

- D. List in the table below, the number of existing and/or proposed metered and non-metered connections (by size). The proposed number should reflect the information presented in the business plan or financial documentation and reflect the number of service requests identified in Question 2.b in the application.

Water System			Sewer System		
Connection	Existing	Proposed	Connection	Existing	Proposed
5/8" or 3/4" meter	2954	400	Residential	0	0
1" meter or larger	0	0	Commercial	0	0
Non-Metered	0	0	Industrial	0	0
Other:	0	0	Other:	0	0
Total Water	2954	400	Total Sewer	0	0

- E. If this application is for a water CCN only, please explain how sewer service is or will be provided:
Existing individual septic systems

- F. If this application is for a sewer CCN only, please explain how water service is or will be provided:
n/a

- G Effect of Granting a Certificate Amendment.

Explain in detail the effect of granting of a certificate or an amendment, including, but not limited to regionalization, compliance and economic effects on the following:

- i the applicant,
- ii any retail public utility of the same kind already serving the proximate area; and
- iii any landowner(s) in the requested area.

- H Do you currently purchase or plan to purchase water or sewer treatment capacity from another source?

- i NO ____ (skip the rest of this question and go to #6)
- ii Water x YES
Purchased on a ____ regular ____ seasonal ____ Emergency basis?

Source	% of Total Treatment
City of Terrell	Emergency Use Only
North Texas Municipal Water District	100%

- iii Sewer treatment capacity,
- iv YES ____
Purchased on a ____ regular ____ seasonal ____ Emergency basis?

Source	% of Total Treatment

- vi Provide a signed and dated copy of the most current water or sewer treatment capacity purchase agreement or contract.

I. Ability to Provide Adequate Service.

Describe the ability of the applicant to provide adequate service, including meeting the standards of the commission, taking both of the following items into consideration:

- i. the current and projected density, and
- ii. the land use of the requested area.

J Effect on the Land.

Explain the effect on the land to be included in the certificated area.

6. FINANCIAL INFORMATION

A. For new systems and for applicants with existing CCNs who are constructing a new stand alone system:

- i. the applicant must provide an analysis of all necessary costs for constructing, operating, and maintaining the system, and the source of that capital (such as a financial statement for the developing entity) for which the CCN is requested for at least the first five years. In addition, if service has been offered by an existing water service provider as stated in #4.A., but the applicant has determined that the cost of service as finally offered renders the project not economically feasible, the applicant must provide a comparison analysis of all necessary costs for acquiring and continuing to receive service from the existing system for the same period.
- ii. Attach projected profit and loss statements, cash flow worksheets, and balance sheets (projected five year financial plan worksheet is attached) for each of the first five years of operation. Income from rates should correlate to the projected growth in connections, shown on the projected profit and loss statement.
- iii. Attach a proposed rate schedule or tariff. Describe the procedure for determining the rates and fees and indicate the date of last change, if applicable. Attach copies of any cost of service studies or rate analysis worksheets.

B. For existing systems:

- i. Attach a profit and loss statement and current balance sheet for existing businesses (end of last fiscal year is acceptable). Describe sources and terms for borrowed capital such as loans, bonds, or notes (profit and loss and balance sheet worksheets are attached, if needed).

- ii. Attach a proposed rate schedule or tariff.

★NOTE: An existing system may be required to provide the information in 6.A.i. above during the technical review phase if necessary for staff to completely evaluate the application.

C. Identify any funds you are required to accumulate and restrict by lenders or capital providers.

D. In lieu of the information in #6.A. thru #6.C., you may provide information concerning loan approvals within the last three (3) years from lending institutions or agencies including the most recent financial audit of the applicant.

Note: Failure to provide adequate financial information may result in the delay or possible denial of your application.

7. **NOTICE REQUIREMENTS**

A. All proposed notice forms must be completed and submitted with the application. However, do not mail or publish them until you receive written approval from the Commission to do so.

B. The Commission cannot grant a CCN until proper notice of the application has been given. **Commission rules do not allow a waiver of these notice requirements for CCN applicants.**

C. **It is the applicant's responsibility to ensure that proper notice is given to all entities that are required to receive notice.**

D. Recommended notice forms for publication, neighboring cities and systems, landowners with 25 acres or more, and customers are included with this application to use in preparing your proposed notices. (These notice forms are also available in Spanish upon request.)

E. After reviewing and, if necessary, modifying the proposed notice, the Commission will send the notice to the applicant after the application is accepted for filing along with instructions for publication and/or mailing. Please review the notice carefully and note any additional neighboring utilities which may be included in the acceptance letter.

F. Notice For Publication:

The applicant shall publish the notice in a newspaper having general circulation in the county or counties where a CCN is being requested, once each week for two consecutive weeks beginning with the week after the notice is received from the Commission. Proof of publication in the form of a publisher's affidavit shall be submitted to the Commission within 30 days of the last publication date. The affidavit shall state with specificity each county in which the newspaper is of general circulation.

G. Notice To Neighboring Utilities:

- i. List all neighboring retail public utilities and cities providing the same utility service within the following vicinities of the applicant's proposed certificate area.
- ii. For applications for the issuance of a **NEW CCN**, the applicant must mail the notice with a copy of the proposed CCN map to all cities and neighboring retail public utilities providing the same utility service within **five (5) miles** of the requested service area.
- iii. For applications for the **AMENDMENT** of a CCN, the applicant must mail the notice with a copy of the proposed CCN map to all cities and neighboring retail public utilities providing the same utility service within **two (2) miles** of the requested service area.

H. Notice to Customers

Investor Owned Utilities (IOUs) that are currently providing service without a CCN must provide individual mailed notice to all current customers. The notice must contain the current rates, the date those rates were instituted and any other information required in the application. The notice must also list all zip codes affected by the application.

I. The Commission may require the applicant to deliver notice to other affected persons or agencies.

Do not publish or send copies of the proposed notices to anyone at the time you submit the application to the Commission. Wait until you receive written authorization to do so. This will occur after the Commission has reviewed the notices for completeness, and your application has been accepted for filing. Once the application is accepted for filing, you will receive written authorization to provide notice. Please check the notices for accuracy before providing them to the public. It is the applicant's burden to ensure that correct and accurate notice is provided.

OATH

STATE OF Texas
COUNTY OF Kaufman

I, Shirley Blakey, being duly sworn, file this application as General Manager (indicate relationship to Applicant, that is, owner, member of partnership, title as officer of corporation, or other authorized representative of Applicant); that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the maps and financial information filed with this application, and have complied with all the requirements contained in this application; and, that all such statements made and matters set forth therein are true and correct. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Texas Commission on Environmental Quality.

I further represent that the application form has not been changed, altered or amended from its original form available only from the Commission.

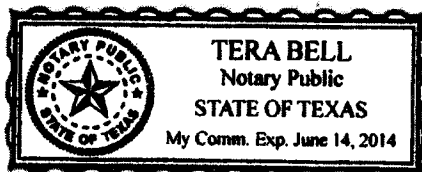
I further represent that the Applicant will provide continuous and adequate service to all customers and qualified applicants for service within its certificated service area.

Blakey
AFFIANT
(Utility's Authorized Representative)

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

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public in and for the State of Texas, this
day 25th of July, 2011.

SEAL



Tera Bell
NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS

Tera Bell
PRINT OR TYPE NAME OF NOTARY

MY COMMISSION EXPIRES 6-14-14

COLLEGE MOUND WATER SUPPLY CORPORATION

ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2010

RUTHERFORD, TAYLOR & COMPANY, P.C.

Certified Public Accountants
2802 Washington Street
Greenville, Texas 75401
(903) 455-6252

COLLEGE MOUND WATER SUPPLY CORPORATION
ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2010

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COLLEGE MOUND WATER SUPPLY CORPORATION
ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2010

OFFICERS AND DIRECTORS

President..... Maurice Pittman
Vice President..... Jerry Gee
Secretary/Treasurer..... Chuck Currie
Director..... Rick King
Director..... Stephen Harris
Director..... Jason Lengacher
Director..... Thomas Atwood

General Manger..... Shirley Blakely

RUTHERFORD,
TAYLOR &
COMPANY, P.C.
Certified Public Accountants

2802 Washington Street

Greenville, Texas 75401

(903) 455-6252

Fax (903) 455-6667

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
College Mound Water Supply Corporation

We have audited the accompanying balance sheet of College Mound Water Supply Corporation (Corporation), a non-profit organization, as of December 31, 2010, and the related statements of income and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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 College Mound Water Supply Corporation as of December 31, 2010, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

March 16, 2011
Greenville, Texas

FINANCIAL STATEMENTS

COLLEGE MOUND WATER SUPPLY CORPORATION
BALANCE SHEET
DECEMBER 31, 2010

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	326,417
Accounts Receivable		147,384
Notes Receivable, Current Portion		53,628
Interest Receivable		279
Prepaid Supplies and Materials		538,245
Prepaid Expenses		25,855
		<hr/>
Total Current Assets	\$	1,091,808

Restricted Assets:

Texas Bank & Trust Memberships	\$	250,344
Shadow Lakes Money Market		9,259
Bond Fund Retirement Money Market		22,202
ANB Trust Reserve Fund		265,614
ANB Bond Principal		201,558
ANB Bond Interest		23,020
		<hr/>
Total Restricted Assets	\$	771,997

Non-Current Assets:

Property and Equipment, Net	\$	6,551,984
Bond Issuance Costs, Net		5,731
Notes Receivable, less Current Portion		87,718
		<hr/>
Total Non-Current Assets	\$	6,645,433
		<hr/>
Total Assets	\$	8,509,238

The accompanying notes are an integral part of this statement.

COLLEGE MOUND WATER SUPPLY CORPORATION
BALANCE SHEET
DECEMBER 31, 2010

LIABILITIES AND EQUITY

Current Liabilities:

Accounts Payable	\$	43,700
TCEQ Assessment Payable		11,062
Accrued Interest Payable		22,863
Accrued Vacation Payable		19,100
Due to Shadow Lakes		9,259
Current Portion of Long Term Debt		565,923

Total Current Liabilities	\$	671,907
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Non-Current Liabilities:

Membership Deposits	\$	323,300
Long Term Debt less Current Portion		941,297

Total Non-Current Liabilities	\$	1,264,597
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Total Liabilities	\$	1,936,504
-------------------	----	-----------

EQUITY

Retained Earnings	\$	6,572,734
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Total Equity	\$	6,572,734
--------------	----	-----------

Total Liabilities and Equity	\$	8,509,238
------------------------------	----	-----------

The accompanying notes are an integral part of this statement.

COLLEGE MOUND WATER SUPPLY CORPORATION
STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2010

OPERATING INCOME

Water Sales	\$ 2,009,199
Impact, Installation, and Related Fees	265,702
	<hr/>
Total Operating Income	\$ 2,274,901

OPERATING EXPENSES

Payroll and Benefits	\$ 380,963
Water Purchases	593,281
Repairs and Maintenance/Supplies	65,486
Utilities	81,350
Insurance	168,248
Depreciation	558,316
Amortization	19,321
Other Operating Expenses	141,230
Professional Fees	9,847
	<hr/>
Total Operating Expenses	\$ 2,018,042

Operating Income Over (Under) Operating Expenses	\$ 256,859
--	------------

NON-OPERATING INCOME (EXPENSE)

Interest Income	\$ 4,171
Interest Expense	(84,878)
Gain(Loss) on Sale of Fixed Assets	7,185
	<hr/>

Net Non-Operating Income (Expense)	\$ (73,522)
------------------------------------	-------------

Net Income (Expense)	\$ 183,337
----------------------	------------

Retained Earnings - January 1 (Beginning)	<hr/> 6,389,397
---	-----------------

Retained Earnings - December 31 (Ending)	<u>\$ 6,572,734</u>
---	----------------------------

The accompanying notes are an integral part of this statement.

COLLEGE MOUND WATER SUPPLY CORPORATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 2,292,803
Cash Payments for Goods and Services	(1,533,729)
Cash Payments to Employees	(378,733)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 380,341</u>
Cash Flows from Investing Activities:	
Change in Restricted Assets	\$ 45,555
Purchase of Property & Equipment	(516,140)
Proceeds on Sale of Fixed Assets	8,480
Interest Received	3,892
Net Cash Provided by (Used for) Investing Activities	<u>\$ (458,213)</u>
Cash Flows from Financing Activities:	
Change in Memberships	\$ (1,950)
Payments Received on Notes Receivable	53,628
Principal Payments on Notes Payable	(329,109)
Interest Payments on Notes Payable	(93,682)
Proceeds of New Debt	270,000
Net Cash Provided by (Used for) Financing Activities	<u>\$ (101,113)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (178,985)</u>
Cash and Cash Equivalents - Beginning (January 1)	<u>505,402</u>
Cash and Cash Equivalents - Ending (December 31)	<u>\$ 326,417</u>
Reconciliation of Change in Assets to Net Cash Provided by Operating Activities	
Operating Income Over (Under) Operating Expense	\$ 256,859
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation Expense	558,316
Amortization Expense	19,321
(Increase) Decrease in Accounts Receivable	17,902
(Increase) Decrease in Prepaid Expenses	(604)
(Increase) Decrease in Prepaid Supplies and Materials	(463,603)
Increase (Decrease) in Accounts Payable	(11,445)
Increase (Decrease) in TCEQ Assessment Payable	1,365
Increase (Decrease) in Payroll Taxes Payable	(1,226)
Increase (Decrease) in Accrued Vacation Payable	3,456
Net Cash Provided by (Used for) Operating Activities	<u>\$ 380,341</u>

The accompanying notes are an integral part of this statement.

COLLEGE MOUND WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

A. Statement of Operations

The College Mound Water Supply Corporation (Corporation) is a not-for-profit entity organized under the laws of the State of Texas. The Corporation exists to provide potable water service to the unincorporated community of Terrell and the surrounding area. Management rests with the Board of Directors elected by the members. The Board controls the issuance of contracts, payment of funds, investment decisions and establishment of accounting guidelines.

B. Summary of Significant Accounting Policies

1. Basis of Accounting

The organization's financial statements are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. This basis of accounting recognizes revenues in the accounting period in which they are earned, and expenses in the accounting period in which the liability is incurred, regardless of when the related cash flows take place.

2. Basis of Presentation

The Financial Accounting Standards Board issued Statement 117, *Financial Statements of Not-for-Profit Organizations* (SFAS 117). SFAS 117 provides standards for external financial statements of certain types of nonprofit organizations. Member owned utility corporations do not meet the definition of a not-for-profit organization under SFAS 117. As such, these financial statements are presented in the format of a small business.

3. Use of Estimates

The preparation of financial statements in conformity with the accrual basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, investments are considered cash equivalents if they are highly liquid with a maturity of ninety days or less.

5. Fair Value of Financial Instruments

The carrying amount of the Corporation's cash, investments and debt approximates market value at December 31, 2010.

6. Federal Income Taxes

The College Mound Water Supply Corporation is exempt from Federal Income Taxes under Section 501(c)(12) of the Internal Revenue Code. This exemption was approved by the Internal Revenue Service and the service has identified the Corporation as an entity other than a private foundation.

7. Depreciation

Depreciation of property and equipment is provided on a straight-line method over the estimated useful lives of the assets. The following lists the classes of property, plant and equipment and their respective depreciable lives.

Water Distribution System	15-40 Years
Buildings and Improvements	31-50 Years
Furniture and Fixtures	5-10 Years
Vehicles and Equipment	3-10 Years

COLLEGE MOUND WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

B. Summary of Significant Accounting Policies (Continued)

8. Current and Long-Term Notes

Allocations between current and long-term notes are classified according to the requirements within the next twelve months as compared to the requirements after the next twelve months.

9. Vacation, Sick Leave and Other Compensated Absences

Employees are entitled to certain compensated absences based on their length of employment. At December 31, 2010, the Corporation had accrued \$ 19,100 in compensated absences.

10. Prepaid Expenses, Supplies and Materials

Prepaid expenses, supplies and materials consist of supplies and repair parts for the distribution system, valued at cost. The cost of supplies and materials is recorded as an expense when consumed rather than when purchased.

11. Debt Costs

Debt issuance costs are included in noncurrent assets. Unamortized premium or discounts and refunding gains or losses are reflected in net long-term obligations. Both debt issuance costs and other debts are amortized over the lives of the related debt issues using the straight line method

C. Cash and Cash Equivalents

Cash and Cash Equivalents are comprised of the following:

	December 31, 2010
Petty Cash	\$ 600
Texas Bank & Trust – Operating	184,781
American National Bank – Operating	24,175
Primevest Money Market	116,861
Cash and Cash Equivalent Available for Operations	<u>\$ 326,417</u>

During 2010, the Corporation's operating account was maintained at the American National Bank, Terrell, Texas and Texas Bank & Trust. These institutions are members of the Federal Deposit Insurance Corporation (FDIC). Deposits at Texas Bank & Trust exceeded FDIC insurance limits at various times during the year and at December 31, 2010, exposing the Corporation to custodial credit risk.

D. Restricted Assets

As of December 31, 2010, the Corporation held restricted assets as follows:

Texas Bank & Trust - Memberships	\$ 250,344
American National Bank – Shadow Lakes	9,259
American National Bank – Bond Retirement MM	22,202
American National Bank – Reserve Fund/Trust	265,614
American National Bank – Bond Principal	201,558
American National Bank – Bond Interest	<u>23,020</u>
Total Restricted Assets	<u>\$ 771,997</u>

COLLEGE MOUND WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

D. Restricted Assets (Continued)

Texas Bank and Trust – This account, held at Texas Bank and Trust, represents the amount held in trust for memberships paid to the Corporation by individuals for initialization of services.

American National Bank – Shadow Lakes M.M. – This account, held at American National Bank, represents the amount held in trust for Shadow Lakes Development Corporation for system installation services within the sub-division.

American National Bank – Bond Fund Retirement M.M. – This account, held at American National Bank, represents the amount held in trust for bond principal retirement.

American National Bank – CMWSC Reserve 2001 – This account, held at American National Bank, represents the amount required by the note agreement to be held as a compensating balance by the Corporation.

American National Bank – Bond Principal – This account, held at American National Bank, represents amounts set aside by Corporation for next maturing principal payment on note.

American National Bank – Bond Interest – This account, held at American National Bank, represents amounts set aside by Corporation for next maturing interest payment on note.

E. Notes Receivable

On December 14, 2005, the Corporation sold a portion of its Certificate of Convenience and Necessity (CCN) to Hunt Realty in exchange for a cash down payment, and a note receivable in the amount of \$ 620,550. The contract calls for quarterly payments of \$ 13,407. At December 31, 2010, the balance on the note was \$ 141,346.

Requirements of the note receivable are as follows:

<u>Year Ending December 31</u>	<u>Receivable Amount</u>
2011	\$ 53,628
2012	53,628
2013	34,090
Total	<u>\$ 141,346</u>

F. Long-Term Obligations

The Corporation's long-term obligations consist of the following notes:

<u>Lein Holder</u>	<u>Interest Rate</u>	<u>Original Balances</u>	<u>Outstanding Balances</u>
Taxable Revenue Refunding and Equipment Acquisition Bonds, Series 2001 –	7.60%	\$ 2,240,000	\$ 890,000
Texas Bank and Trust Company – Loan #70026686	5.0% – 7.5%	868,000	360,809
Texas Bank and Trust Company – Loan #70027850	4.25%	270,000	270,000
Totals			<u>\$ 1,520,809</u>

COLLEGE MOUND WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

F. Long-Term Obligations (Continued)

	Beginning Balances 01/01/10	Additions	Deletions	Ending Balances 12/31/10	Current Portion of Debt
Equipment Acquisition					
Bonds Series 2001	\$ 1,125,000	\$ -	\$ 235,000	\$ 890,000	\$ 255,000
Texas Bank and Trust	454,918	-	94,109	360,809	97,779
Texas Bank and Trust	-	270,000	-	270,000	213,144
Unamortized Discount	(27,181)	-	(13,591)	(13,590)	-
Total Debt Payable:	\$ 1,552,737	\$ 270,000	\$ 315,518	\$ 1,507,219	\$ 565,923

In 2001, the Corporation issued "Taxable Revenue Refunding and Equipment Acquisition Bonds, Series 2001," for the specific purpose of distribution system upgrades. The bonds incur interest at an annual rate of 7.60%. The balance at December 31, 2010 is \$ 890,000.

On June 26, 2009, the Corporation executed a loan agreement with Texas Bank and Trust Company in the amount of \$ 500,000. The loan requires monthly principal and interest payments totaling \$ 9,268 over sixty (60) months, and incurs interest at an annual rate of 4.25%. The balance at December 31, 2010 is \$ 360,809.

On January 15, 2011, the Corporation executed a loan agreement with Texas Bank and Trust Company in the amount of \$ 270,000. The loan requires monthly principal and interest payments totaling \$ 20,000 over fourteen (14) months, and incurs interest at an annual rate of 4.25%. The funds were received by the Corporation in December 2010 and the balance at December 31, 2010 is \$ 270,000.

Maturities for long-term debt are as follows.

Year Ending December 31	Principal	Interest	Total Requirements
2011	\$ 565,923	\$ 78,248	\$ 644,171
2012	433,873	50,126	483,999
2013	406,438	20,743	427,181
2014	114,575	2,953	117,528
Totals	\$ 1,520,809	\$ 152,070	\$ 1,672,879

G. Property and Equipment

Property and Equipment used in the Corporation's operations are recorded at historical cost or estimated historical cost if actual historical cost is not available. Material expenses that increase the estimated useful life of the assets are capitalized. Expenses with a unit value under \$ 1,000 and maintenance and repairs, renewals and betterments which do not extend the asset's useful life are charged to expense when incurred.

COLLEGE MOUND WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

G. Property and Equipment (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Land	\$ 147,044	\$ -	\$ -	\$ 147,044
Construction in Progress	16,387	351,981	-	368,368
Buildings and Improvements	148,722	-	-	148,722
Furniture and Equipment	121,270	-	-	121,270
Vehicles and Equipment	442,743	22,704	27,268	438,179
Water Distribution System	12,148,237	141,455	-	12,289,692
Capital Assets at Historical Cost	\$ 13,024,403	\$ 516,140	\$ 27,268	\$ 13,513,275
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 107,923	\$ 4,319	\$ -	\$ 112,242
Furniture and Equipment	105,202	2,474	-	107,676
Vehicles and Equipment	282,488	44,650	25,973	301,165
Water Distribution System	5,933,335	506,873	-	6,440,208
Total Accumulated Depreciation	\$ 6,428,948	\$ 558,316	\$ 25,973	\$ 6,961,291
Property, Plant and Equipment, Net	\$ 6,595,455	\$ (42,176)	\$ 1,295	\$ 6,551,984

H. Risk Management

The Corporation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the 2010 year, the Corporation purchased commercial insurance to cover these liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

I. Employee Retirement Plan

The Corporation provides a simple IRA retirement plan that is available for all employees. Employees may contribute up to 3% of their eligible compensation with the Corporation matching the total contribution of the employee. At December 31, 2010, the Corporation had contributed \$ 17,812 to the plan.

J. Membership Deposits

The Corporation requires each new customer to pay \$100, which is held as a refundable deposit to secure payment of the customer's final water bill. At December 31, 2010, the Corporation's obligation totaled \$ 323,300 .

K. Litigation

The corporation does not appear to be involved in any litigation as of December 31, 2010.

COLLEGE MOUND WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

L. Prepaid Supplies and Materials

During the year ended December 31, 2010, the Board approved the purchase of new meters to replace existing meters on the system. 3,308 meters were purchased at a cost of \$529,280 and recorded as "Prepaid Supplies and Materials" until such time as they are placed into the system. At year end, only 357 meters had been placed in service, leaving \$ 472,160 still in Prepaid Supplies and Materials. Together with other repair and maintenance items normally recorded, "Prepaid Supplies and Materials" totaled \$538,245 at year end.

**City of Terrell
Wholesale Potable Water Supply Contract**

College Mound Water Supply Corporation

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LIST OF EXHIBITS

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THE STATE OF TEXAS
COUNTY OF KAUFMAN

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WHOLESALE POTABLE
WATER SUPPLY CONTRACT

This Wholesale Potable Water Supply Contract ("Agreement") is made and entered into by and between **CITY OF TERRELL** ("Terrell"), a home rule municipality and political subdivision of the State of Texas, and the **COLLEGE MOUND WATER SUPPLY CORPORATION** ("College Mound"), a Water Supply Corporation formed under the laws of the State of Texas.

RECITALS

1. Terrell is a home-rule city that owns and operates a water system for the benefit of its citizens.
2. Terrell's raw water supplies consist of an impoundment known as New Terrell City Lake and a raw water supply contract with the Sabine River Authority.
3. Historically, Terrell's raw water supplies have consisted of an impoundment known as New Terrell City Lake and a raw water supply contract with the Sabine River Authority. Terrell also has operated a water treatment plant to treat water for supply to its retail and wholesale customers.
4. On April 22, 2004, Terrell entered into a contract with North Texas Municipal Water District ("NTMWD") under which Terrell would receive treated water from NTMWD. Terrell would then use its water supply system to distribute the water to its retail and wholesale customers.

City of Terrell
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5. In order to convert from Terrell's historical water production treatment and distribution system to the water system obtaining treated water from NTMWD, Terrell had to construct water storage and pumping facilities on the West side of Terrell. These facilities, along with water distribution system improvement, required a substantial outlay of capital by the City of Terrell.
6. Terrell and College Mound are authorized to enter into this Agreement pursuant to the laws of the State of Texas.

AGREEMENT

For and in consideration of the mutual promises, covenants, obligations, and benefits described in this Agreement, Terrell and College Mound agree as follows:

SECTION 1 DEFINITIONS

1. "City Manager" is the City Manager of the City of Terrell or his designee.
2. "Commission" means the Texas Commission on Environmental Quality and its predecessor and successor agencies.
3. "Common-To-All System" means all of Terrell's water supply system that, directly or indirectly, benefits any Wholesale customer, including but not limited to, raw water supply, storage and diversion facilities, raw water transmission facilities, water treatment facilities, water transmission lines of a diameter of twelve inches or greater, water transmission lines not exclusively used for in city use, storage facilities, elevated storage facilities, and pumping facilities.

4. "Contract Quantity" is the amount of water on an annual basis that Terrell agrees to provide College Mound. The Contract Quantity from the Effective Date of this Agreement until the end of the first Fiscal Year shall be 110 million gallons per year (equivalent to an annual average of 0.3 MGD). For subsequent Fiscal Years, the Contract Quantity shall be the greater of 110 million gallons per year or the maximum amount of water taken during any Fiscal Year.
5. "Fiscal Year" is the fiscal year of Terrell beginning on October 1 and extending through September 30 of the following year.
6. "Maximum Daily Amount" means 2.5 times the Contract Quantity expressed as an annual average, which is the maximum daily usage of water supplied under this Agreement to College Mound during a single 24 hour period. If during any Fiscal Year, College Mound exceeds the Maximum Daily Use on more than three days, the Contract Quantity shall be increased to an amount determined by dividing the maximum amount of water used by College Mound during a day by 2.5.
7. "MGD" is a million gallons per day.
8. "Terrell Wholesale Rate" is the rate charged for water provided under this Agreement.
9. "Wholesale Customers" are entities that receive treated water from Terrell for the purpose of serving the Wholesale Customers' retail water customers.
10. "Wholesale Water Advisory Board" consists of one member from each wholesale customer. The Wholesale Water Advisory Board shall exchange information with Terrell regarding water supply issues and execute other functions as specified in this Agreement.

11. "College Mound System" is all necessary College Mound mains and distribution facilities on the College Mound side of the meter from and beyond the Point(s) of Delivery as defined in Section 12.

SECTION 2 TERM

This Agreement shall be effective on the date it is signed by Terrell's authorized representative ("Effective Date"), as shown on the signature page of this Agreement, and shall continue in effect for a period of 40 years from the effective date unless this Agreement is terminated sooner because Terrell and College Mound both agree to terminate this Agreement, or this Agreement is terminated pursuant to its terms.

Terrell further grants to College Mound an option to extend this Agreement for an additional twenty (20) year term following the expiration of the primary term on the following conditions:

(1) Notice by College Mound to Terrell of its intention to exercise its option, which shall be given not later than twelve (12) months prior to the termination of the primary term hereof;

(2) Agreement between College Mound and Terrell on all terms and conditions which shall apply during the extended term, including the Contract Quantity, wholesale water rate and all other provisions. Failure of College Mound and Terrell to agree upon mutually satisfactory terms prior to the expiration of the primary term hereof, shall terminate this Agreement effective upon the termination of the primary term.

SECTION 3 VOLUME

A Annual Amount

Subject to the limitations and conditions described in this Agreement and Terrell's contract with the NTMWD, Terrell agrees to sell College Mound up to 110 million gallons per year (equivalent to 0.3 MGD) ("Contract Quantity") of potable water at the Point(s) of Delivery described in this Agreement.

B Maximum Daily Amount

Subject to the limitations and conditions described in this Agreement, Terrell agrees to provide College Mound a Maximum Daily Amount of up to 0.751 MGD of potable water at the Point(s) of Delivery described in this Agreement. At Terrell's sole discretion, the rate at which water is withdrawn from Terrell System by College Mound may be regulated by physical means including, but not limited to, pumps or other approved methods.

SECTION 4 RATES

A Method of Rate Determination

Water rates will be based upon the cost-of-service using the cash basis and rate design methodology that is set forth in the City of Terrell's Wholesale Water Agreement with NTMWD dated April 22, 2004 and attached hereto as Exhibit 1 and shall be applied to the City of Terrell's Common To All delivery system. Based upon this methodology, calculation of the Terrell Wholesale Rate as of the Effective Date of this Agreement are attached and incorporated herein as Exhibit 2.

B Rate Adjustment

College Mound understands that the Terrell City Council has the right to annually revise the rates charged to cover all reasonable, actual, and expected costs. Revision of rates shall be pursuant to the provisions set forth in this contract. Terrell shall use the following procedure when revising rates:

a) Changes In Costs Or Changes In Billing Units

Terrell will compile and analyze water use and fiscal data from the previous year for the Common-To-All System by April 1 of the current year. By May 1 of the current year, College Mound will provide Terrell with the College Mound water consumption projections for the current year and the ensuing year. Terrell will provide College Mound with the proposed Terrell Wholesale Rate by July 1 of the current year using the methodology in Exhibit 2.

b) Major Rate Changes

Prior to changing the cost categories, allocations of costs between Common-To-All and Retail Only, or allocations between fixed and variable cost components, Terrell will have a rate study performed by a qualified rate consultant. The rate study will be a cost of the Common-To-All system.

SECTION 5 PAYMENT FOR WATER

A Monthly Payment

Bills for each month will be mailed to College Mound by the tenth day of the following month. Payment is due by the last day of the month in which the bill was received.

B Dispute.

If College Mound at any time disputes the amount to be paid by it to Terrell, College Mound shall nevertheless promptly make the disputed payment or payments, but if it is subsequently determined by agreement or court decision that the disputed amount paid by College Mound should have been less or more, Terrell shall promptly revise the College Mound billings in a manner that College Mound or Terrell will recover the amount due.

Nothing in this Agreement shall be construed as constituting an undertaking by Terrell to furnish water to College Mound except pursuant to the terms of this Agreement. If College Mound initiates or participates in any proceeding regarding Terrell's rates and policies under this Agreement and advocates a position that is adverse to Terrell and Terrell prevails, College Mound shall pay Terrell for its expenses, including attorneys' fees, in the proceeding within

fifteen (15) days after Terrell's demand for payment. College Mound stipulates and agrees that the rates and policies specified in this Agreement are just, reasonable, and without discrimination.

SECTION 6 MEASUREMENT

All water furnished under this agreement by Terrell shall be measured by one or more suitable meters compliant with the then current Terrell Meter Standard. Except with prior written approval from Terrell, after the Effective Date of this Agreement, any meter installed or replaced shall be equipped with continuous flow, chart-recording devices, and/or telemetering equipment that can be connected with the Terrell control center. All meters, recording devices, telemetering equipment and appurtenances shall be approved and installed by Terrell. Customer shall pay for the meter vault and all metering equipment, including telemetering equipment to the Terrell control center, and appurtenances, plus the installation cost thereof. Terrell shall pay all costs associated with the operation and maintenance of said equipment and shall pay for the replacement of said equipment as necessary. Such costs, as well as charges for the telelink line and microwave transmitter and the power to operate same, shall be a cost of the Common-To-All System. No other equipment shall be installed in the meter vault without Terrell's prior written approval.

Terrell shall operate, maintain, and read meters which shall record water taken by College Mound from Terrell at the Point(s) of Delivery. Terrell shall keep accurate records of all measurements of water required under this Agreement, and the measuring device(s) and such records shall be open for College Mound inspection at all times. If requested in writing by College Mound and not more than once in each calendar year, Terrell shall calibrate the water

meter(s) in the presence of a College Mound representative, and the parties shall jointly observe any adjustments that shall be necessary. If Terrell receives a written request from College Mound to calibrate the water meter(s), Terrell shall give College Mound notice of the time when any such calibration is to be made and, if a representative of College Mound is not present at the time set, Terrell may proceed with the calibration and adjustment in the absence of any representative of College Mound.

If, upon any test of the water meter(s), the percentage of inaccuracy of such metering equipment is found to be in excess of two percent (2%), registration thereof shall be corrected for a period extending back to the time when such inaccuracy began, if such time is ascertainable. If such time is not ascertainable, then registration thereof shall be corrected for a period extending back one-half (1/2) of the time elapsed since the last date of calibration, but in no event further back than a period of six (6) months. If any meter(s) are out of service or out of repair so that the amount of water delivered cannot be ascertained or computed from the reading thereof, the water delivered through the period such meter(s) are out of service or out of repair shall be estimated and agreed upon by Terrell and College Mound upon the basis of the best data available, and, upon written request by College Mound, Terrell shall install new meter(s) or repair existing meter(s) within a reasonable time not to exceed one hundred eighty (180) days. All costs of installing or repairing a meter shall be a cost of the Common-To-All System. If Terrell and College Mound fail to agree on the amount of water delivered during such period, the amount of water delivered may be estimated by:

(a) correcting the error if the percentage of the error is ascertainable by calibration tests or mathematical calculation; or

(b) estimating the quantity of delivery by deliveries during the preceding periods under similar conditions when the meter or meters were registering accurately.

All books and records pertaining to this Agreement shall be open and available for copying, inspection, and audit by College Mound and Terrell.

SECTION 7 EMERGENCY SITUATIONS

The Parties jointly recognize each other's obligation to provide their customers with a safe and reliable supply of water and the Parties agree to cooperate with each other in addressing emergency situations.

SECTION 8 ANNEXATIONS BY CITY

Annexation of territory within the authorized service area of College Mound shall be in accordance with statutes, rules, and regulations in effect at the time of the annexation. Reduction in the College Mound Contract Quantity in proportion to its demand reduction due to annexation shall be made by Terrell if requested by College Mound.

SECTION 9 NEW CONSTRUCTION

This Section applies only to the extent that Terrell may exercise review and approval authority under provisions of state law. All new mains installed in Terrell's extraterritorial jurisdiction shall have a minimum diameter of 6 inches in residential areas and 8 inches in commercial areas or in industrial areas except for mains on a half-mile spacing or a one-mile spacing, which will have a minimum diameter of 8 inches and 12 inches, respectively. The pipe line, fire hydrants, gate valves, and other appurtenances will be installed in accordance with all

standards applicable to construction within Terrell's extraterritorial jurisdiction and shall meet the Terrell Technical Construction Standards and Specifications and Terrell's Master Plan.

If a larger line is required by Terrell's water master plan than would otherwise be installed by College Mound pursuant to this Section, College Mound agrees to install such larger line and Terrell agrees to pay the added cost for oversizing the line in order to meet the master plan's requirements. The amount of such added cost to be paid by Terrell shall be agreed upon, and limited to the amount agreed upon, by Terrell prior to installation of such line and as a condition to installing such line. If necessary to satisfy applicable legal requirements, College Mound agrees to allow Terrell to let the contract through its competitive bidding process and to reimburse Terrell all construction contract costs not attributable to the over-sizing of the line.

All plans for improvement to the College Mound water system within Terrell's extraterritorial jurisdiction for which Terrell has approval authority under applicable law shall be provide to Terrell for review - prior to bidding. Copies of all plans and specifications for water-related facilities within Terrell's extraterritorial jurisdiction, including record drawings, shall be provided to Terrell on mylar and in digital format (AutoCAD®).

Nothing in this Section or any other provision of this Agreement shall be construed to create any authority to review or approve new mains or other facilities if such authority does not otherwise exist under state law.

SECTION 10

DEFAULT BY COLLEGE MOUND

All amounts due and owing to Terrell by College Mound shall, if not paid when due, bear interest at the Texas post-judgment interest rate set out in TEX. FIN. CODE ANN. § 304.003

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(Vernon Supp. 2001), or any successor statute, from the date when due until paid, provided that such rate shall never be usurious or exceed the maximum rate permitted by law. If any amount due and owing by College Mound to Terrell is placed with an attorney for collection, College Mound shall pay to Terrell, in addition to all other payments provided for by this Agreement, including interest, Terrell's collection expenses, including court costs and attorneys' fees. In the event College Mound is in default under the payment terms of this Agreement, Terrell may, upon twenty (20) days, send written notification to College Mound, terminating water service to College Mound. If, after termination of such service, College Mound remains in default for a continuous one hundred eighty (180) day period, Terrell may, upon written notice to College Mound, terminate this Agreement. If Terrell terminates services or this Agreement, College Mound shall nonetheless pay Terrell for all charges for water delivered pursuant to this Agreement and shall be obligated to pay said charges during the time that College Mound is in default and during which time this Agreement is in effect. This obligation and all of the College Mound indemnifications of Terrell shall survive termination of this Agreement; however, under no circumstances shall this provision be construed as a promise by College Mound to indemnify Terrell for any expenses of a rate case filed after the termination or expiration of this Agreement. Terrell shall pursue all legal remedies against College Mound to enforce and protect the rights of Terrell, Terrell's customers, and the holders of Terrell's bonds and certificates. It is understood that the foregoing provisions are for the benefit of the holders of Terrell's bonds and certificates.

SECTION 11 PLEDGE OF REVENUE

College Mound represents and covenants that all payments to be made by it under this Agreement shall constitute reasonable and necessary "operating expenses" of its system as

defined in TEX. GOV'T. CODE ANN. §§ 1502.056-.058 (Vernon 2000), and that all such payments will be made from the revenues of its water system. College Mound represents and has determined that the water supply to be obtained from Terrell is absolutely necessary and essential to the present and future operation of its water system and is the only available and adequate source of supply of water therefor, and, accordingly, all payments required by this Agreement to be made by College Mound shall constitute reasonable and necessary operating expenses of the College Mound system or systems as described above with the effect that the obligation to make such payments from revenues of such system or systems shall have priority over any obligation to make any payments from such revenues, whether of principal, interest, or both, with respect to all bonds heretofore or hereafter issued by College Mound with the exception of the College Mound loan from the United States of America for financing the College Mound water system. With respect to the College Mound obligations to the United States of America for financing the College Mound water system, Terrell and the United States of America shall have equal priority.

College Mound agrees throughout the term of this Agreement to continuously operate and maintain its water system and to fix and collect such rates and charges for water services to be supplied by its water system as will produce revenues in an amount equal to at least (i) all of its payments under this Agreement; and (ii) all other amounts as required by the provisions of the ordinances or resolutions authorizing its revenue bonds or other obligations now or hereafter outstanding.

Unless otherwise specifically provided in writing by subsequent agreement between Terrell and College Mound, Terrell shall never have the right to demand payment by College

Mound of any obligation assumed or imposed on it under this Agreement from funds raised or to be raised by taxation, it being expressly understood by Terrell and College Mound that all payments due by College Mound are to be made from the revenues and income received by College Mound from the ownership and operation of its water system.

SECTION 12 POINT(S) OF DELIVERY

The Point(s) of Delivery under this Agreement shall be a point or points mutually agreeable to Terrell and College Mound. A narrative description of the location of the Point(s) of Delivery and a vicinity map which shows the location of the Point(s) of Delivery are attached as Exhibit 3 to this Agreement. College Mound shall provide, at the expense of College Mound, the facilities required to transport water to the College Mound place of use including any facilities required by TCEQ rules to prevent backflow. Within 24 months of the effective date of this agreement, College Mound shall have an air gap(s) on its pipeline(s) from the Point(s) of Delivery, and if College Mound has any service connections between its air gap(s) and the Point(s) of Delivery each service connection shall have a reduced pressure zone assembly. If College Mound wishes to add or change the location of a Point of Delivery, College Mound shall deliver to Terrell the location of the proposed additional or relocated Point of Delivery on a reproducible vicinity map with a narrative and graphic description of the location of the additional or relocated Point of Delivery which shall be attached to this Agreement, and, subject to Terrell's written approval, this Agreement will be modified by attaching the map to this Agreement as an exhibit. Upon filing this Agreement, as modified, with the Commission, the modification shall become effective upon regulatory approval of the location of the additional or relocated Point of Delivery.

SECTION 13 RIGHTS-OF-WAY

College Mound shall grant, without charge to Terrell, such easements and rights-of-way along public highways or other property owned by College Mound, as requested by Terrell, in order to construct or maintain mains or facilities within the service area of College Mound to provide water to College Mound and to other areas. Upon notice from College Mound and at Terrell's expense, Terrell will move such water mains or facilities located in such street rights-of-way, or other property owned by College Mound when reasonably necessary to the performance of essential governmental duties by College Mound. Terrell shall grant, without charge to College Mound, such easements and rights-of-way along public highways or other property owned by Terrell, as requested by College Mound, in order to construct and maintain water mains or facilities within Terrell to provide water to College Mound. Upon notice from Terrell and at the expense of College Mound, College Mound will move such water mains or facilities when located in such street rights-of-way or other property owned by Terrell when reasonably necessary to performance of essential governmental duties by Terrell. All work done by or on behalf of Terrell under this paragraph will be performed in accordance with specifications equal to those applying to work of a similar nature performed within Terrell, but neither party hereto will be required to restore the other's property to a condition exceeding its original condition unless otherwise mutually agreed in writing. Terrell and College Mound agree to coordinate the location of the mains and/or facilities in the other's easements and rights-of-way in order to prevent further conflicts insofar as is reasonably practicable. In effectuating this section, the parties agree to negotiate in good faith.

SECTION 14

PURPOSE AND PLACE OF USE

College Mound shall use water purchased from Terrell under this Agreement for the provision of providing retail water service within the area served by the College Mound water system, which area is shown by the vicinity map attached as Exhibit 4 to this Agreement. College Mound shall not sell the water purchased under this Agreement for wholesale service as defined by Chapter 13 of the Texas Water Code without Terrell's prior written consent.

If College Mound proposes to extend its water service area, College Mound shall deliver to Terrell a reproducible vicinity map that shows the added territory and this Agreement will be modified by attaching the map to this Agreement as an exhibit. Upon filing this Agreement, as modified, with the Commission, College Mound may use the water within the added territory.

SECTION 15

**TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
RULES**

The effectiveness of this Agreement is dependent upon Terrell and College Mound complying with the rules of the Commission, specifically including the rules codified as Texas Administrative Code, Title 30, §§ 290.45 and 291.15 as of the effective date of this Agreement.

College Mound acknowledges and agrees that, except for Texas Administrative Code, Title 30, § 290.45(f)(4), all system capacity requirements are to be met by the College Mound system as if water under this Agreement is provided through an air gap, whether or not an air gap is actually present at the Point(s) of Delivery. Terrell will file a signed copy of this Agreement with the Executive Director of the Commission as required by the rules of the Commission. College Mound may continue taking water from Terrell unless Terrell notifies College Mound

that Terrell has received written notification from the Commission that a copy of this Agreement has been received by the Commission but not accepted for filing. College Mound shall submit written reports annually to the Commission, with a copy to Terrell, on forms provided by the Commission, indicating the total amount of water taken under this Agreement each month. Upon Terrell's request, College Mound also shall submit to Terrell written reports each month indicating the total amount of water taken under this Agreement each month.

SECTION 16 REGULATORY REQUIREMENTS

This Agreement is subject to all applicable federal, state, and local laws and any applicable ordinances, rules, orders, and regulations of any local, state, or federal governmental authority having jurisdiction. However, nothing contained in this Agreement shall be construed as a waiver of any right to question or contest any law, ordinance, order, rule, or regulation in any forum having jurisdiction, and Terrell and College Mound each agree to make a good faith effort to support proposed laws and regulations which would be consistent with the performance of this Agreement in accordance with its terms.

**SECTION 17 WATER CONSERVATION AND DROUGHT
CONTINGENCY PLANS**

College Mound shall cooperate with and assist Terrell in its efforts to develop and implement plans, programs, and rules to develop water resources and to promote practices, techniques, and technologies that will reduce the consumption of water, reduce the loss or waste of water, improve the efficiency in use of water, or increase the recycling and reuse of water. Terrell's obligations under this Agreement shall be subject to College Mound preparing and implementing a water conservation plan or water conservation measures, as well as

implementing any water conservation plans and drought management plans adopted by Terrell or NTMWD and required or approved by the Commission, the Texas Water Development Board, or any other federal, state, or local regulatory authority with power to require or approve water conservation and drought contingency plans. College Mound acknowledges that under applicable drought management plans and state law, during shortages, water supplied to College Mound may be subject to rationing pursuant TEX. WATER CODE ANN. § 11.039. (Vernon Supp. 2005). Upon execution of this Agreement, College Mound shall submit its water conservation plan or water conservation measures to Terrell for its review and approval.

If Terrell authorizes College Mound to resell Terrell water, College Mound shall require through a contract condition that any successive user of Terrell water must implement water conservation measures that comply with the State's, Terrell's, and the College Mound water conservation plans, programs, and rules.

SECTION 18 OWNERSHIP AND LIABILITY

No provision of this Agreement shall be construed to create any type of joint or equity ownership of any property or any partnership or joint venture. Neither this Agreement nor any actions of the parties hereunder or payments by College Mound payments shall be construed as granting to or otherwise vesting in College Mound any right, title or interest in capacity, or equity in Terrell's System or any element thereof.

Responsibility for damages arising from the improper treatment, transportation and delivery of all water provided under this Agreement shall remain with Terrell to the Point(s) of Delivery. Upon passing through the meter, liability for all damages arising from improper

transportation and delivery of the water after it leaves Terrell's System shall pass to College Mound. Terrell's sole responsibility is to provide College Mound at the Delivery Point(s) Water of a quality which meets the minimum drinking water standards for human consumption as prescribed by the Commission or appropriate governing agency. Each party (the Indemnitor) to this Agreement agrees to save and hold harmless the other party (the Indemnatee) from all claims, demands, and causes of action which may be asserted by anyone on account of the quality, transportation and delivery of Water while the Water is in the control of the Indemnitor unless the Indemnatee is Terrell and the claim, demand or cause of action is proximately caused by Terrell's breach of the quality standards of this section.

SECTION 19 TITLE

Title for liability purposes to all water supplied hereunder to College Mound shall be in Terrell up to the Point(s) of Delivery, at which point title for liability purposes shall pass to College Mound. While title for liability purposes remains in a party, that party hereby agrees to save and hold the other party harmless from all claims, demands, and causes of action which may be asserted by anyone on account of the transportation and delivery of said water.

SECTION 20 RETURN FLOWS

College Mound agrees that North Texas Municipal Water District shall have the right to any water supplied to College Mound by Terrell once it is returned to a watercourse as return flows.

SECTION 21 OTHER CHARGES

In the event that any sales or use taxes, or taxes, assessments, or charges of any similar nature, are imposed by federal or state agencies on diverting, storing, delivering, gathering, impounding, taking, selling, using, or consuming the water received by College Mound from Terrell, the amount of the tax, assessment, or charge shall be borne by College Mound, in addition to all other charges, and whenever Terrell shall be required to pay, collect, or remit any tax, assessment, or charge on water received by College Mound, then College Mound shall promptly pay or reimburse Terrell for the tax, assessment, or charge in the manner directed by Terrell.

SECTION 22 ARBITRATION

The parties agree that in the event of a dispute concerning the performance or non-performance of any obligations flowing from, arising from, or as a result of this Agreement and prior to the initiation of any litigation, the parties will voluntarily submit the dispute for non-binding arbitration to a dispute resolution organization or system as though it were referred through the operation of the Texas Alternative Dispute Resolution Procedures Act of 1987, Chapter 154, and the Texas Civil Practices and Remedies Code. No record, statement or declaration resulting from or in connection with such alternate dispute resolution procedure may be used in evidence in subsequent litigation except to demonstrate that this section has been complied with in good faith by either party.

Whenever any disputed matter herein is to be determined by the use of an arbitrator, the following procedure is to be followed. The party requesting that the dispute be settled by

arbitration shall serve on the other party a request in writing that such matter be handled by arbitration. College Mound and Terrell shall mutually agree in writing on the selection of an impartial arbitrator. Such agreement shall be made within ten (10) days from the date that the request for arbitration is received. If an agreement is not reached on the selection of the impartial arbitrator on or before the tenth (10th) day after the date that notice is received, Terrell shall immediately request a list of seven qualified neutral arbitrators from the American Arbitration Association or the Federal Mediation and Conciliation Service, or either's successor in function. College Mound and Terrell may mutually agree on one of the seven arbitrators on the list. If they do not agree within five (5) working days after the receipt of the list, College Mound and Terrell shall alternate striking a name from the list and the name remaining shall be the impartial arbitrator. College Mound and Terrell shall mutually agree on a date for the arbitration hearing. The arbitrator shall determine the allocation of all costs of arbitration.

SECTION 23 TERMINATION

If Terrell decides to terminate this Agreement, as provided elsewhere in this Agreement, Terrell shall deliver written notice of the decision to College Mound. College Mound shall discontinue taking water from Terrell or its facilities and physically seal the College Mound diversion facilities within one hundred eighty (180) days after Terrell delivers written notice to College Mound.

SECTION 24 WAIVER AND AMENDMENT

Failure to enforce or the waiver of any provision of this Agreement or any breach or nonperformance by Terrell or College Mound shall not be deemed a waiver by College Mound

or Terrell of the right in the future to demand strict compliance and performance of any provision of this Agreement. Regardless of any provision contained in this Agreement to the contrary, any right or remedy or any default under this Agreement, except the right of Terrell to receive the payments specified in Section 5 which shall never be determined to be waived, shall be deemed to be conclusively waived unless asserted by a proper proceeding at law or in equity within two (2) years plus one (1) day after the occurrence of the default.

No officer or agent of Terrell or College Mound is authorized to waive or modify any provision of this Agreement. No modifications to or rescission of this Agreement may be made except by a written document signed by the authorized representatives of Terrell and College Mound.

SECTION 25 REMEDIES

It is not intended hereby to specify, and this Agreement shall not be considered as specifying, an exclusive remedy for any default, but all such other remedies (other than termination) existing at law or in equity may be availed of by any party hereto and shall be cumulative. Recognizing, however, that failure in the performance of any party's obligations hereunder could not be adequately compensated in money damages alone, each party agrees in the event of any default on its part that each party shall have available to it the equitable remedy of mandamus and specific performance, in addition to any other legal or equitable remedies which also may be available.

SECTION 26 INDEMNITY

By signing this Agreement, College Mound agrees, on behalf of itself and its successors and assigns, that it shall, to the fullest extent permitted by law, defend, protect, indemnify, and hold harmless Terrell and Terrell's officers, directors, employees, agents, and consultants from and against all claims, losses, damages, demands, judgments, causes of action, suits, and liability in tort, or contract (including but not limited to all costs of defense, such as fees and charges of attorneys, expert witnesses, and other professionals incurred by Terrell and all court or arbitration or other dispute resolution costs) brought or asserted by any third-party arising out of or incident to, directly or indirectly, this Agreement, including but not limited to any such claim for bodily injury, death, property damage, consequential damage, or economic loss and any claim that may arise in connection with the quality, quantity, use, misuse, impoundment, diversion, transportation, and measurement of water from Terrell and any claim that may arise as a result of installation, inspection, adjusting, or testing of measuring and recording equipment involving use of Terrell water by College Mound, as well as any claim that may arise from any condition of the College Mound facilities, or any separate operations being conducted on the College Mound facilities.

Notwithstanding anything in the foregoing, the indemnity or other obligations hereunder of College Mound shall not include any claim based on the quality of water delivered by Terrell, including any imperfection, contamination or defect in such water quality at the Point(s) of Delivery.

This section shall survive the termination or expiration of this contract.

SECTION 27**FORCE MAJEURE**

If, for any reason of force majeure, either Terrell or College Mound shall be rendered unable, wholly or in part, to carry out its obligation under this Agreement, other than the obligation of College Mound to make the payments required under the terms of this Agreement, then if the party shall give notice of the reasons in writing to the other party within a reasonable time after the occurrence of the event or cause relied on, the obligation of the party giving the notice, so far as it is affected by the "force majeure," shall be suspended during the continuance of the inability then claimed, but for no longer period. The term "force majeure," as used in this Agreement, shall mean acts of God, strikes, lockouts, or other industrial disturbances, acts of public enemy, orders or actions of any kind of government of the United States or of the State of Texas, or any civil or military authority, insurrections, riots, epidemics, land slides, lightning, earthquakes, fires, hurricanes, storms, floods, washouts, droughts, arrests, restraints of government and people, civil disturbances, explosions, breakage or accident to dams, machinery, pipelines, canals, or other structures, partial or entire failure of water supply, including pollution (accidental or intentional), and any inability on the part of Terrell to deliver water, or of College Mound to receive water, on account of any other cause not reasonably within the control of the party claiming the inability.

SECTION 28**NON-ASSIGNABILITY**

College Mound understands and agrees that any assignment of rights or delegation of duties under this Agreement is void without the prior written consent of Terrell. Terrell's consent is hereby given for an assignment of the College Mound interest in this agreement to the United States of America or the Texas Water Development Board. Terrell also hereby consents

to the assignment of this agreement to the resulting entity if College Mound merges with another Wholesale Customer or converts to a SUD as long as the merger or conversion does not increase the total area served by Terrell's Wholesale Customers. College Mound hereby consents to Terrell assigning this contract to a regional provider which is capable of performing Terrell's obligations set forth in this Agreement and agrees in writing to the assignment and assumption of such obligations upon one hundred eighty (180) days notice.

SECTION 29 NO THIRD-PARTY BENEFICIARIES

This Agreement shall inure only to the benefit of the parties hereto and third persons not privy hereto shall not, in any form or manner, be considered a third-party beneficiary of this Agreement. Each party hereto shall be solely responsible for the fulfillment of its customer contracts or commitments, and Terrell shall not be construed to be responsible for contracts or commitments of College Mound by virtue of this Agreement or any provision contained herein.

SECTION 30 RELATIONSHIP OF THE PARTIES

This Agreement is by and between Terrell and College Mound and is not intended, and shall not be construed to create, the relationship of agent, servant, employee, partnership, joint venture, or association as between Terrell and College Mound nor between Terrell and any officer, employee, contractor, or representative of College Mound. No joint employment is intended or created by this Agreement for any purpose. College Mound agrees to so inform its employees, agents, contractors, and subcontractors who are involved in the implementation of or construction under this Agreement.

SECTION 31 SOLE AGREEMENT

This Agreement constitutes the sole and only agreement of College Mound and Terrell and supersedes any prior understanding or oral or written agreements between Terrell and College Mound respecting Terrell's provision of water service to College Mound, including any oral or written agreement with Terrell that College Mound obtained by assignment.

SECTION 32 SEVERABILITY

The provisions of this Agreement are severable, and if, for any reason, any one or more of the provisions contained in this Agreement shall be held to be invalid, illegal, or unenforceable in any respect the invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement, and this Agreement shall remain in effect and be construed as if the invalid, illegal, or unenforceable provision had never been contained in the Agreement.

SECTION 33 NOTICES

All notices, payments, and communications (collectively "notices") required or allowed by this Agreement shall be in writing and be given by hand-delivery or by depositing the notice in the United States mail, postage prepaid, registered or certified, with return receipt requested, and addressed to the party to be notified. Notice deposited in the mail in the previously described manner shall be conclusively deemed to be effective from and after the expiration of three (3) days after the notice is deposited in the mail. For purposes of notice, the addresses of and the designated representative for receipt of notice for each of the parties shall be shown above the signatures of the individuals who signed this Agreement on behalf of Terrell and

College Mound. Either party may change its address by giving written notice of the change to the other party at least fifteen (15) days before the change becomes effective.

SECTION 34 PLACE OF PERFORMANCE

All acts performable under the terms of this Agreement and all amounts due under this Agreement, including but not limited to payments due under this Agreement or damages for the breach of this Agreement, shall be paid and be due in Kaufman County, Texas, said Kaufman County, Texas, being the place of performance agreed to by the parties to this Agreement. In the event that any legal proceeding is brought to enforce this Agreement or any provision hereof, the same shall be brought in Kaufman County, Texas.

SECTION 35 DUPLICATE ORIGINALS

College Mound and Terrell, acting under the authority of their respective governing bodies, shall authorize the execution of this Agreement in several counterparts, each of which shall be an original. College Mound shall submit written evidence in the form of bylaws, charters, resolutions, or other written documentation specifying the authority of the College Mound representative to sign this Agreement, which evidence shall be attached to this Agreement as Exhibit 5.

EFFECTIVE as of the date signed by the authorized representative of Terrell.

City of Terrell
210 E. Nash
P.O. Box 310
Terrell, Texas 75160
Attn.: City Manager

BY: Borden Hunt

TITLE: CITY MANAGER

DATE: 5/9/2007

ATTEST:

[Signature]
APPROVED AS TO FORM AND LEGALITY:

BY: Mary Gayle Tansley
ATTORNEY FOR TERRELL