Prorations, allocations, transfers of utilities, stipulations and other closing settlement matters shall be made by the Parties at or near the time of closing pursuant to the terms of the attached and incorporated SCHEDULE 2.2.

2.3 Transfer of Utilities

Buyer and Seller agree to terminate and transfer liability for electric service and any other utilities to Buyer as near as practicable to the effective date of closing.

2.4 Remedy

Seller acknowledges that the Assets are unique and not otherwise available and agrees that, in addition to any other available remedy, Aqua may invoke any equitable remedy to enforce performance hereunder, including, without limitation, the remedy of specific performance.

2.4 Further Assurances

Seller, from time to time after the Closing, at Aqua's request, and without compensation, will execute, acknowledge and deliver to Aqua such other instruments of sale, conveyance, assignment and transfer and will take such other actions and execute and deliver such other documents, certifications and further assurances as Aqua may reasonably require in order to vest in Aqua, and/or to place Aqua fully in possession of, all of the Assets. Each of the parties hereto, without compensation, will cooperate with the other and execute and deliver to the other such other instruments and documents and take such other actions as may be reasonably requested from time to time by any other party hereto as necessary to carry out, evidence and confirm the purposes of this Agreement.

3. CONDUCT OF PARTIES PENDING CLOSING

3.1 Seller agrees that, with respect to the Assets, pending the Closing and except as otherwise agreed to in writing by Aqua:

- (a) The business of Seller shall be conducted solely in the ordinary course consistent with past practice.
- (b) Seller shall continue to maintain and service the tangible Assets in good working order such that they will be in proper working order at Closing.
- (c) Seller will use its best efforts to maintain its relations and goodwill with its suppliers, customers and any others having business relations with it.
- (d) Seller shall comply with all laws, ordinances, rules, regulations and orders applicable to it and to the conduct of its business.
- (e) Seller will promptly advise Aqua in writing of all events between the date hereof and Closing which could render any representation or warranty under the Agreement, if restated and republished as of Closing, untrue or incorrect in any material respect.
- (f) Seller will promptly advise Aqua in writing promptly after Seller receives knowledge of the threat or commencement of any dispute, claim, action, suit, proceeding, arbitration or investigation against or involving the Assets or the sale and transfer

thereof to Aqua, or of the occurrence of any event (exclusive of general economic factors affecting business in general) of a nature that is or may be materially adverse to the business, operations, properties, assets, prospects or condition (financial or otherwise) of Seller.

- (g) Seller will conduct its business in such a manner that at the Closing the representations and warranties of Seller contained in this Agreement shall be true as though such representations and warranties were made on and as of such date. Furthermore, Seller will use its best efforts to cause all of the conditions to this Agreement to be satisfied on or prior to the Closing Date.
- (h) Seller will not take any action which would result in a material breach of any of the representations and warranties of Seller hereunder.
- (i) Seller will provide Aqua with such financial and other reports of its business as Aqua may reasonably request.
- (j) Seller will give to Aqua, its officers, employees, accountants, counsel and other representatives free and full access to and the right to inspect, during normal business hours, all of the premises, properties, assets, records, contracts and other documents relating to its business and operations, and shall permit them to consult with the officers, employees, accountants, counsel and agents of Seller for the purpose of making such investigation of the business and operations of Seller as Aqua shall desire to make, provided that such investigation shall not unreasonably interfere with the business or operations of Seller.
- (k) Seller shall notify and consult with Aqua prior to the initiation, development or execution of any plans for expansion of or improvements to the Assets.
- (l) Seller agrees to sign or join with Aqua in providing such notices to customers of the change in ownership and related information, as may be required by Buyer for inclusion in the first billing next following closing.

4. **CONDITIONS PRECEDENT TO SELLER'S OBLIGATIONS**

All obligations of Seller under this Agreement are subject to the fulfillment or satisfaction, or waiver by Seller, prior to or at the Closing, of each of the following conditions precedent:

4.1 **Closing Certificate; Performance by AQUA**

Aqua shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it prior to or at the Closing; and Seller shall have been furnished with a certificate or certificates of Aqua dated the Closing Date, signed by an officer of Aqua, certifying, in such detail as Seller may reasonably request, to the fulfillment of the foregoing conditions and that all representations and warranties made by Aqua in this Agreement are true and correct as of Closing, except such as have been rendered incorrect because of events which occurred

after the date hereof, as disclosed in writing by Aqua to Seller within a reasonable time after the event occurred.

4.2 Litigation Affecting Closing

On the Closing Date, no proceeding shall be pending or threatened before any court or governmental agency in which it is sought to restrain or prohibit or to obtain damages or other relief in connection with this Agreement or in the consummation of the transactions contemplated hereby, and no investigation that might eventuate in any such suit, action or proceeding shall be pending or threatened.

4.3 Aqua and Seller shall have entered into an agreement, in form and substance similar to the agreement attached hereto as Exhibit 4.3, through which Aqua will retain the services of Texas Rain, Inc. to operate and maintain the Systems for the earlier of either a period of two (2) years or until such time as Texas Rain, Inc. enters into other operations and maintenance agreements to provide services to an equal number of connections -- 1088 -- as are being transferred to Aqua hereunder.

5. CONDITIONS PRECEDENT TO AQUA'S OBLIGATIONS

All obligations of Aqua under this Agreement are subject to the fulfillment or satisfaction by Aqua, prior to or at the Closing, of each of the following conditions precedent and Aqua may, in its discretion, terminate this Agreement in the event of the failure of any such condition:

5.1 Satisfaction with Operational and Real Estate Title Issues

Aqua shall be satisfied, within sixty (60) days following the execution of this Agreement, with the results of its due diligence inspections of the overall operational functionality of the Assets that Aqua may elect to perform, and at Closing that there has been no material deterioration therein between the expiration of such sixty (60) day period and Closing. Additionally, prior to Closing, Aqua shall be satisfied with its review of the real estate and the quality of title to be conveyed to Aqua from Seller.

5.2 Closing Certificate; Performance by Seller

Seller shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it prior to or at the Closing; and Aqua shall have been furnished with a certificate or certificates of Seller dated the Closing Date, signed by the appropriate officials of Seller, certifying, in such detail as Aqua may reasonably request, to the fulfillment of the foregoing conditions and that all representations and warranties are true and correct as of Closing, except as disclosed by Seller pursuant to **Section 3.1(e)**, and the facts as contained in such disclosure(s) shall not result, as determined by Aqua in its reasonable judgment, in a material adverse change in the condition of the Assets or business and operations of Seller relating to the Systems.

5.3 Litigation Affecting Closing

On the Closing Date, no proceeding shall be pending or threatened before any court or governmental agency in which it is sought to restrain or prohibit or to obtain damages or other relief in connection with this Agreement or the consummation of the transactions contemplated hereby, and no investigation that might eventuate in any such suit, action or proceeding shall be pending or threatened.

5.4 Seller Authorizations

Seller shall have furnished Aqua with certified copies of all proceedings of Seller, including a signed and certified copy of the appropriate document(s) authorizing the transactions hereby contemplated, as Aqua reasonably shall require.

5.5 Opinion of Counsel

Counsel for Seller, both the solicitor and bond counsel (if applicable), shall have delivered to Aqua at Closing an opinion of such counsel, in form and substance consistent with that identified as Schedule 5.5.

5.6 Governmental Approvals

Aqua shall have received all governmental authorizations needed for the transfer of the Assets.

A. In the event that the Sale Transfer Merger Application of the parties is uncontested, a letter from TCEQ, authorizing consummation of the transaction contemplated by this Agreement shall be required. Incident to closing, Seller will provide documents supporting disposition of customer deposits, and a statement of its consent to the transfer of CCN to Buyer. Following closing, Seller will provide consents, and information, (if any is required), such that Buyer receives and approves the map, order, certificate, proposed tariff and issuance of same in approved final form.

B. In the event that the Sale Transfer Merger Application of the parties is contested, a final order approving the transaction contemplated by this Agreement shall be required. Incident to such final order, and if not addressed in such final order or otherwise required at closing, Seller will provide documents supporting disposition of customer deposits, and a statement of its consent to the transfer of CCN to Buyer. Following closing, Seller will provide consents, and information (if any is required) such that Buyer receives and approves the map, order, certificate, proposed tariff and issuance of same in approved final form.

C. Buyer shall prepare the Sale Transfer Merger Application, and said application will include the following provisions and requests: (a) Ownership of the Systems and the CCN for the Service Area shall be transferred from Seller to Buyer; (b) Aqua shall be the sole CCN holder obligated to provide water and wastewater service to the residents, business, and customers in the Service Area; (c) Seller shall abandon its CCN for such Service Area; (d) Approval by the TCEQ and/or the Public Utility Commission of Texas of rate base for the Systems in an amount that is acceptable to Aqua in its sole discretion; and (e) Authorization for Aqua to immediately charge customers the same rates and miscellaneous fees for both water and wastewater that Seller is currently authorized by tariff to charge customers pursuant to: i) the Case Settlement Record entered in SOAH

Docket # 582-13-3908 and TCEQ Docket Number 2013-0510-UCR concerning Application # 37423-R; and ii) the Case Settlement Record entered in SOAH Docket # 582-13-3908 and TCEQ Docket # 2013 0510-UCR concerning Application # 37424-R. Those Case Settlement Records are attached hereto as Exhibit 1 and are incorporated herein. All governmental authorizations, orders, and approvals issued by the TCEQ and/or the Public Utility Commission of Texas shall be in form and substance satisfactory to Aqua in its sole discretion.

5.7 Material Damage

The Assets shall not be, or be threatened to be, materially adversely affected by fire, explosion, earthquake, disaster, accident, cessation or interruption of utility or other services, flood, drought, lack of water supply, contamination of water supply, embargo, riot, civil disturbance, uprising, activity of armed forces or act of God or public enemy, or any other event or occurrence.

5.8 Satisfaction of Aqua

All actions, proceedings, resolutions, instruments and documents required to carry out this Agreement or incidental hereto and all other related matters shall have been approved on the Closing Date by Aqua in the exercise of its reasonable judgment.

5.9 Agreement to Sell the Horseshoe Bend Water System to Aqua

Aqua's obligation hereunder are conditioned upon Seller and Aqua entering into an agreement by which Seller will sell, and Aqua will buy, the assets of the Horseshoe Bend Water System, as existing at the time this Agreement is executed, upon mutually acceptable terms and conditions.

6. REPRESENTATIONS AND WARRANTIES OF SELLER

6.1 Seller, to the best of Seller's knowledge and belief, hereby represents and warrants to Aqua as follows:

- (a) Organization. Texas H2O, Inc. is duly organized, validly existing and in good standing under the laws of the State of Texas.
- (b) Systems Ownership. Seller holds the exclusive right, title and interest to the Assets and facilities comprising the Systems.
- (c) Current Operations. Seller has all requisite power and authority and all agreements, contracts, commitments, leases, certificates, licenses, permits, regulatory authorizations and other instruments required to conduct the business of the Systems as it has been and is now being conducted and to own and operate the Systems.
- (d) Legal Authority. Seller has the full power and lawful authority to transfer to Aqua the rights, title and interest in and to the Systems.

- (e) Due Authorization: Valid and Binding. Seller has the full power and lawful authority to execute and deliver this Agreement and all related agreements and to consummate and perform the transactions contemplated hereby and has duly and validly authorized the execution of this Agreement and all related documents and agreements by all necessary proceedings. This Agreement and all related agreements constitute the valid and binding obligation of Seller.
- (f) No Approvals or Violations. This Agreement does not require any further approvals of any other party, does not violate any law, ordinance or regulation, does not conflict with any order or decree, and does not conflict with or result in a breach of any contract, lease or permit to which Seller is a party.
- (g) Party to Decree. Seller is not party to, or subject to the provision of, any judgment, order, writ, injunction or decree of any court or of any governmental official, agency or instrumentality relating to the Systems or the Assets.
- (h) List of Assets. Schedule 1.1 contains a true and complete list of the Assets.
- (i) Customer Records. The data contained in the customer records provided to Aqua is true and accurate.

6.2 Except as set forth on Schedule 6.2, Seller hereby represents and warrants to Aqua as follows:

- (a) Title of Assets. Seller has good and marketable title to the Assets, and they will be delivered from closing free and clear of all liens, encumbrances and security interests.
- (b) Undisclosed Liabilities. There are no liabilities or obligations of Seller, either accrued, absolute, contingent or otherwise, relating to the Assets. For purposes of this Agreement, the term liabilities shall include, without limitation, any direct or indirect indebtedness, guaranty, endorsement, claim, loss, damage, deficiency, cost, expense, obligation or responsibility either accrued, absolute, contingent or otherwise.
- (c) Condition of Assets. All the tangible property included in the Seller's Assets are in good operating condition and repair, are usable in the regular course of business and conform to all applicable laws, ordinances, codes, rules and regulations relating to their construction, use and operation, and are free from any known material defects except such minor defects as do not substantially interfere with the continued use thereof in the conduct of normal operations. Other than the fact that tangible property will be in good operating condition and repair as of the date of closing, Seller makes no representation or warranty respecting such property and the same will be conveyed AS IS, WHERE IS without express or implied warranty of any kind, save and except good title.
- (d) No Other Parties. No person other than Seller owns or has any interest in any equipment or other tangible assets or properties currently utilized or necessary to the operations or business of the Seller's Assets.

- (e) Adequacy of Rights. All agreements, contracts, commitments, leases, certificates, permits and other instruments related to the Assets to which Seller is a party are valid and enforceable in accordance with their terms, are in good standing, and the parties thereto are in compliance with the provisions thereof. No party is in default in the performance, observance or fulfillment of any material obligation, covenant or condition contained therein, and no event has occurred, which with or without the giving of notice or lapse of time, or both, would constitute a default thereunder.
- (f) Adequacy of Property Rights. All leases, licenses, rights of way, and easements related in any manner to the assets and properties comprising the Seller's Assets and all other instruments, documents and agreements pursuant to which Seller has obtained the right to use any real property in connection with the Assets are in good standing, valid and effective in accordance with their respective terms, and with respect thereto, there is no existing default or event which could constitute a default. Seller possesses all property rights necessary to operate the Assets.
- (g) Rights to Facilities. Seller has good and valid rights to occupy and to obtain access to the areas where the distribution lines and other facilities of the Assets are located.
- (h) Pending Litigation. There are no pending claims, actions, investigations or legal or administrative proceedings regarding the Assets or Seller's ability to transfer the Assets.
- (i) Threatened Litigation. To the best of Seller's knowledge, there are no threatened claims, actions, investigations or legal or administrative proceedings regarding the Assets or Seller's ability to transfer the Assets, nor does Seller know of any basis for any such claim, action or proceeding.
- (j) Contract for Refunds. Seller is not a party to any contract for future payment of refunds under any extension agreement, customer deposit agreement or similar agreement with respect to the Assets.
- (k) Contract with Suppliers. Seller is not a party to any contract for the purchase of, or payment for supplies, equipment or for services related to the Assets, except such contracts that shall not survive Closing.
- (l) No Material Change. Within the past two years, Seller has not: 1) made or suffered any amendment or termination of any material agreement, contract, commitment or lease or any governmental permit or authorization to which it is a party or by which it is bound; or 2) canceled, modified or waived any debts or claims held by it; or 3) waived any rights of substantial value.
- (m) No Material Adverse Conditions. There are no conditions or developments existing or, to the knowledge of Seller, threatened which would have a material adverse effect on the Assets.

- (n) Compliance with Law. Seller is not in any material violation of any law, ordinance or governmental rule or regulation to which it or its business, operations, assets or properties is subject and has not failed to obtain, or to adhere to the requirements of, any certificate, license, permit or other governmental authorization necessary to the ownership of its assets and properties or to the conduct of its business.
- (o) Seller has a total of 1088 active water and wastewater connections, subject to normal variations which will be adjusted at closing, which will be transferred to Aqua hereunder. The active connections and the table listed in Schedule 6.2 (o) as adjusted to the date of closing will accurately represent the active connections in the water and wastewater systems being transferred hereunder. An active connection shall be any connection that has received water or wastewater service, as evidenced by consumption, within the sixty (60) days prior to closing

6.3 Except as set forth in Schedule 6.3, Seller hereby represents and warrants to and with Aqua as follows with respect to compliance with environmental laws:

- (a) Compliance with Law. To the best of Seller's actual knowledge, Seller has been and is in compliance with all Environmental Laws (as hereinafter defined).
- (b) Adequacy of Permits. To the best of Seller's actual knowledge, after diligent inquiry and investigation, Seller has obtained and continues to possess all permits, licenses, approvals or other authorizations which are required under the Environmental Laws, has filed such timely and complete renewal applications as may be required prior to the Closing Date, and also has complied with all reporting and record keeping requirements under the Environmental Laws.
- (c) Environmental Conditions. To the best of Seller's actual knowledge, following diligent inquiry and investigation, there are no past or present events, conditions, circumstances, activities, practices, incidents, actions or plans pertaining or relating to the Assets which may impede or prevent continued compliance with the Environmental Laws or which may give rise to any civil or criminal liability under the Environmental Laws.
- (d) Compliance with Decrees. Seller has been and is in compliance with all orders, decrees, judgments and notices issued against the Seller under or in connection with the Environmental Laws.

As used in this Agreement, the following terms shall have the following meaning:

The term "Environmental Laws" shall include all federal, state and, local environmental laws and regulations, including, without limitation, the Clean Water Act ("CWA"), also known as the Federal Water Pollution Control Act ("FWPCA"), 33 U.S.C. § 1251 et seq., the Toxic Substances Control Act ("TSCA"), 15 U.S.C. § 2601 et seq., the Federal Insecticide, Fungicide and Rodenticide Act ("FIFRA"), 7 U.S.C. §§ 136 et seq., the Safe Drinking Water Act ("SDWA"), 42 U.S.C. §§ 300

(f) et seq., the Surface Mining Control and Reclamation Act ("SMCRA"), 30 U.S.C. §§ 1201 et seq., the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), 42 U.S.C. § 9601 et seq., the Superfund Amendment and Reauthorization Act of 1986 ("SARA"), Public Law 99-499, 100 Stat., 1613, the Resource Conservation and Recovery Act ("RCRA"), 42 U.S.C. 6901, the Atomic Energy Act ("AEA"), Act of August 30, 1954, Ch. 1073, 68 Stat. 919 (codified as amended in scattered sections of 5 U.S.C. and 42 U.S.C.). Any reference to a legislative act or regulation shall be deemed to include all amendments thereto and all regulations, orders, decrees, judgments, opinions directives or notices issued thereunder.

The term "Environmental Condition" shall mean any condition or circumstance related to the Assets, whether created by Seller or any other party, which (1) required or requires abatement or correction under an Environmental Law, or (2) has given or may give rise to any civil or criminal liability under an Environmental Law, or (3) has created or may create a public or private nuisance, including the presence of asbestos, PCB's, hazardous substances, petroleum products, radioactive waste or radon, on, in or about the Assets.

6.4 Except as set forth in Schedule 6.4, Seller hereby represents and warrants to Aqua as follows with respect to fire service:

- a) Agreements. Seller has not entered into an agreement concerning fire service other than as disclosed in Schedule 6.4(a);
- b) Representations about Fire Service. Seller has not made a representation to any customer or other person, business or governmental agency that the system is capable of providing flows to fight any fire other than as disclosed in Schedule 6.4 (b).

6.5 No Misleading Statements

No representation or warranty by Seller in this Agreement or in any document delivered or to be delivered pursuant hereto or in connection herewith, and no statement, document, agreement, information or certificate made or furnished or to be made or furnished to Aqua pursuant hereto or in connection with the negotiation, execution or performance of this Agreement, now and as of the Closing Date, contain any untrue statement of a material fact, or fail to state any fact necessary to make any statement herein or therein not misleading.

6.6 Documents Produced

Seller will deliver at closing to Aqua true and complete copies of all the agreements, contracts, commitments, leases, certificates, permits and other instruments, documents and undertakings described in this Agreement.

7. REPRESENTATIONS AND WARRANTIES OF AQUA

7.1 Aqua hereby represents and warrants to Seller as follows:

- (a) Organization. Aqua is a corporation duly organized and validly existing and in good standing under the laws of the State of Texas.
- (b) Due Authorization; Valid and Binding. Aqua has the full power and lawful authority to execute this Agreement and to consummate and perform the transactions contemplated hereby and has duly and validly authorized the execution of this Agreement by all necessary proceedings. This Agreement constitutes the valid and binding obligations of Aqua.
- (c) Financial Wherewithal. Aqua has the financial wherewithal to complete the purchase of the Assets as contemplated hereunder and upon completion of Closing, to operate and manage the Assets at, or exceeding, the level of service provided by the Seller prior to Closing.

8. INDEMNIFICATION

8.1 Indemnification of Seller

From and after the Closing, Aqua will reimburse, indemnify and hold Seller and its officials and employees harmless from and against any and all liabilities, obligations, damages, losses, actions, audits, deficiencies, claims, fines, costs and expenses, including attorney's fees and costs resulting from, relating to, or arising out of:

- (a) the provision of water service by Aqua for the period following Closing;
- (b) issues of regulatory compliance and claims by third parties for events that occur following the date of Closing that are not attributable to events that occurred prior to Closing;
- (c) the failure of Aqua to perform any of its covenants following Closing; and
- (d) the enforcement of this Section 8.

8.2 Indemnification of Aqua

From and after the Closing, Seller will reimburse, indemnify and hold Aqua and its affiliates, and their officers, directors and employees, harmless from and against any and all liabilities, obligations, damages, losses, actions, audits, deficiencies, claims, fines, costs and expenses, including attorney's fees and costs resulting from, relating to, or arising out of:

- (a) any liabilities or obligations of Seller of any nature whatsoever except for those liabilities and obligations of Seller which Aqua specifically assumes pursuant to this Agreement;
- (b) any misrepresentation, breach of warranty or non-fulfillment of any agreement or covenant on the part of Seller under this Agreement, or from any misrepresentation in,

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands of dollars)
Years ended December 31, 2013, 2012, and 2011

	2013	2012	2011
Net income attributable to common shareholders	\$ 221,300	\$ 196,563	\$ 143,069
Other comprehensive income, net of tax:			
Unrealized holding gain (loss) on investments, net of tax of \$76, \$106, and \$(5) for the years ended December 31, 2013, 2012, and 2011, respectively	141	198	(10)
Reclassification adjustment for loss (gain) reported in net income, net of tax (benefit) of \$(49), \$182, and \$125 for the twelve months ended December 31, 2013, 2012, and 2011, respectively (1)	90	(339)	(233)
Comprehensive income	<u>\$ 221,531</u>	<u>\$ 196,422</u>	<u>\$ 142,826</u>

See accompanying notes to consolidated financial statements.

(1) Amount of pre-tax loss (gain) of \$139, \$(521), and \$(358) reclassified from accumulated other comprehensive income to loss (gain) on sale of other assets on the consolidated statements of net income for the years ended December 31, 2013, 2012, and 2011, respectively.

See accompanying notes to consolidated financial statements.

or omission from, any Schedule or information furnished to Aqua pursuant to this Agreement or in connection with the negotiation, execution or performance of this Agreement;

- (c) the provision of water service by Seller for the period prior to the date of Closing;
- (d) issues of regulatory compliance and claims by third parties for events that are attributable to events that occurred prior to Closing;
- (e) Seller's failure to perform any of its covenants following Closing;
- (f) Seller's tax liability; and/or
- (g) the enforcement of this **Section 8**.

8.3 General

Each party shall provide the other party with reasonable notice of any claims arising under this **Section 8**. The indemnification rights of the parties under this **Section 8** are independent of and in addition to such rights and remedies as the parties may have at law or in equity or otherwise for any misrepresentation, breach of warranty, or failure to fulfill any agreement or covenant hereunder.

9. **SURVIVAL OF REPRESENTATIONS AND WARRANTIES**

All representations, warranties and agreements made by the parties in this Agreement or in any agreement, document, statement or certificate furnished hereunder or in connection with the negotiation, execution and performance of this Agreement shall survive the Closing unless otherwise indicated herein. Notwithstanding any investigation or audit conducted before or after the Closing Date or the decision of any party to complete the Closing, each party shall be entitled to rely upon the representations, warranties and agreements set forth herein and therein.

10. **MISCELLANEOUS**

10.1 Contents of Agreement; Parties in Interest; etc.

This Agreement sets forth the entire understanding of the parties hereto with respect to the transactions contemplated hereby. It shall not be amended or modified except by written instrument duly executed by each of the parties hereto. Any and all previous agreements and understandings between or among any or all of the parties regarding the subject matter hereof, whether written or oral, are superseded by this Agreement.

10.2 Binding Effect

All of the terms and provisions of this Agreement shall be binding upon, inure to the benefit of and be enforceable by the legal representatives, successors and assigns of Seller or Aqua.

10.3 Waiver

Any term or provision of this Agreement may be waived at any time by the party or parties entitled to the benefit thereof by a written instrument executed by such party or parties.

10.4 Notices

Any notice, request, demand, waiver, consent, approval or other communication which is required or permitted hereunder shall be in writing and shall be deemed given only if delivered personally or sent by telegram or by registered or certified mail, postage prepaid, return receipt requested, as follows:

If to Aqua: Robert L Laughman, President
Aqua Texas, Inc.
1106 Clayton Lane, Suite 400 W
Austin, TX 78723

With a copy to:
William M. Dickerson, Assistant General Counsel
762 W. Lancaster Avenue
Bryn Mawr, PA 19010

If to Seller:

Mr. Butch Hardie
Texas H2O, Inc.
Post Office Box 613
Mansfield, TX 76063

With a copy to:
Mr. Gary Lott
2430 North Davis Drive, Suite 106
Arlington, TX 76012

or to such other address as the addressee may have specified in a written notice duly given to the sender as provided herein. Such notice, request, demand, waiver, consent, approval or other communication will be deemed to have been given as of the date so delivered, telegraphed or mailed.

10.5 Texas Law to Govern

This Agreement shall be governed by and interpreted and enforced in accordance with the laws of the State of Texas, without giving effect to any conflicts of laws provisions.

10.6 No Benefit to Others

The representations, warranties, covenants and agreements contained in this Agreement are for the sole benefit of the parties hereto, and their legal representatives, successors and assigns, and they shall not be construed as conferring any rights on any other persons.

10.7 Headings, Gender, etc.

All section headings contained in this Agreement are for convenience of reference only, do not form a part of this Agreement and shall not affect in any way the meaning or interpretation of this Agreement. Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

10.8 Exhibits and Schedules

All Exhibits, Attachments and Schedules referred to herein are intended to be and hereby are specifically made a part of this Agreement.

10.9 Cooperation/Further Assurances

Seller from time to time after the Closing, at Aqua's request, and without additional compensation, will execute, acknowledge and deliver to Aqua such other instruments of sale, conveyance, assignment and transfer and will take such other actions and execute and deliver such other documents, certifications and further assurances as Aqua may reasonably require in order to vest in Aqua, and/or to place Aqua fully in possession of, all of the Assets. Each of the parties hereto, without additional compensation, will cooperate with the other and execute and deliver to the other such instruments and documents and take such actions as may be reasonably requested from time to time by any other party hereto as necessary to carry out, evidence and confirm the purposes of this Agreement.

10.10 Severability

Any provision of this Agreement that is invalid or unenforceable in any jurisdiction or under any circumstance shall be ineffective to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable the remaining provisions hereof, and any such invalidity or unenforceability in any jurisdiction or under any circumstance shall not invalidate or render unenforceable such provision in any other jurisdiction or under any other circumstance, unless, in either event, the involved or unenforceable provision causes this Agreement to fail of its essential purpose.

10.11 Counterparts

This Agreement may be executed in any number of counterparts and any signatory hereto may execute any such counterpart, each of which when executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute but one and the same instrument. This Agreement shall become binding when one or more counterparts taken together shall have been

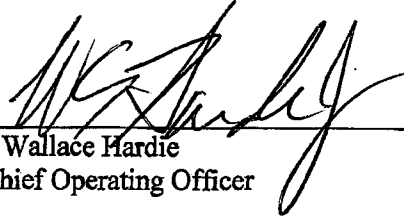
executed and delivered by all signatories. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

10.12 Agreement Drafted by Both Parties

This Agreement shall be deemed to have been drafted by all parties and in the event of any ambiguity, the wording of the agreement shall not be construed against any particular party as the drafter via the doctrine of *contra proferentem*.

IN WITNESS WHEREOF, intending to be legally bound, the parties hereto have duly executed this Agreement on the date first written.

TEXAS H2O, INC:

By: 
Wallace Hardie
Its: Chief Operating Officer

AQUA TEXAS, INC.

By: _____
Robert L. Laughman, President

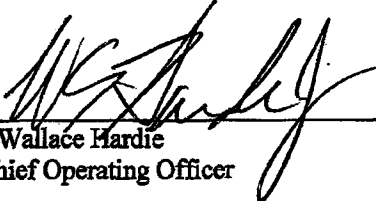
executed and delivered by all signatories. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

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This Agreement shall be deemed to have been drafted by all parties and in the event of any ambiguity, the wording of the agreement shall not be construed against any particular party as the drafter via the doctrine of *contra proferentem*.

IN WITNESS WHEREOF, intending to be legally bound, the parties hereto have duly executed this Agreement on the date first written.

TEXAS H2O, INC:

By: 
Wallace Hardie
Its: Chief Operating Officer

AQUA TEXAS, INC.

By: 
Robert L. Laughman, President

APPLICATION BY TEXAS H2O, INC. TO SELL
FACILITIES IN HOOD, JOHNSON AND TARRANT
COUNTIES, TEXAS TO AQUA TEXAS, INC.

ATTACHMENT 4

TARIFF RATE PAGES

CASE SETTLEMENT RECORD

UTILITY Texas H2O CCN NO. 12809
SOAH DOCKET NO. 582-13-3908 TCEQ DOCKET NO. 2013-0510-UCR
HEARINGS EXAMINER Sharon Cloninger APPLICATION NO. 37423-R
PLACE, DATE & TIME OF HEARING June 20, 2013

AGREED SETTLEMENT

EFFECTIVE DATE OF AGREED RATES - June 23, 2013
WHICH APPLIES TO ALL SERVICE PROVIDED ON OR AFTER (DATE)

WATER RATES:

GALLONAGE RATE: \$ 3.50 /1,000 gallons

METER SIZE	MINIMUM BILL	
5/8 or 3/4	\$ <u>48.41</u>	<u>0</u> GALLONS INCLUDED IN MINIMUM BILL
1	\$ <u>121.03</u>	
1 1/2	\$ <u>242.05</u>	
2	\$ <u>387.28</u>	
3	\$ <u>726.15</u>	
4	\$ <u>1,210.25</u>	

MISCELLANEOUS FEES:

RESIDENTIAL TAP FEE	\$ <u>750.00</u>
RECONNECTION FEES	
DISCONNECTED FOR NON PAYMENT (TCEQ RULES)	\$ <u>25.00</u>
OTHER THAN NON PAYMENT	\$ <u>50.00</u>
TRANSFER	\$ <u>20.00</u>
RETURNED CHECK FEE	\$ <u>25.00</u>
CUSTOMER DEPOSIT (TCEQ RULES)	\$ <u>50.00</u>
LATE PAYMENT PENALTY (TCEQ RULES)	\$ <u>10%</u>
METER TEST FEE (TCEQ RULES)	\$ <u>25.00</u>

Parties agree that Texas H2O, Inc.'s tariff shall include TCEQ's standard rules & policies.

AS BDM AKZ man

Texas H2O, Inc. to Aqua Texas, Inc.
1106 Clayton Lane, Suite 400W
Austin, Texas 78723
(512) 990-4400

ATTACHMENT 4 - Tariff Rate Pages

CASE SETTLEMENT RECORD (cont'd)

SEASONAL RECONNECTION:

N/A

PASS THROUGH RATE ADJUSTMENT CLAUSE:

REASON FOR CLAUSE: N/A

COMPUTATION FOR ADJUSTMENT:

MINIMUM BILL = _____
GALLONAGE CHARGE = _____

SURCHARGE:

AMOUNT - \$ N/A PER CONNECTION PER MONTH FOR _____ MONTHS

TERMS:

- SURCHARGE CONSIDERED CUSTOMER CONTRIBUTIONS IN AID OF CONSTRUCTION.
- FUNDS DEDICATED TO SPECIFIC IMPROVEMENTS LISTED BELOW.
- FUNDS PLACED IN SPECIAL SURCHARGE ACCOUNT.
- UTILITY MUST ISSUE A MONTHLY STATEMENT OF ACCOUNT.
- COMMISSION APPROVAL (IN WRITING) REQUIRED FOR DISBURSEMENT.

QUALITY OF SERVICE:

REQUIRED IMPROVEMENT

DATE DUE

N/A

VIOLATION TO BE CORRECTED:

(CCN PROBLEMS, TCEQ RULES OR ORDERS)

N/A

CASE SETTLEMENT RECORD (cont'd)

REFUNDS:

YES

NO

LUMP SUM -- DUE: _____ AMOUNT: _____
 BILLS CREDITED -- \$ _____ PER CONNECTION EACH MONTH FOR _____ MONTHS
 (ATTACH COMPUTATIONS IF NECESSARY)

PARTIES:

TCEQ Exec. Director:

E. D. Maguire

Public Interest Council:

(as witness)

Amy Frankholm

Utility:

Amy Frankholm

Protestants:

*m. h. / A. Wau**Ernesto Zschewitz*(Additional pages attached ☐)ATTACHMENTS:

- PREVIOUSLY APPROVED TARIFF.
 RELATED SCHEDULES OR COMPUTATIONS.
 BLANK TARIFF OR RATE SCHEDULE PAGE.
 QUALITY OF SERVICE COMPLIANCE SCHEDULE.

CASE SETTLEMENT RECORD

UTILITY Texas H₂O, Inc. CCN NO. 20814
 SOAH DOCKET NO. 582-13-3908 TCEQ DOCKET NO. 2013-0510-UCR
 HEARINGS EXAMINER Cloninger APPLICATION NO. 31424-R
 PLACE, DATE & TIME OF HEARING Austin, TX / June 20, 2013 / 10:00 AM

AGREED SETTLEMENT

EFFECTIVE DATE OF AGREED RATES - June 23, 2013
WHICH APPLIES TO ALL SERVICE PROVIDED ON OR AFTER (DATE)

Sewer

WATER RATES:

GALLONAGE RATE: \$ 6.25 /1,000 gallons

METER SIZE MINIMUM BILL

5/8 or 3/4

\$ 44.83

0

GALLONS INCLUDED IN MINIMUM BILL

1

\$ 112.08

1 1/2

\$ 224.15

2

\$ 358.64

3

\$ 672.45

4

\$ 1,120.75

MISCELLANEOUS FEES:

RESIDENTIAL TAP FEE

\$ 3,250.00

RECONNECTION FEES

DISCONNECTED FOR NON PAYMENT (TCEQ RULES)

\$ 25.00

OTHER THAN NON PAYMENT

\$ 50.00

TRANSFER

\$ 20.00

RETURNED CHECK FEE

\$ 25.00

CUSTOMER DEPOSIT (TCEQ RULES)

\$ 50.00

LATE PAYMENT PENALTY (TCEQ RULES)

\$ 10%

~~METER TEST FEE (TCEQ RULES)~~

\$

Parties agree that Texas H₂O, Inc.'s tariff shall include
 TCEQ's standard rules & policies.

ALS CDM.

CASE SETTLEMENT RECORD (cont'd)

SEASONAL RECONNECTION:

_____ NA _____

PASS THROUGH RATE ADJUSTMENT CLAUSE:

REASON FOR CLAUSE: _____ NA _____

COMPUTATION FOR ADJUSTMENT:

MINIMUM BILL = _____

GALLONAGE CHARGE = _____

SURCHARGE:

AMOUNT - \$ _____ NA _____ PER CONNECTION PER MONTH FOR _____ MONTHS

TERMS:

- SURCHARGE CONSIDERED CUSTOMER CONTRIBUTIONS IN AID OF CONSTRUCTION.
- FUNDS DEDICATED TO SPECIFIC IMPROVEMENTS LISTED BELOW.
- FUNDS PLACED IN SPECIAL SURCHARGE ACCOUNT.
- UTILITY MUST ISSUE A MONTHLY STATEMENT OF ACCOUNT.
- COMMISSION APPROVAL (IN WRITING) REQUIRED FOR DISBURSEMENT.

QUALITY OF SERVICE:

REQUIRED IMPROVEMENT

DATE DUE

_____ NA _____

VIOLATION TO BE CORRECTED:

(CCN PROBLEMS, TCEQ RULES OR ORDERS)

_____ NA _____

NO

LUMP SUM -- DUE: _____ AMOUNT: _____
 BILLS CREDITED -- \$ _____ PER CONNECTION EACH MONTH FOR _____ MONTHS
 (ATTACH COMPUTATIONS IF NECESSARY)

TCEQ Exec. Director:

Public Interest Council:

Utility:

Protestants:

Bi Amal

(as witness) Arny Swankholm

st Council: (as with)

My dear Mr. [unclear]

Michl A. Wagner

(Additional pages attached ☐)

ATTACHMENTS:

_____ PREVIOUSLY APPROVED TARIFF.
 _____ RELATED SCHEDULES OR COMPUTATIONS.
 _____ BLANK TARIFF OR RATE SCHEDULE PAGE.
 _____ QUALITY OF SERVICE COMPLIANCE SCHEDULE.

APPLICATION BY TEXAS H2O, INC. TO SELL
FACILITIES IN HOOD, JOHNSON AND TARRANT
COUNTIES, TEXAS TO AQUA TEXAS, INC.

ATTACHMENT 5

UTILITIES, CITIES AND POLITICAL SUBDIVISIONS

Attachment 5 - Utilities, Cities & Districts


	CCN	Type	District	County
Acton MUD	12971 & 20889	MUD	980502	Hood
Aqua Development, Inc.	12902 & 20867			
Aqua Texas INC	13201 & 21059			
Aqua Utilities, Inc.	11157 & 20453			
Bent Trail Water Company	12376			
Bethesda WSC	10089			
Brazos River Authority	1685000	RA	1685000	McLennan
Circle R Ranchettes POA	12298			
City of Alvarado				
City of Burleson				
City of Everman	10074			
City of Fort Worth	12311			
City of Granbury	10904 & 20356			
City of Kennedale	10090 & 20034			
City of Mansfield	11228 & 20487			
City of Midlothian	11706			
City of Venus				
Crest Water Company	12037			
Ellis County				
Elmcreek Water	11002			
Fall Creek Utility Company, Inc.	12884 & 20854			
Friendly Oaks WSC	11729			
Hood County				
Johnson County				
Johnson County SUD	10081		5090100	
Laguna Tres Inc.	11609			
Laguna Vista Ltd.	11983 & 20766			
Lake Granbury Water Improvement District		MUD	5310100	Hood
Monarch Utilities I, LP	12983			
Mountain Peak SUD	10908		5890550	Ellis
OUR WSC	12017			
Parker				
Rolling Hills Water Service, Inc.	12724			
Shady Grove Sewer System	20767			
Sky Harbour WSC	11077			
Sunrise Bay Well Owners Association	N0044			
T & M Water Utility	11855			
Tarrant County				
Tarrant County FWSD 1		FWSD	7644700	Tarrant
Tarrant Regional Water District		RA	7763500	Tarrant
Thorp Springs Water	12133			
Trinity River Authority of Texas		RA	8000000	Dallas

Texas H2O, Inc. to Aqua Texas, Inc.
1106 Clayton Lane, Suite 400W
Austin, Texas 78723
(512) 990-4400

ATTACHMENT 5- Utilities, Cities, Political Subd.

TCEQ Interoffice Memorandum

To: Debbie Reyes Tamayo
Utilities Financial Review Team

From: Fred Bednarski III 
Utilities Financial Review Team

Thru: Lisa Fuentes 
Utilities Financial Review Team

Date: June 30, 2014

Subject: Re: Application from Aqua Texas, Inc., Certificate of Convenience and Necessity (CCN) No. 13201 to Transfer and Cancel CCN No. 12809 held by Texas H2O in Hood, Johnson and Tarrant Counties; Application No. 37922-S

Application from Aqua Texas, Inc., Certificate of Convenience and Necessity (CCN) No. 21059 to Transfer and Cancel CCN No. 20814 held by Texas H2O in Hood, Johnson and Tarrant counties; Application No. 37923-S

CN: 601570773; RN: 106107709 (water) RN: 106107733 (sewer) (Aqua Texas)
CN: 600656201; RN: 101451862 (water) RN: 101274991 (sewer) (Texas H2O)

In my opinion, Aqua Texas, Inc. has demonstrated adequate financial and managerial capability to provide service to the area subject to this application. These conclusions are based on information provided by the applicant prior to this date and may not reflect any changes in the applicant's status subsequent to this date.

Texas H2O has submitted an application with the Texas Commission on Environmental Quality to sell facilities and transfer water and sewer service areas under CCN Nos. 12809 & 20814 in Hood, Johnson and Tarrant counties to Aqua Texas, Inc. The total area being requested includes approximately 2,130 acres water and 410 acres sewer and serves 1,088 current customers. This transaction will have no effect on the current customers' rates and services. Aqua Texas is a subsidiary of Aqua America, Inc. Aqua Texas, Inc. currently operates more than 375 water systems and 44 wastewater systems in Texas and has received a zero deficiency score on their most recent site visit for their system.

The Annual Financial Statements as of December 31, 2013 for AQUA AMERICA, INC and subsidiaries were reviewed, which received an unqualified opinion and include financial statements consolidating wholly owned and majority owned subsidiaries, with all intercompany transactions and balances eliminated. Aqua Texas, Inc., is a wholly owned subsidiary of AQUA AMERICA, INC. As of December 31, 2013 total equity of AQUA AMERICA, INC. was \$1.53 billion. AQUA AMERICA, INC's total long term debt to equity ratio at 12/31/2013 was \$1.46 billion to \$1.53 billion, or 0.95

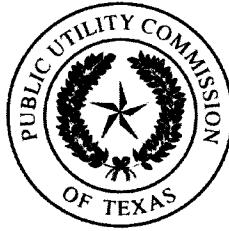
TCEQ Interoffice Memorandum

to 1.00. A ratio of less than 1 to 1 is preferred for analysis of financial/managerial capabilities. Operating income was \$305 million and depreciation was \$119 million. Cash flows from principle and interest payments on long term debt for FY13 were \$300 million. Therefore, the debt service coverage ratio calculates to be \$425 million to \$300 million or 1.41 to 1.00. A ratio of at least 1.25:1 is preferred when reviewing financial capability to ensure that reserve funds for debt payment and repairs and maintenance are built up and maintained.

APPLICATION BY TEXAS H2O, INC. TO SELL
FACILITIES IN HOOD, JOHNSON AND TARRANT
COUNTIES, TEXAS TO AQUA TEXAS, INC.

ATTACHMENT 6

FINANCIAL INFORMATION



House Bill (HB) 1600 and Senate Bill (SB) 567 83rd Legislature, Regular Session, transferred the functions and records relating to the economic regulation of water and sewer utilities from the TCEQ to the PUC effective September 1, 2014.

Central Records Personally Identifiable Information Audit

NOTICE OF REDACTION

Documents containing Personally Identifiable Information* have been redacted from electronic posting, in accordance with Texas privacy statutes.

*"Personally Identifiable Information" (PII) is defined to include information that alone or in conjunction with other information identifies an individual, including an individual's: Social security or employer taxpayer identification number, driver's license number, government-issued identification card number, or passport numbers, checking and savings account numbers, credit card numbers, debit card numbers, unique electronic identification number, address, or routing code, electronic mail names or addresses, internet account numbers, or internet identification names, digital signatures, unique biometric data, and mother's maiden name, marriage and any other numbers or information used to access an individual's financial account.

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Report On Internal Control Over Financial Reporting

Management of Aqua America, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In assessing the effectiveness of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework* (1992). As a result of management's assessment and based on the criteria in the framework, management has concluded that, as of December 31, 2013, the Company's internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.



Nicholas DeBenedictis
Chairman, President and Chief Executive Officer



David P. Smeltzer
Executive Vice President and Chief Financial Officer

March 3, 2014

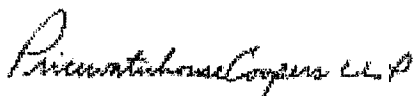
Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Aqua America, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of net income, of comprehensive income, of capitalization, of equity and of cash flows present fairly, in all material respects, the financial position of Aqua America, Inc. and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (“COSO”). The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we consider necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
March 3, 2014

APPLICATION BY TEXAS H2O, INC. TO SELL
FACILITIES IN HOOD, JOHNSON AND TARRANT
COUNTIES, TEXAS TO AQUA TEXAS, INC.

ATTACHMENT 7

OPERATORS

NTX OPERATOR LICENSES

Person ID	Name	Position	Certification #	Certification Description	Certification Level	Notes
100132	Boomer, John G.	Facility Operator II	WG0007969	Ground Water Treatment Operator	Class C	
100132	Boomer, John G	Facility Operator II	WW0007991	Wastewater Treatment Operator	Class C	
80452	Brannan, Taylor	Utility Technician I	WW0050392	Wastewater Collection Operator	Class I	
100423	Brewer, Charles W.	Facility Operator I	WG0007937	Ground Water Treatment Operator	Class C	
100423	Brewer, Charles W.	Facility Operator I	WW0019960	Wastewater Treatment Operator	Class D	
80309	Clark, Ben	Utility Technician I	WW0045883	Wastewater Collection Operator	Class I	
80309	Clark, Ben	Utility Technician I	13337248	CDL	Class A	
100425	Douglas, Gary D.	Field Supervisor	WG0008515	Ground Water Treatment Operator	Class B	
100425	Douglas, Gary D.	Field Supervisor	WW0012733	Wastewater Treatment Operator	Class C	
100426	Douglas, Terry S.	Facility Operator I	WG0007856	Ground Water Treatment Operator	Class C	
100800	Farris, Nola A.	Field Supervisor	WG0009712	Ground Water Treatment Operator	Class C	
100800	Farris, Nola A.	Field Supervisor	WW0036397	Wastewater Treatment Operator	Class C	
100368	Franklin, James H	Facility Operator II	WG0003367	Ground Water Treatment Operator	Class C	
100368	Franklin, James H	Facility Operator II	WW0005603	Wastewater Treatment Operator	Class C	
101953	Gordillo, Marty A.	Facility Operator II	WG0010513	Ground Water Treatment Operator	Class C	
101953	Gordillo, Marty A.	Facility Operator II	WW0043414	Wastewater Treatment Operator	Class C	
100413	Green, Gary B.	Facility Operator II	WG0001859	Ground Water Treatment Operator	Class C	
100413	Green, Gary B.	Facility Operator II	WW0036303	Wastewater Treatment Operator	Class C	
100737	Gregory, Anthony C.	Facility Operator II	WG0004906	Ground Water treatment Operator	Class C	
100737	Gregory, Anthony C.	Facility Operator II	WD0001918	Distribution System Operator	Grade C	
100737	Gregory, Anthony C.	Facility Operator II	WS0004609	Surface Water Treatment Operator	Class C	
100737	Gregory, Anthony C.	Facility Operator II	WW0023960	Wastewater Treatment Operator	Class C	
100737	Gregory, Anthony C.	Facility Operator II	CI0004970	Water-Customer Service Inspector	CSI	
100737	Gregory, Anthony C.	Facility Operator II	05370570	CDL	Class A-AN	
101437	Hernandez, Mike	Facility Operator III	WG0012864	Ground Water Treatment Operator	Class B	
101437	Hernandez, Mike	Facility Operator III	WW0040269	Wastewater Treatment Operator	Class B	
100114	Kocian, Mark A.	Field Supervisor	WG0008245	Ground Water Treatment Operator	Class C	
100114	Kocian, Mark A.	Field Supervisor	CI0004190	Water-Customer Service Inspector	CSI	
100114	Kocian, Mark A.	Field Supervisor	08538456	CDL	Class A	
80528	Ledbetter, Tom	Utility Technician Laborer				
102103	McDaniel, Jeremy J	Facility Operator II	WG0014140	Ground Water Treatment Operator	Class B	supercedes next one
102103	McDaniel, Jeremy J	Facility Operator II	WG0009035	Ground Water Treatment Operator	Class C	
102103	McDaniel, Jeremy J	Facility Operator II	WW0027874	Wastewater Treatment Operator	Class C	
102103	McDaniel, Jeremy J	Facility Operator II	CI0008330	Customer Service Inspector	CSI	

Texas H2O, Inc. to Aqua Texas, Inc.
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ATTACHMENT 7 - Operators

NTX OPERATOR LICENSES

Person ID	Name	Position	Certification #	Certification Description	Certification Level	Notes
80704	Metcalf, Paul	Facility Operator II	WO0032645	Water Operator	Class A	
80704	Metcalf, Paul	Facility Operator II	WW0005439	Wastewater Treatment Operator	Class C	
102248	Powell, Lance	Facility Operator III	WG0013685	Ground Water Treatment Operator	Class B	
102248	Powell, Lance	Facility Operator III	WW0045484	Wastewater Treatment Operator	Class B	
102248	Powell, Lance	Facility Operator III	WD0007609	Water Distribution Operator	Class C	
102248	Powell, Lance	Facility Operator III	01325110	CDL	A-N	
100370	Sanchez, Santos	Utility Technician Laborer				
100052	Sanders, Lonnie D.	Facility Operator III	WG0013898	Ground Water Treatment Operator	Class B	
100052	Sanders, Lonnie D.	Facility Operator III	WW0040027	Wastewater Treatment Operator	Class B	
100052	Sanders, Lonnie D.	Facility Operator III	CI0001524	Customer Service Inspector	CSI	
100052	Sanders, Lonnie D.	Facility Operator III	BP0003673	Backflow Testing - BPAT	BPAT	
102167	Slone, Tim	Field Operator I	WG0012026	Ground Water Treatment Operator	Class C	
100129	Smethers, Dickie L.	Field Supervisor	WG0005304	Ground Water Treatment Operator	Class B	
100129	Smethers, Dickie L.	Field Supervisor	WS0004928	Surface Water Treatment Operator	Class B	
100129	Smethers, Dickie L.	Field Supervisor	WW0010731	Wastewater Treatment Operator	Class B	
100371	Torres-Arvizu, Israel	Utility Technician Laborer	05209195	CDL	Class A	
80713	Tune, Jacob	Facility Operator I	WG0014321	Ground Water Treatment Operator	Class C	
101262	Valdez, Gerardo	Facility Operator III	WG0012443	Ground Water Treatment Operator	Class B	
101262	Valdez, Gerardo	Facility Operator III	WW0007461	Wastewater Treatment Operator	Class B	
100082	Waldock, Darryl G.	Area Manager	WO0010440	Water Operator	Class A	
100082	Waldock, Darryl G.	Area Manager	WW0010580	Wastewater Treatment Operator	Class A	
101168	Whittle, Kristopher A.	Facility Operator III	WG0012444	Groundwater Treatment Operator	Class B	
101168	Whittle, Kristopher A.	Facility Operator III	WW0043308	Wastewater Treatment Operator	Class B	
100137	York, Tommy W.	Facility Operator II	WG0008098	Ground Water Treatment Operator	Class C	
100137	York, Tommy W.	Facility Operator II	WW0010873	Wastewater Treatment Operator	Class C	
80902	Zint, Richard	Facility Operator II	WG0009091	Ground Water Treatment Operator	Class C	
80902	Zint, Richard	Facility Operator II	WW0030129	Wastewater Treatment Operator	Class C	
80902	Zint, Richard	Facility Operator II	CI0008893	Customer Service Inspector	CSI	

Revised info
Supersedes next item
Resigned/Terminated
Expired data
needs attention

updated 3/18/14

APPLICATION BY TEXAS H2O, INC. TO SELL
FACILITIES IN HOOD, JOHNSON AND TARRANT
COUNTIES, TEXAS TO AQUA TEXAS, INC.

ATTACHMENT 8

MAPS

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For more information
concerning this map, please contact the
Water Supply Division at (512) 239-4691.
04/10/2014

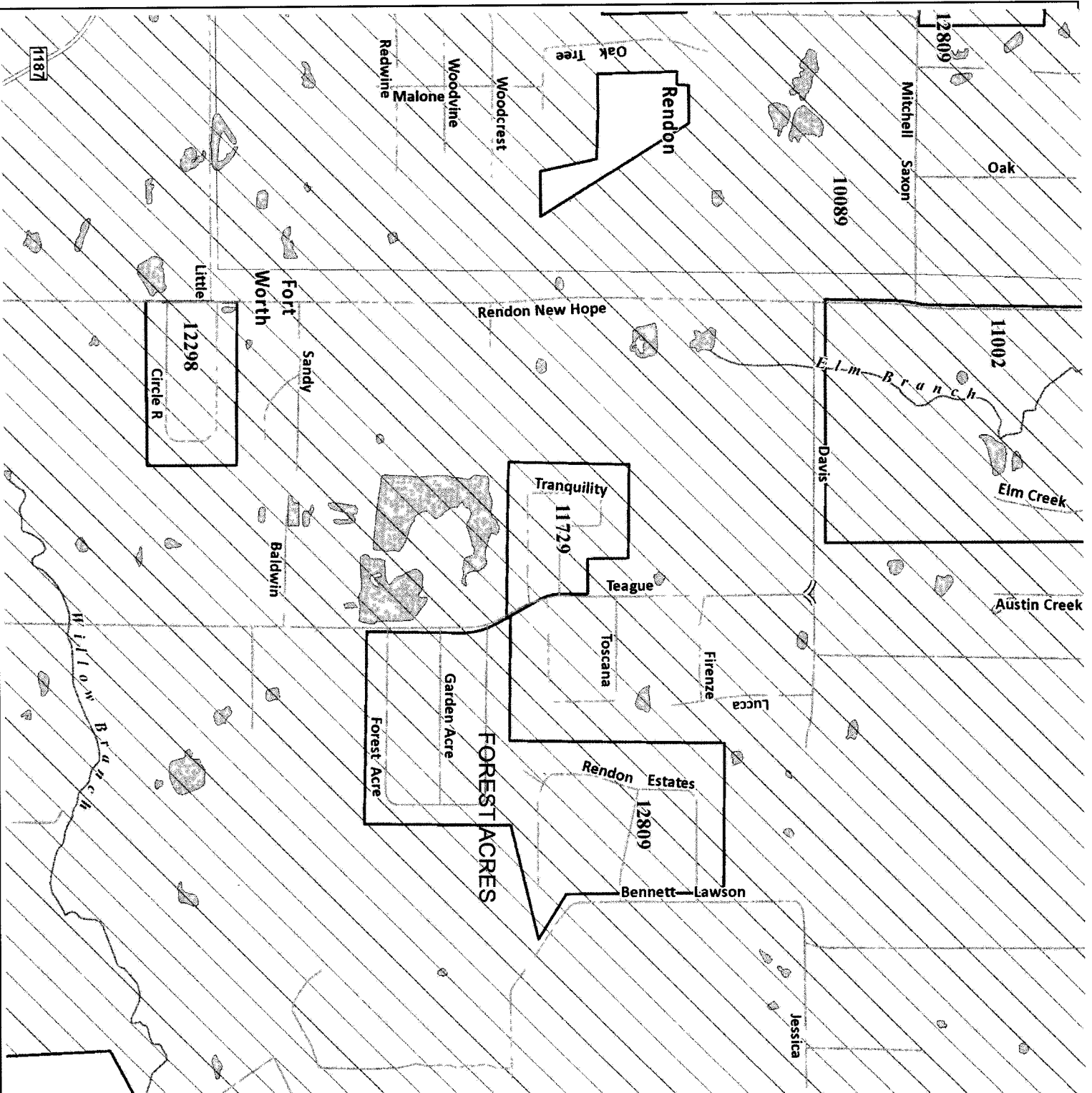
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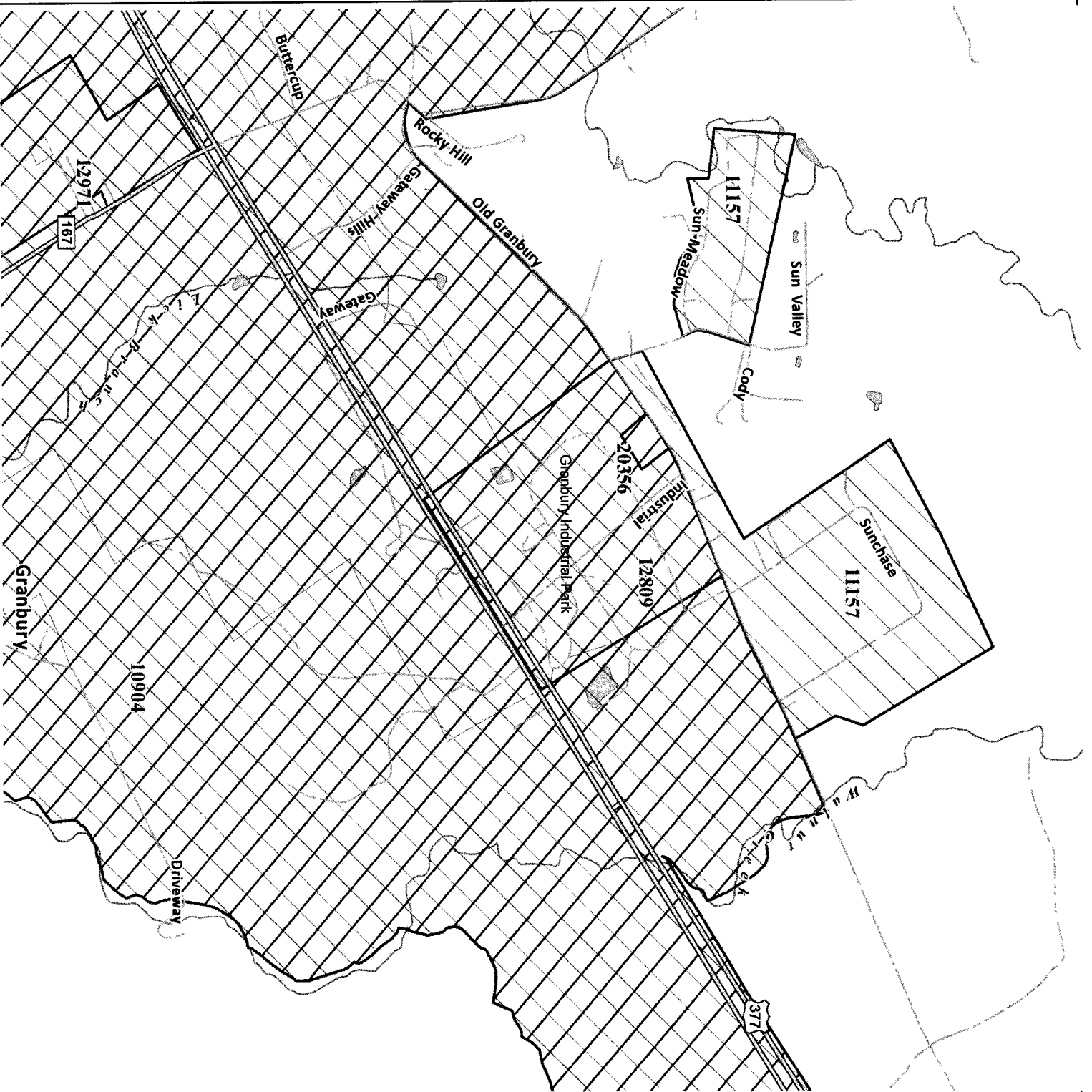
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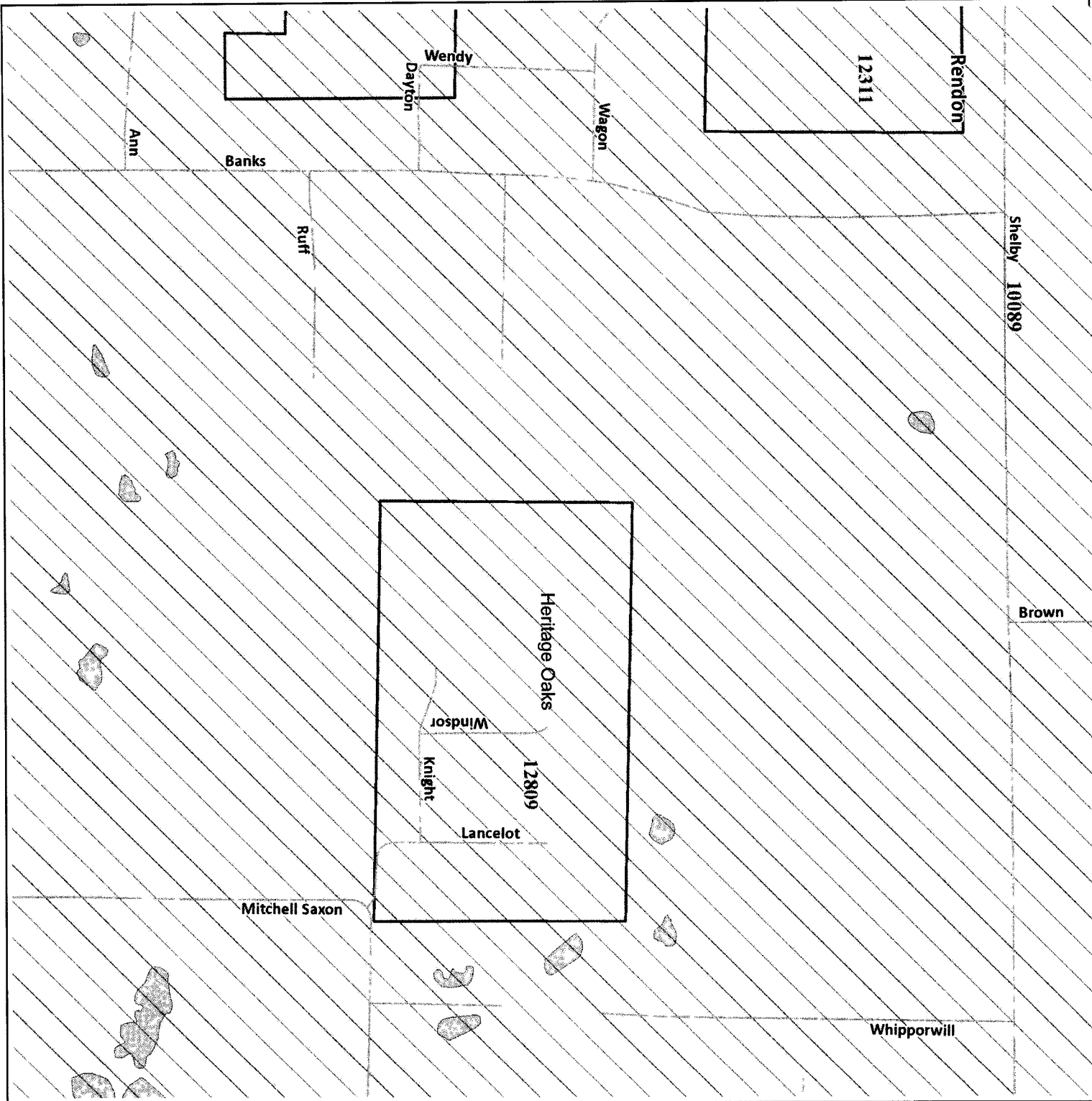
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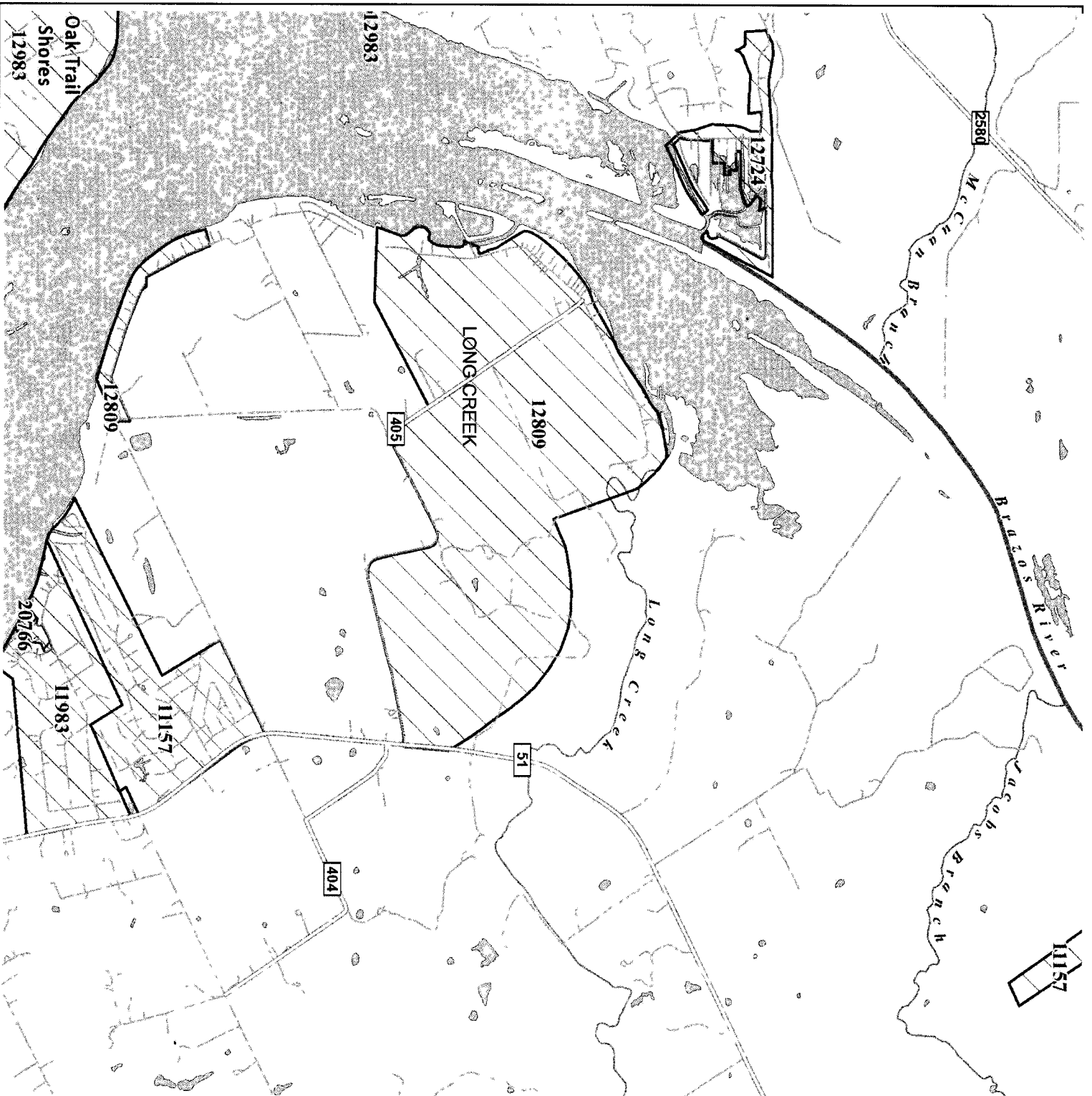
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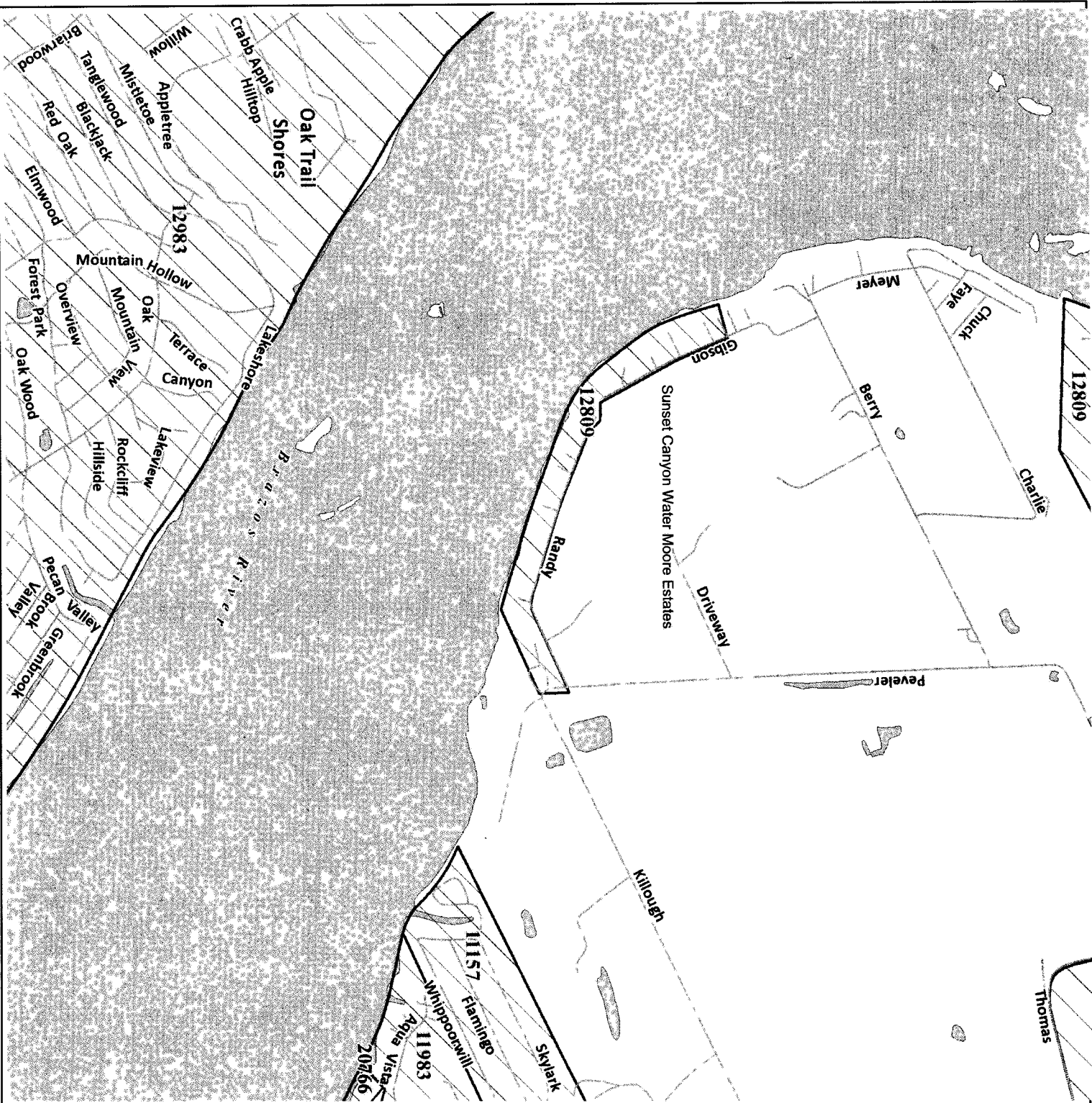
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APPLICATION BY TEXAS H2O, INC. TO SELL
FACILITIES IN HOOD, JOHNSON AND TARRANT
COUNTIES, TEXAS TO AQUA TEXAS, INC.

ATTACHMENT 9

INSPECTION REPORTS

CCK

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY



**IN THE MATTER OF AN
ENFORCEMENT ACTION
CONCERNING
TEXAS H₂O, INC.
RN101213411**

**§ BEFORE THE
§
§ TEXAS COMMISSION ON
§
§ ENVIRONMENTAL QUALITY**

**AGREED ORDER
DOCKET NO. 2013-1268-PWS-E**

I. JURISDICTION AND STIPULATIONS

On 8-30-13, the Texas Commission on Environmental Quality ("the Commission" or "TCEQ") considered this agreement of the parties, resolving an enforcement action regarding TEXAS H₂O, INC. (the "Respondent") under the authority of TEX. HEALTH & SAFETY CODE ch. 341. The Executive Director of the TCEQ, through the Enforcement Division, and the Respondent together stipulate that:

1. The Respondent owns and operates a public water supply at 2406 Christine Drive in Hood County, Texas (the "Facility") that has approximately 304 service connections and serves at least 25 people per day for at least 60 days per year.
2. The Executive Director and the Respondent agree that the Commission has jurisdiction to enter this Agreed Order, and that the Respondent is subject to the Commission's jurisdiction.
3. The Respondent received notice of the violations alleged in Section II ("Allegations") on May 28, 2013.
4. The occurrence of any violation is in dispute and the entry of this Agreed Order shall not constitute an admission by the Respondent of any violation alleged in Section II ("Allegations"), nor of any statute or rule.
5. An administrative penalty in the amount of One Hundred Sixty-Four Dollars (\$164) is assessed by the Commission in settlement of the violations alleged in Section II ("Allegations"). The Respondent has paid One Hundred Thirty-Two Dollars (\$132) of the administrative penalty and Thirty-Two Dollars (\$32) is deferred contingent upon the Respondent's timely and satisfactory compliance with all the terms of this Agreed Order. The deferred amount will be waived upon full compliance with the terms of this Agreed

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ATTACHMENT 9 – Inspection Reports

Order. If the Respondent fails to timely and satisfactorily comply with all requirements of this Agreed Order, the Executive Director may require the Respondent to pay all or part of the deferred penalty.

6. Any notice and procedures, which might otherwise be authorized or required in this action, are waived in the interest of a more timely resolution of the matter.
7. The Executive Director and the Respondent agree on a settlement of the matters alleged in this enforcement action, subject to final approval in accordance with 30 TEX. ADMIN. CODE § 70.10(a).
8. The Executive Director may, without further notice or hearing, refer this matter to the Office of the Attorney General of the State of Texas ("OAG") for further enforcement proceedings if the Executive Director determines that the Respondent has not complied with one or more of the terms or conditions in this Agreed Order.
9. This Agreed Order shall terminate five years from its effective date or upon compliance with all the terms and conditions set forth in this Agreed Order, whichever is later.
10. The provisions of this Agreed Order are deemed severable and, if a court of competent jurisdiction or other appropriate authority deems any provision of this Agreed Order unenforceable, the remaining provisions shall be valid and enforceable.

II. ALLEGATIONS

As owner and operator of the Facility, the Respondent is alleged to have:

1. Failed to provide two or more wells having a total capacity of 0.6 gallons per minute ("gpm") per connection, in violation of 30 TEX. ADMIN. CODE § 290.45(b)(1)(D) and TEX. HEALTH & SAFETY CODE § 341.0315(c), as documented during an investigation conducted on March 21, 2013. Specifically, the Facility's 304 connections require a minimum production capacity of 182.4 gpm. However, it was noted that only 163 gpm was provided, which is an 11% deficiency.
2. Failed to provide sufficient valves and blowoffs so that necessary repairs can be made without undue interruption of service over any considerable area, in violation of 30 TEX. ADMIN. CODE § 290.44(d)(5), as documented during an investigation conducted on March 21, 2013. Specifically, the investigator documented that the Facility lacks sufficient isolation valves and has had frequent line breaks which often result in a drop in pressure. The lack of sufficient valves throughout the distribution system has led to undue interruptions in service.
3. Failed to provide a certified copy of a boil water notice ("BWN") to the Executive Director, in violation of 30 TEX. ADMIN. CODE § 290.46(q)(1), as documented during an investigation conducted on March 21, 2013. Specifically, the Respondent did not provide to the Executive Director a copy and certification of a BWN issued on November 29, 2012.