(In thousands of dollars, except per share amounts)

The following table summarizes information about the options outstanding and options exercisable as of December 31, 2013:

	Options Outstanding and Exercisable		
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
Range of prices:			
$12.00 - 12.99	78,471	0.2	$ 12.92
$13.00 - 14.99	451,318	3.7	14.04
$15.00 - 16.99	518,231	4.5	15.71
$17.00 - 19.99	236,157	3.2	18.61
$20.00 - 23.99	253,933	2.2	23.57
	1,538,110	3.7	$ 16.82

As of December 31, 2013, there was $0 of total unrecognized compensation cost related to nonvested stock options granted under the plans.

Restricted Stock – Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted stock awards result in compensation expense which is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period. The Company expects forfeitures of restricted stock to be de minimis.

The following table provides compensation costs for restricted stock:

	Years ended December 31,		
	2013	2012	2011
Stock-based compensation within operations and maintenance expense	$ 770	$ 1,739	$ 1,800
Income tax benefit	320	721	740

The following table summarizes nonvested restricted stock transactions for the year ended December 31, 2013:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	147,160	$ 15.38
Granted	16,000	25.09
Vested	(100,660)	15.49
Forfeited	-	-
Nonvested shares at end of period	62,500	$ 17.70

(In thousands of dollars, except per share amounts)

The following table summarizes the value of restricted stock awards:

	Years ended December 31,		
	2013	2012	2011
Intrinsic value of restricted stock awards vested	$ 2,236	$ 2,384	$ 2,020
Fair value of restricted stock awards vested	1,560	1,971	1,650
Weighted average fair value of restricted stock awards granted	25.09	18.47	17.77

As of December 31, 2013, $338 of unrecognized compensation costs related to restricted stock is expected to be recognized over a weighted average period of approximately 6 months. The aggregate intrinsic value of restricted stock as of December 31, 2013 was $1,474. The aggregate intrinsic value of restricted stock is based on the number of nonvested shares of restricted stock and the market value of the Company's common stock as of the period end date.

Note 15 – Pension Plans and Other Post-retirement Benefits

The Company maintains qualified, defined benefit pension plans that cover its full-time employees who were hired prior to April 1, 2003. Retirement benefits under the plans are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund the plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations over time. To offset some limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Supplemental Pension Benefit Plan for Salaried Employees in order to prevent some employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for some current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow. Employees hired after April 1, 2003 may participate in a defined contribution plan that provides a Company matching contribution on amounts contributed by participants and an annual profit-sharing contribution based upon a percentage of the eligible participants' compensation.

In addition to providing pension benefits, the Company offers Post-retirement Benefits other than Pensions ("PBOPs") to employees hired before April 1, 2003 and retiring with a minimum level of service. These PBOPs include continuation of medical and prescription drug benefits, or a cash contribution toward such benefits, for eligible retirees and life insurance benefits for eligible retirees. The Company funds its gross PBOP cost through various trust accounts. The benefits of retired officers and other eligible retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

	Pension Benefits	Other Post-retirement Benefits
Years:		
2014	$ 11,601	$ 1,680
2015	12,400	1,897
2016	13,212	2,177
2017	14,048	2,464
2018	14,948	2,760
2019-2023	87,278	17,027

(In thousands of dollars, except per share amounts)

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2013	2012	2013	2012
Change in benefit obligation:				
Benefit obligation at January 1,	$ 303,077	$ 237,087	$ 63,033	$ 50,189
Service cost	5,313	4,920	1,525	1,309
Interest cost	12,660	12,728	2,579	2,482
Actuarial (gain) loss	(30,223)	34,750	(9,024)	5,218
Plan participants' contributions	-	-	190	199
Benefits paid	(10,332)	(9,329)	(1,129)	(1,160)
Plan amendments	666	-	-	(392)
Acquisition	-	23,652	-	5,188
Settlements	-	(731)	-	-
Benefit obligation at December 31,	281,161	303,077	57,174	63,033
Change in plan assets:				
Fair value of plan assets at January 1,	190,084	148,912	34,054	28,131
Actual return on plan assets	36,517	17,153	5,800	2,019
Employer contributions	16,078	15,256	1,913	1,905
Benefits paid	(10,332)	(9,329)	(927)	(941)
Acquisition	-	18,823	-	2,940
Settlements	-	(731)	-	-
Fair value of plan assets at December 31,	232,347	190,084	40,840	34,054
Funded status of plan:				
Net amount recognized at December 31,	$ 48,814	$ 112,993	$ 16,334	$ 28,979

The Company's pension plans had an accumulated benefit obligation of $246,843 and $267,400 at December 31, 2013 and 2012, respectively. The following table provides the net liability recognized on the consolidated balance sheets at December 31,:

	Pension Benefits		Other Post-retirement Benefits	
	2013	2012	2013	2012
Current liability	$ 366	$ 222	$ -	$ -
Noncurrent liability	48,448	112,771	16,334	28,979
Net liability recognized	$ 48,814	$ 112,993	$ 16,334	$ 28,979

(In thousands of dollars, except per share amounts)

At December 31, 2013 and 2012, the Company's pension plans had benefit obligations in excess of its plan assets. The following tables provide the projected benefit obligation, the accumulated benefit obligation and fair market value of the plan assets as of December 31,:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2013	2012
Projected benefit obligation	$ 281,161	$ 303,077
Fair value of plan assets	232,347	190,084

	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2013	2012
Accumulated benefit obligation	$ 246,843	$ 267,400
Fair value of plan assets	232,347	190,084

(In thousands of dollars, except per share amounts)

The following table provides the components of net periodic benefit costs for the years ended December 31,:

	Pension Benefits			Other Post-retirement Benefits		
	2013	2012	2011	2013	2012	2011
Service cost	$ 5,313	$ 4,920	$ 4,127	$ 1,525	$ 1,309	$ 1,092
Interest cost	12,660	12,728	12,052	2,579	2,482	2,414
Expected return on plan assets	(14,770)	(13,588)	(11,731)	(2,268)	(1,950)	(1,689)
Amortization of transition obligation	-	-	-	-	-	104
Amortization of prior service cost	228	277	253	(295)	(299)	(268)
Amortization of actuarial loss	8,169	6,568	3,578	1,479	1,024	783
Amortization of regulatory asset	-	-	-	-	69	137
Settlement loss	-	304	-	-	90	-
Capitalized costs	(4,231)	(3,696)	(3,499)	(745)	(671)	(668)
Net periodic benefit cost	$ 7,369	$ 7,513	$ 4,780	$ 2,275	$ 2,054	$ 1,905

The Company records the underfunded status of its pension and other post-retirement benefit plans on its consolidated balance sheets and records a regulatory asset for these costs that would otherwise be charged to stockholders' equity, as the Company anticipates recoverability of the costs through customer rates. The Company's pension and other post-retirement benefit plans were underfunded at December 31, 2013 and 2012. Changes in the plans' funded status will affect the assets and liabilities recorded on the balance sheet. Due to the Company's regulatory treatment, the recognition of the funded status is recorded as a regulatory asset pursuant to the FASB's accounting guidance for regulated operations.

The following table provides the amounts recognized in regulatory assets that have not been recognized as components of net periodic benefit cost as of December 31,:

	Pension Benefits		Other Post-retirement Benefits	
	2013	2012	2013	2012
Net actuarial loss	$ 46,843	$ 106,980	$ 7,280	$ 21,315
Prior service cost (credit)	1,734	1,297	(682)	(977)
Total recognized in regulatory assets	$ 48,577	$ 108,277	$ 6,598	$ 20,338

The estimated net actuarial loss, prior service cost, and transition asset for the Company's pension plans that will be amortized in 2014 from the regulatory assets into net periodic benefit cost are $2,001, $277, and $0, respectively. The estimated net actuarial loss, prior service credit, and transition obligation for the Company's other post-retirement benefit plans that will be amortized in 2014 from regulatory assets into net periodic benefit cost are $329, $295, and $0, respectively.

Accounting for pensions and other post-retirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other post-retirement benefit expense that the Company recognizes.

(In thousands of dollars, except per share amounts)

The significant assumptions related to the Company's benefit obligations are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2013	2012	2013	2012
Weighted Average Assumptions Used to Determine Benefit Obligations as of December 31,				
Discount rate	5.12%	4.17%	5.12%	4.17%
Rate of compensation increase	4.0-4.5%	4.0-4.5%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations as of December 31,				
Health care cost trend rate	n/a	n/a	7.5%	8.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2019	2019

n/a – Assumption is not applicable to pension benefits.

The significant assumptions related to the Company's net periodic benefit costs are as follows:

	Pension Benefits			Other Post-retirement Benefits		
	2013	2012	2011	2013	2012	2011
Weighted Average Assumptions Used to Determine Net Periodic Benefit Costs for Years Ended December 31,						
Discount rate	4.17%	5.00%	5.75%	4.17%	5.00%	5.75%
Expected return on plan assets	7.50%	7.75%	7.8%	5.00-7.50%	5.17-7.75%	5.17-7.75%
Rate of compensation increase	4.0-4.5%	4.0-4.5%	4.0-4.5%	4.0%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Net Periodic Benefit Costs for Years Ended December 31,						
Health care cost trend rate	n/a	n/a	n/a	8.0%	8.5%	9.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend	n/a	n/a	n/a	2019	2019	2019

n/a – Assumption is not applicable to pension benefits.

(In thousands of dollars, except per share amounts)

Assumed health-care trend rates have a significant effect on the expense and liabilities for other post-retirement benefit plans. The health care trend rate is based on historical rates and expected market conditions. A one-percentage point change in the assumed health-care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on the health-care component of the accrued other post-retirement benefit obligation	$ 3,690	$ (3,490)
Effect on aggregate service and interest cost components of net periodic post-retirement health-care benefit cost	$ 308	$ (285)

The Company's discount rate assumption was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to provide for the projected benefit payments of the plan. The selected bond portfolio was derived from a universe of Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and have at least $50,000 in outstanding value. The discount rate was then developed as the single rate that equates the market value of the bonds purchased to the discounted value of the plan's benefit payments. The Company's pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2013 pension expense by $898 and the pension liabilities by $10,270.

The Company's expected return on assets is determined by evaluating the asset class return expectations with its advisors as well as actual, long-term, historical results of our asset returns. The Company's market related value of plan assets is equal to the fair value of the plan assets as of the last day of its fiscal year, and is a determinant for the expected return on assets which is a component of net pension expense. The Company's pension expense increases as the expected return on assets decreases. A 25 basis-point reduction in this assumption would have increased 2013 pension expense by $492. For 2013, the Company used a 7.50% expected return on assets assumption which will remain unchanged for 2014. The Company believes its actual long-term asset allocation on average will approximate the targeted allocation. The Company's investment strategy is to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. Investment returns are compared to benchmarks that include the S&P 500 Index, the Barclays Capital Intermediate Government/Credit Index, and a combination of the two indices. The Pension Committee meets semi-annually to review plan investments and management monitors investment performance quarterly through a performance report prepared by an external consulting firm.

The Company's pension plan asset allocation and the target allocation by asset class are as follows:

		Percentage of Plan Assets at December 31,	
	Target Allocation	2013	2012
Asset Class:			
Domestic equities	25 to 75%	65%	55%
International equities	0 to 10%	7%	8%
Fixed income	25 to 50%	24%	22%
Alternative investments	0 to 5%	1%	2%
Cash and cash equivalents	0 to 20%	3%	13%
Total	100%	100%	100%

(In thousands of dollars, except per share amounts)

The fair value of the Company's pension plans' assets at December 31, 2013 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Domestic equities (1)				
Common stocks	$ 149,456	$ 149,456	$ -	$ -
Mutual funds	2,215	2,215	-	-
International equities (2)	16,256	16,256	-	-
Fixed income (3)				
U.S. Treasury and government agency bonds	24,750	-	24,750	-
Corporate and foreign bonds	6,459	-	6,459	-
Mutual funds	24,640	24,640	-	-
Alternative investments (4)				
Real estate	1,950	1,950	-	-
Commodity funds	1,291	1,291	-	-
Cash and cash equivalents (5)	5,330	-	5,330	-
Total pension assets	$ 232,347	$ 195,808	$ 36,539	$ -

The fair value of the Company's pension plans' assets at December 31, 2012 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Domestic equities (1)				
Common stocks	$ 105,381	$ 105,381	$ -	$ -
International equities (2)	14,531	14,531	-	-
Fixed income (3)				
U.S. Treasury and government agency bonds	12,156	-	12,156	-
Corporate and foreign bonds	5,975	-	5,975	-
Mutual funds	23,226	23,226	-	-
Alternative investments (4)				
Real estate	2,890	2,890	-	-
Commodity funds	1,700	1,700	-	-
Cash and cash equivalents (5)	24,225	-	24,225	-
Total pension assets	$ 190,084	$ 147,728	$ 42,356	$ -

(1) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in mutual funds, which invest in common stocks, are valued using the net asset value per unit as obtained from quoted market prices for the mutual funds.

(2) Investments in international equities are valued using unadjusted quoted prices obtained from active markets.

(3) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets for the mutual fund.

(4) Investments in real estate are comprised of investments in real estate funds and real estate investment trusts and are valued using unadjusted quoted prices obtained from active markets. Investments in commodity funds are valued using unadjusted quoted prices obtained from active markets.

(In thousands of dollars, except per share amounts)

(5) Cash is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

Equity securities include Aqua America, Inc. common stock in the amounts of $14,983 or 6.5% and $12,596 or 6.6% of total pension plans' assets as of December 31, 2013 and 2012, respectively.

The asset allocation for the Company's other post-retirement benefit plans and the target allocation by asset class are as follows:

		Percentage of Plan Assets at December 31,	
	Target Allocation	2013	2012
Asset Class:			
Domestic equities	25 to 75%	58%	40%
International equities	0 to 10%	5%	6%
Fixed income	25 to 50%	24%	26%
Alternative investments	0 to 5%	1%	1%
Cash and cash equivalents	0 to 20%	12%	27%
Total	100%	100%	100%

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2013 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Domestic equities (1)				
Common stocks	$ 12,811	$ 12,811	$ -	$ -
Mutual funds	10,977	10,977	-	-
International equities (2)	2,061	2,061	-	-
Fixed income (3)				
U.S. Treasury and government agency bonds	4,679	-	4,679	-
Corporate and foreign bonds	3,933	-	3,933	-
Mutual funds	1,393	1,393	-	-
Alternative investments (4)	162	162	-	-
Cash and cash equivalents (5)	4,824	-	4,824	-
Total other post-retirement assets	$ 40,840	$ 27,404	$ 13,436	$ -

(In thousands of dollars, except per share amounts)

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2012 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Domestic equities (1)				
Common stocks	$ 8,219	$ 8,219	$ -	$ -
Mutual funds	5,378	5,378	-	-
International equities (2)	1,895	1,895	-	-
Fixed income (3)				
U.S. Treasury and government agency bonds	4,751	-	4,751	-
Corporate and foreign bonds	2,735	-	2,735	-
Mutual funds	1,398	1,398	-	-
Alternative investments (4)	143	143	-	-
Cash and cash equivalents (5)	9,535	-	9,535	-
Total other post-retirement assets	$ 34,054	$ 17,033	$ 17,021	$ -

(1) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in mutual funds, which invest in common stocks, are valued using the net asset value per unit as obtained from quoted market prices for the mutual funds.
(2) Investments in international equities are valued using unadjusted quoted prices obtained from active markets.
(3) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets for the mutual fund.
(4) Investments in alternative investments are comprised of investments in real estate funds and real estate investment trusts and are valued using unadjusted quoted prices obtained from active markets.
(5) Cash is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and the Company's funding policy, during 2014 our pension contribution is expected to be approximately $17,875. The Company's funding of its PBOP cost during 2014 is expected to approximate $2,763.

The Company has 401(k) savings plans that cover substantially all employees. The Company makes matching contributions that are initially invested in Aqua America, Inc. common stock based on a percentage of an employee's contribution, subject to specific limitations. Participants may diversify their Company matching account balances into other investments offered under the 401(k) savings plans. The Company's matching contribution and annual profit-sharing contribution, recorded as compensation expense, was $2,790, $2,741, and $2,496, for the years ended December 31, 2013, 2012, and 2011, respectively.

Note 16 – Water and Wastewater Rates

In August 2013, the Company's operating subsidiary in North Carolina filed an application with the North Carolina Utilities Commission designed to increase water and wastewater rates by $8,611, or 19.2%, on an annual basis. The amount of the final rate aware that might be granted by the North Carolina Utilities Commission can vary significantly from the amount requested. The Company anticipates a final order to be issued by May 2014.

On June 7, 2012, the Pennsylvania Public Utility Commission granted Aqua Pennsylvania a water rate increase designed to increase total operating revenues by $16,700, on an annualized basis. The rates in effect at the time of the filing included $27,449 in Distribution System Improvement Charges ("DSIC") or 7.5% above prior base rates. Consequently, the total base rates increased by $44,149 since the last base rate increase and the DSIC was reset to zero. In addition, the rate case settlement provides for flow-through accounting treatment of qualifying income tax benefits if the Company changes its tax accounting method to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for tax purposes. In December 2012, Aqua Pennsylvania implemented the Repair Change which resulted in the net recognition of 2012 income tax benefits of $33,565 which reduced the Company's Federal and state income tax expense as it was flowed-through to net income in the fourth quarter of 2012. In addition, the Company recognized a tax deduction on its 2012 Federal tax return of $380,000 for qualifying capital expenditures made prior to 2012, and, based on the settlement agreement, in 2013, the Company began to amortize 1/10th of the catch-up adjustment. In accordance with the settlement agreement, the amortization is expected to reduce income tax expense during periods when qualifying parameters are met. During 2013, the Company amortized its catch-up adjustment and recognized $15,766 of deferred income tax benefits, which reduced income tax expense and increased the Company's net income. As a result of the Repair Change, the fourth quarter 2012 DSIC of 2.82% for Aqua Pennsylvania's water customers was reset to zero beginning January 1, 2013, and Aqua Pennsylvania did not file a water base rate case or a DSIC in 2013.

In February 2012, two of the Company's operating subsidiaries in Texas began to bill interim rates in accordance with authorization from the Texas Commission on Environmental Quality ("TCEQ"). The additional revenue billed and collected prior to the TCEQ's final ruling was subject to refund based on the outcome of the rate case. The rate case concluded with the issuance of an order on June 3, 2013, and no refunds of revenue previously billed and collected were required.

The Company's operating subsidiaries, excluding the 2012 Pennsylvania water award discussed above, were allowed annual rate increases of $9,431 in 2013, $17,923 in 2012, and $6,311 in 2011, represented by six, nine, and twelve rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately $8,169, $13,754, and $3,312 in 2013, 2012, and 2011, respectively.

Five states in which the Company operates permit water utilities, and in three states wastewater utilities, to add a surcharge to their water or wastewater bills to offset the additional depreciation and capital costs related to infrastructure system replacement and rehabilitation projects completed and placed into service between base rate filings. Currently, Pennsylvania, Illinois, Ohio, New Jersey, and Indiana allow for the use of infrastructure rehabilitation surcharges, and in 2013, North Carolina legislators passed a law allowing for an infrastructure rehabilitation surcharge for regulated water and wastewater utilities; as a result, the Company's operating subsidiary in North Carolina has filed a request to implement an infrastructure rehabilitation surcharge for 2014, which is subject to approval by the North Carolina Utilities Commission. These surcharge mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped as a percentage of base rates, generally at 5% to 12.75% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. In 2013, the infrastructure rehabilitation surcharge was suspended for Aqua Pennsylvania's water customers as a result of the implementation of the repair tax accounting change. Infrastructure rehabilitation surcharges provided revenues in 2013, 2012, and 2011 of $3,205, $15,911, and $15,937, respectively.

(In thousands of dollars, except per share amounts)

Note 17 – Segment Information

The Company has ten operating segments and one reportable segment. The Regulated segment, the Company's single reportable segment, is comprised of eight operating segments representing our water and wastewater regulated utility companies which are organized by the states where we provide water and wastewater services. These operating segments are aggregated into one reportable segment since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment.

Two operating segments are included within the other category below. These segments are not quantitatively significant and are comprised of the Company's businesses that provide water and wastewater services through operating and maintenance contracts with municipal authorities and other parties in close proximity to our utility companies' service territories as well as offers, through a third party, water and sewer line repair service and protection solutions to households, liquid waste hauling and disposal, backflow prevention, construction, and other non-regulated water and wastewater services, and non-utility raw water supply services for firms, with which we enter into a water supply contract, in the natural gas drilling industry. In addition to these segments, other is comprised of other business activities not included in the reportable segment, including corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include general and administrative expenses, and interest expense.

The following table presents information about the Company's reportable segment:

	2013			2012		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	$ 751,277	$ 17,366	$ 768,643	$ 740,030	$ 17,730	$ 757,760
Operations and maintenance expense	272,758	12,582	285,340	259,847	11,996	271,843
Depreciation	119,436	(178)	119,258	113,139	(1,372)	111,767
Operating income	302,961	2,281	305,242	316,602	4,915	321,517
Interest expense, net of AFUDC	69,103	5,939	75,042	67,433	6,182	73,615
Income tax (benefit)	25,578	(2,888)	22,690	66,821	60	66,881
Income (loss) from continuing operations	208,481	(3,488)	204,993	182,769	1,318	184,087
Capital expenditures	307,295	876	308,171	346,676	1,309	347,985
Total assets	4,897,752	154,065	5,051,817	4,566,327	292,190	4,858,517
Goodwill	24,102	4,121	28,223	24,031	4,121	28,152

	2011		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	$ 674,927	$ 12,364	$ 687,291
Operations and maintenance expense	243,137	13,606	256,743
Depreciation	104,681	(1,269)	103,412
Operating income (loss)	282,587	(1,788)	280,799
Interest expense, net of AFUDC	64,990	5,664	70,654
Income tax (benefit)	72,336	(3,225)	69,111
Income (loss) from continuing operations	145,493	(3,810)	141,683
Capital expenditures	324,433	1,375	325,808
Total assets	4,183,758	164,662	4,348,420
Goodwill	22,823	4,121	26,944

Selected Quarterly Financial Data (Unaudited)
Aqua America, Inc. and Subsidiaries
(In thousands of dollars, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2013					
Operating revenues	$ 180,035	$ 195,655	$ 204,345	$ 188,608	$ 768,643
Operations and maintenance expense	68,311	70,858	72,065	74,106	285,340
Operating income	67,561	80,665	87,380	69,636	305,242
Income from continuing operations	41,231	53,548	63,484	46,730	204,993
Income from discontinuing operations	5,334	38	133	10,802	16,307
Net income attributable to common shareholders	46,565	53,586	63,617	57,532	221,300
Basic income from continuing operations per common share	0.24	0.30	0.36	0.26	1.16
Diluted income from continuing operations per common share	0.23	0.30	0.36	0.26	1.16
Basic income from discontinued operations per common share	0.03	0.00	0.00	0.06	0.09
Diluted income from discontinued operations per common share	0.03	0.00	0.00	0.06	0.09
Basic net income per common share	0.27	0.30	0.36	0.33	1.26
Diluted net income per common share	0.26	0.30	0.36	0.32	1.25
Dividend paid per common share	0.140	0.140	0.152	0.152	0.584
Dividend declared per common share	0.140	0.292	-	0.152	0.584
Price range of common stock					
- high	25.17	26.62	28.12	25.78	28.12
- low	20.61	23.52	24.01	22.69	20.61
2012					
Operating revenues	$ 164,024	$ 191,690	$ 214,565	$ 187,481	$ 757,760
Operations and maintenance expense	64,825	63,571	71,268	72,179	271,843
Operating income	61,839	87,032	100,535	72,111	321,517
Income from continuing operations	26,889	41,780	50,284	65,134	184,087
Income/(loss) from discontinuing operations	11,015	(335)	375	1,421	12,476
Net income attributable to common shareholders	37,904	41,445	50,659	66,555	196,563
Basic income from continuing operations per common share	0.16	0.24	0.29	0.37	1.06
Diluted income from continuing operations per common share	0.15	0.24	0.29	0.37	1.05
Basic income from discontinued operations per common share	0.06	0.00	0.00	0.01	0.07
Diluted income from discontinued operations per common share	0.06	0.00	0.00	0.01	0.07
Basic net income per common share	0.22	0.24	0.29	0.38	1.13
Diluted net income per common share	0.22	0.24	0.29	0.38	1.12
Dividend paid per common share	0.132	0.132	0.132	0.140	0.536
Dividend declared per common share	0.132	0.132	0.272	-	0.536
Price range of common stock					
- high	18.20	20.14	21.54	20.75	21.54
- low	16.85	17.22	19.25	19.32	16.85

All per share data presented above has been adjusted for the 2013 5-for-4 common stock split effected in the form of a 25% stock distribution.

High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape. The cash dividend paid in September 2013 of $0.152 was declared in May 2013, and the cash dividend paid in December 2012 of $0.140 was declared in August 2012.

Summary of Selected Financial Data (Unaudited)
Aqua America, Inc. and Subsidiaries
(In thousands of dollars, except per share amounts)

Years ended December 31,	2013	2012	2011	2010	2009
PER COMMON SHARE:					
Income from continuing operations					
Basic	$ 1.16	$ 1.06	$ 0.82	$ 0.68	$ 0.58
Diluted	1.16	1.05	0.82	0.68	0.58
Income from discontinuing operations					
Basic	0.09	0.07	0.01	0.04	0.03
Diluted	0.09	0.07	0.01	0.04	0.03
Net income					
Basic	1.26	1.13	0.83	0.72	0.61
Diluted	1.25	1.12	0.83	0.72	0.61
Cash dividends declared and paid	0.58	0.54	0.50	0.47	0.44
Return on Aqua America stockholders' equity	14.4%	14.2%	11.4%	10.6%	9.4%
Book value at year end	$ 8.68	$ 7.91	$ 7.21	$ 6.82	$ 6.50
Market value at year end	23.59	20.34	17.64	17.98	14.01
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues	$ 768,643	$ 757,760	$ 687,291	$ 660,186	$ 609,897
Depreciation and amortization	124,793	116,996	108,300	111,716	107,118
Interest expense, net (1)	77,316	77,757	77,804	73,393	66,345
Income from continuing operations before income taxes	227,683	250,968	210,794	191,319	162,066
Provision for income taxes	22,690	66,881	69,111	74,940	63,626
Income from continuing operations	204,993	184,087	141,683	116,379	98,440
Income from discontinued operations	16,307	12,476	1,386	7,596	5,913
Net income attributable to common shareholders	221,300	196,563	143,069	123,975	104,353
BALANCE SHEET HIGHLIGHTS:					
Total assets	$ 5,051,817	$ 4,858,517	$ 4,348,420	$ 4,072,466	$ 3,749,862
Property, plant and equipment, net	4,167,293	3,936,163	3,530,942	3,276,517	3,032,916
Aqua America stockholders' equity	1,534,835	1,385,704	1,251,313	1,174,254	1,108,904
Long-term debt, including current portion	1,554,871	1,588,992	1,475,886	1,519,457	1,404,930
Total debt	1,591,611	1,669,375	1,583,657	1,609,125	1,432,361
ADDITIONAL INFORMATION:					
Operating cash flows from continuing operations	$ 366,720	$ 377,485	$ 352,041	$ 244,717	$ 244,318
Capital additions	308,171	347,985	325,808	308,134	266,190
Net cash expended for acquisitions of utility systems and other	14,997	121,248	8,515	8,625	3,373
Dividends on common stock	102,889	93,423	87,133	80,907	74,729
Number of utility customers served (2)	941,008	968,357	966,136	962,970	953,437
Number of shareholders of common stock	25,833	26,216	26,744	27,274	27,984
Common shares outstanding (000)	176,751	175,209	173,519	172,219	170,607
Employees (full-time) (2)	1,553	1,619	1,615	1,632	1,632

All per share data presented above has been adjusted for the 2013 5-for-4 common stock split effected in the form of a 25% stock distribution.

(1) Net of allowance for funds used during construction and interest income.

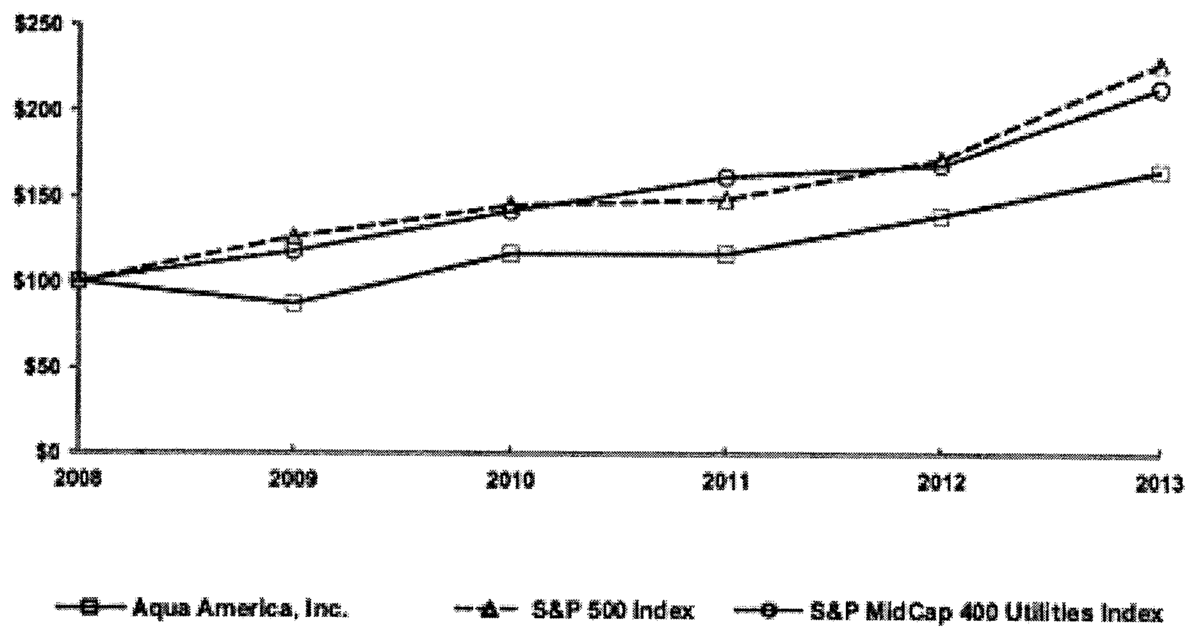
(2) Includes continuing and discontinued operations.

Stock Price Performance

The graph below matches the cumulative 5-Year total return to shareholders of Aqua America, Inc.'s common stock with the cumulative total returns of the S&P 500 Index and the S&P MidCap 400 Utilities Index, a customized peer group of seventeen companies that includes: Alliant Energy Corp., Aqua America Inc., Atmos Energy Corp., Black Hills Corp., Cleco Corp., Great Plains Energy Inc., Hawaiian Electric Industries Inc., Idacorp Inc., MDU Resources Group Inc., National Fuel Gas Company, OGE Energy Corp., PNM Resources Inc., Questar Corp., UGI Corp., Vectren Corp., Westar Energy Inc. and WGL Holdings Inc. The graph assumes that the value of the investment in our common stock, in each index, and in the peer group (including reinvestment of dividends) was $100 on 12/31/2008 and tracks it through 12/31/2013.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURN*

Among Aqua America, Inc., the S&P 500 Index, and S&P MidCap 400 Utilities Index



*$100 invested on 12/31/08 in stock or index, including reinvestment of dividends
Fiscal year ending December 31.

	Years as of December 31,					
	2008	2009	2010	2011	2012	2013
Aqua America, Inc.	100.00	87.77	116.28	117.29	139.10	165.20
S&P 500 Index	100.00	126.46	145.51	148.59	172.37	228.19
S&P MidCap 400 Utilities Index	100.00	118.01	141.79	162.03	168.86	213.17
The stock price performance included in this graph is not necessarily indicative of future stock price performance.						

Financial Reports and Investor Relations
Copies of the company's public financial reports, including annual reports and Forms 10-K and 10-Q, are available online and can be downloaded from the Investor Relations section of our Website at www.aquaamerica.com. You may also obtain these reports by writing to us at:

Investor Relations Department
Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489

Corporate Governance
We are committed to maintaining high standards of corporate governance and are in compliance with the corporate governance rules of the Securities and Exchange Commission (SEC) and the New York Stock Exchange. Copies of our key corporate governance documents, including our Corporate Governance Guidelines, Code of Ethical Business Conduct, and the charters of each committee of our Board of Directors can be obtained from the corporate governance portion of the Investor Relations section of our Website, www.aquaamerica.com. Amendments to the Code, and in the event of any grant of waiver from a provision of the Code requiring disclosure under applicable SEC rules will be disclosed on our Website.

Annual Meeting
8:30 a.m. Eastern Daylight Time
Wednesday, May 7, 2014
Drexelbrook Banquet Facility and Corporate Center
4700 Drexelbrook Drive
Drexel Hill, PA 19026

Transfer Agent and Registrar
Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078
800.205.8314 or 781.575.3100
www.computershare.com

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP
Two Commerce Square
Suite 1700
2001 Market Street
Philadelphia, PA 19103-7042

Stock Exchange
The Common Stock of the company is listed on the New York Stock Exchange and under the ticker symbol **WTR**.

Dividend Reinvestment and Direct Stock Purchase Plan
The company's Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") enables shareholders to reinvest all, or a designated portion of, dividends paid on up to 100,000 shares of Common Stock in additional shares of Common Stock at a 5 percent discount from a price based on the market value of the stock. In addition, shareholders may purchase additional shares of Aqua America Common Stock at any time with a minimum investment of $50, up to a maximum of $250,000 annually. Individuals may become shareholders by making an initial investment of at least $500. A Plan prospectus may be obtained by calling Computershare Trust Company at 800.205.8314 or by visiting www.computershare.com/investor. Please read the prospectus carefully before you invest.

IRA, Roth IRA, Education IRA
An IRA, Roth IRA or Coverdell Education Savings Account may be opened through the Plan to hold shares of Common Stock of the company and to make contributions to the IRA to purchase shares of Common Stock. Participants in the Plan may roll over an existing IRA or other qualified plan distribution in cash into an IRA under the Plan to purchase the company's Common Stock. Participants may also transfer the company's Common Stock from an existing IRA into an IRA under the Plan. A prospectus, IRA forms and a disclosure statement may be obtained by calling Computershare Trust Company at 800.597.7736. Please read the prospectus carefully before you invest.

Direct Deposit
With direct deposit, Aqua America cash dividends are deposited automatically on the dividend payment date of each quarter. Shareholders will receive confirmation of their deposit in the mail. Shareholders interested in direct deposit should call the company's transfer agent at 800.205.8314.

Delivery of Voting Materials to Shareholders Sharing an Address
The SEC's rules permit the Company to deliver a Notice of Internet Availability of Proxy Materials or a single set of proxy materials to one address shared by two or more of the Company's shareholders. This is intended to reduce the printing and postage expense of delivering duplicate voting materials to our shareholders who have more than one Aqua America stock account. A separate Notice of Internet Availability or proxy card is included for each of these shareholders. If you received a Notice of Internet Availability you will not receive a printed copy of the proxy materials unless you request it by following the instructions in the notice for requesting printed proxy materials.

How to Obtain a Separate Set of Voting Materials

If you are a registered shareholder who shares an address with another registered shareholder and have received only one Notice of Internet Availability of Proxy Materials or set of proxy materials and wish to receive a separate copy for each shareholder in your household for the 2014 annual meeting, you may write or call us to request a separate copy of this material at no cost to you at Attn: Investor Relations, Aqua America, Inc., 762 W. Lancaster Avenue, Bryn Mawr, PA, 19010 or 610.645.1196. For future annual meetings, you may request separate voting material by calling Broadridge at 800.542.1061, or by writing to Broadridge Financial Solutions, Inc., Householding Department, 51 Mercedes Way, Edgewood, New York 11717.

Account Access

Aqua America shareholders may access their account by visiting www.computershare.com/investor. Shareholders may view their account, purchase additional shares, and make changes to their account. To learn more, visit www.computershare.com/investor or call 800.205.8314.

Dividends

Aqua America has paid dividends for 69 consecutive years. The normal Common Stock dividend dates for 2014 and the first six months of 2015 are:

Declaration Date	Ex-Dividend Date	Record Date	Payment Date
February 3, 2014	February 13, 2014	February 18, 2014	March 1, 2014
May 1, 2014	May 14, 2014	May 16, 2014	June 1, 2014
August 1, 2014	August 13, 2014	August 15, 2014	September 1, 2014
November 3, 2014	November 12, 2014	November 14, 2014	December 1, 2014
February 2, 2015	February 11, 2015	February 13, 2015	March 1, 2015
May 1, 2015	May 13, 2015	May 15, 2015	June 1, 2015

To be an owner of record, and therefore eligible to receive the quarterly dividend, shares must have been purchased before the ex-dividend date. Owners of any share(s) on or after the ex-dividend date will not receive the dividend for that quarter. The previous owner—the owner of record—will receive the dividend.

Only the Board of Directors may declare dividends and set record dates. Therefore, the payment of dividends and these dates may change at the discretion of the Board.

Dividends paid on the company's Common Stock are subject to Federal and State income tax.

Lost Dividend Checks and Stock Certificates

Dividend checks lost by shareholders, or those that might be lost in the mail, will be replaced upon notification of the lost or missing check. All inquiries concerning lost or missing dividend checks should be made to the company's transfer agent, Computershare, at 800.205.8314. Shareholders should call or write Computershare to report a lost certificate. Appropriate documentation will be prepared and sent to the shareholder with instructions.

Safekeeping of Stock Certificates

Under the Direct Stock Purchase Plan, shareholders may have their stock certificates deposited with the transfer agent for safekeeping free of charge. Stock certificates and written instructions should be forwarded to: Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078.

Notes

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Corporate Information

Board of Directors

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer
Aqua America, Inc.
Director since 1992

Michael L. Browne
President and Chief Operating Officer
Harleysville Insurance
Director since 2013

Mary C. Carroll
Non-profit Advisor and Civic Volunteer
Director since 1981

Richard H. Glanton
Chairman
Philadelphia Television Network
Director since 1995

Lon R. Greenberg
Chairman
UGI Corporation
Director since 2005

William P. Hankowsky
Chairman, President and Chief Executive Officer
Liberty Property Trust
Director since 2004

Wendell F. Holland, Esq.
Partner
CFSD Group, LLC
Director since 2011

Mario Mele
President
Fidelio Insurance Company and Dental Delivery Systems, Inc.
Director since 2009

Ellen T. Ruff
Partner
McGuireWoods LLP
Director since 2006

Andrew J. Sordoni, III
Chairman
Sordoni Construction Services, Inc.
Director since 2006

Officers

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

Christopher H. Franklin
Executive Vice President
President and Chief Operating Officer, Regulated Operations

Karl M. Kyriss
Executive Vice President
President, Aqua Capital Ventures

Christopher P. Luning
Senior Vice President, General Counsel and Secretary

William C. Ross
Senior Vice President, Engineering and Environmental Affairs

Robert A. Rubin
Senior Vice President
Controller and Chief Accounting Officer

David P. Smeltzer
Executive Vice President
Chief Financial Officer

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AQUA[SM]

Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, Pennsylvania 19010
877.987.2782
AquaAmerica.com
NYSE: WTR

Attachment 4

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 17

UTILITY SERVICE AGREEMENT

THIS Utility Service Agreement ("Agreement") is made as of September 1, 2014, by and among HARRIS COUNTY IMPROVEMENT DISTRICT NO. 17, a municipal management district and political subdivision of the State of Texas created operating pursuant to Article XVI, Section 59 and Article III, Section 16 of the Texas Constitution Chapter 375, Texas Local Government Code and Chapters 49 and 54, of the Texas Water Code (the "District"), AQUA TEXAS, INC., a Texas corporation, whose corporate headquarters and principal place of business is at 1106 Clayton Lane, Suite 400W, Austin, Texas 78723 (the "Utility") and MERENCO REALTY, INC., a Texas corporation whose office is located at 520 Post Oak, Suite 457, Houston, Texas 77027 (the "Developer"). The Developer, District and Utility are sometimes hereinafter referred to singularly as a "Party", and collectively as the "Parties".

BACKGROUND AND RECITALS

1. The District has the authority to provide water, sewer, drainage and other utility and public services to the residents and area within and outside of its boundaries.

2. The Utility is the owner and operator of private water and wastewater utilities throughout the state of Texas.

3. The Developer is the owner of a substantial portion of a 620.652 acre tract of land located in Harris County, Texas, and more particularly described in Exhibit "A" attached hereto (the "Property") and has contractual obligations to provide water and wastewater utility service to the Property.

4. The Property is located inside the boundaries of the District or, as to a certain 3.256 acre tract, will be annexed into the District following the execution of this Agreement.

5. The Property is located within the boundaries of one or more of the Utility's Certificates of Convenience and Necessity ("CCN") issued by the Texas Commission on Environmental Quality ("TCEQ") to the Utility or will be added to the Utility's CCN following the execution of this Agreement.

6. The Developer and the District both desire to utilize the Utility as the sole and exclusive provider of water and wastewater for the Property, the District is willing to

permit the Utility to serve water and wastewater customers within the District based on the consideration in this Agreement, and the Utility is willing to be the sole and exclusive water and wastewater service provider for the Property on the conditions stated in this Agreement.

7. The Utility represents that it has sufficient capacity or will timely build sufficient capacity in its regional water and wastewater systems to provide continuous and adequate retail utility services to the Property in accordance with the laws of the State of Texas and the rules of the TCEQ.

8. The Utility is willing to reimburse the Developer for certain expenses incurred by the Developer in designing, planning and installing water and wastewater lines which become part of the Utility's utility systems.

9. The District is willing to reimburse the Utility for certain expenses associated with the provision of water and wastewater services to customers in the District pursuant to the terms and conditions described in this Agreement.

10. Utility is willing to reimburse Developer for certain water and wastewater infrastructure costs as ESFC connections are made, pursuant to the terms and provisions of such reimbursement which are specified in a separate agreement between Utility and Developer to which the District is not a party.

In consideration of the mutual covenants and consideration exchanged and contained in this Agreement, and intending to be legally bound, the Utility, the District, and the Developer agree as follows:

ARTICLE I.
DEFINITIONS AND GENERAL AGREEMENTS

1.01 DEFINITIONS.

The Parties agree that the facts stated in the recitals of this Agreement are true and correct. The capitalized terms used in this Agreement shall have the meaning ascribed to them as used in the Recitals or in this section.

a. "Actual Connections" shall mean the actual number of ESFC's connected to the Facilities.

b. "Central Plants" shall mean the central water and wastewater treatment plants which provide retail water and/or wastewater utility service to Customers in the Property and other property inside or outside the boundaries of the District.

c. "CCN" shall mean one or more Certificates of Convenience and Necessity of the Utility issued by a Regulatory Authority permitting utility service by the Utility to any Customer within the District.

d. "Customer" shall mean a residential or commercial customer of the Utility served by the Facilities.

e. "Default" shall mean (i) a substantial failure on the part of Utility to provide safe, continuous, and adequate water or wastewater services to the Customers, which failure goes uncured for a significantly extended period of time without good faith efforts on the part of the Utility to cure such default; (ii) a determination or finding that Utility has received Habitual Violations as defined in this Agreement; or (iii) any other event specifically designated in this Agreement which triggers a Default. Any event, occurrence, breach, or violation caused by Force Majeure shall not be a Default unless such event, occurrence, breach, or violation also involves negligence on the part of the Utility.

f. "Delivery Date" shall mean the date on which the parties agree that any portion of the Facilities shall be constructed and on line as stated on Exhibit "C", attached hereto and the actual date on which each portion of the Facilities is placed in service.

g. "ESFC" shall mean equivalent single family connections, where one ESFC is equal to 250 gallons per day for water and 200 gallons per day for sewer.

h. "Facilities" shall mean the Central Plants and any Lines which serve Customers of the Utility within the District.

i. "Force Majeure" shall mean Shall mean an event or occurrence that renders the Utility or the District unable, wholly or in part, by force majeure to carry out its obligations under this Agreement, including but not limited to the following: The term "force majeure," as employed herein shall mean acts of God, strikes, lockouts, or other industrial disturbances, acts of the public enemy, orders of any kind of the government of the United States or of the state or any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, storms, floods, washouts, disturbances, explosions, partial or entire failure of utilities, shortages of labor, material, supplies or transportation, or any other similar or different cause not reasonably within the control of the Party claiming such inability.

j. "Habitual Violations" shall mean the receipt of four (4) separate Notices of Breach from the District to the Utility during any calendar year which affect the health and safety of the customer of the System. Breaches or violations caused by a Force Majeure as defined herein and which do not involve negligence of the Utility shall be excluded from the definition of Habitual Violations and shall not be considered when determining Habitual Violations.

k. "Hold and Haul Costs" shall mean the total costs associated with the process of holding wastewater in a temporary tank or containment and periodically hauling it to a permitted wastewater treatment facility for treatment. Items eligible for reimbursement shall include third party haulers, holding facility maintenance and cleaning, administrative oversight and additional insurance.

l. "Interior Lines" shall mean water and/or wastewater collection lines, laterals, mains, extensions and all related improvements, which transport water and/or wastewater to and/or from the Property or Customers from the regional water production facilities and/or to the regional wastewater treatment plant and/or water production facilities designated by Utility including, but not limited to, mains, laterals, lines, extensions, piping, taps, stub outs, gate valves, valve boxes, manholes, lift stations and any maintenance or restoration work associated with the construction and installation of such items.

m. "Minimum Sewer Payment" shall mean the minimum base monthly residential sewer bill amount under the Rate Tariff of the Utility.

n. "Minimum Water Payment" shall mean the minimum base monthly residential water bill amount (including per gallon usage of 7000 gallons per month) under the Rate Tariff of the Utility.

o. "Minimum Water Connection Costs" shall mean an amount equal to the Minimum Water Payment times seventy (70) less the actual income received from the ESFCs connected to the System, which amount is stipulated to be $4,625.00 per month or $55,500 per year.

p. "Property" shall mean an approximately 620.652 acre tract of land located within the boundaries of the District and more particularly described in Exhibit "A" and any additional land which is annexed into the District and which is served by the Central Plants.

q. "Purchase Price" shall mean with respect to a Default, an amount equal to the amount determined pursuant to Section 5.04 of this Agreement.

r. "Rate Tariff" shall mean the order approved by the appropriate Regulatory authority for utility customers of the Utility.

s. "Regulatory Authority" shall mean any state of federal regulatory agency with jurisdiction over the System or any Party, including the TCEQ and the PUC.

t. "Regulatory Requirements" shall mean the rules of any Regulatory Authority.

u. "Service Commencement Date" shall mean the date on which any Central Plant has been constructed and is operational with Customers receiving service.

v. "System" shall mean the Facilities and any other facilities of the Utility which serve customers of the Utility connected to or serving any customer within or outside the District.

w. "TCEQ" shall mean Texas Commission on Environmental Quality.

x. "PUC" shall mean the Texas Public Utility Commission.

1.02. **GENERAL AGREEMENTS.** The general concept of this Agreement and the intent of the parties with respect to this Agreement and all associated documents executed in connection herewith are as follows:

a. The Property shall be included in the Utility's CCN service area and the District will not provide water or wastewater service to the Property or Customers in the District.

b. All connections in the Property to the Utility's water and/or wastewater systems shall become permanent retail and/or commercial customers of the Utility, the Utility shall provide safe continuous and adequate water and wastewater service to all customers in accordance with all Regulatory Requirements and the customers shall pay the Utility in accordance with the Rate Tariff in effect from time to time for the water and/or wastewater services provided by the Utility.

c. The Utility shall be responsible for the design and construction of the Central Plants sufficient to serve all existing and planned Customers within the Property as connections are added. Developer shall be responsible for the design and construction of the Interior Lines, and Utility shall reimburse Developer pursuant to the terms and provisions in a separate agreement between Utility and Developer to which the District is not a party. Developer has previously taken steps to secure a wastewater permit and plant Sites, and Utility shall acquire such permits and Sites from Developer pursuant to the terms and provisions in a separate agreement between Utility and Developer to which the District is not a party.

d. The Utility shall provide timely service to the Property by installation of the Facilities sufficient to serve Customers in the District at the time service is needed by the Developer and the District. It is also the intent of the Parties that the Customers within the District are provided safe, sufficient and adequate water and wastewater service meeting all Regulatory Requirements.

e. The Utility shall deliver a copy of any notices of violation of any Regulatory Authority rule, regulation or statute within five (5) business days of receipt.

f. The Utility shall be responsible for the operations and maintenance of the Facilities in accordance with all Regulatory Requirements. The District shall reimburse the Utility for certain of the early stage development operations and maintenance expenses as provided herein.

g. The District may purchase all of the Facilities from the Utility following a Default as defined above pursuant to the provisions of Article V below.

ARTICLE II.
SERVICE

2.01 **Exclusive Service Rights.** The District hereby grants the Utility the exclusive right to serve all customers within the Property with the Facilities subject only to Article V of this Agreement. The Utility may serve areas outside the District with the Central Plants as provided in Article IV.

2.02 **Consent to CCN Service Area.** Within ten days of the execution of this Agreement, Utility shall file an application to add the Property to the Utility's CCN for water and for wastewater. The Developer and the District agree that each shall consent to such application and neither shall in any way object to the application. The District is not required to obtain and does not have a CCN for the Property. The District hereby consents to water and wastewater service by the Utility within the District and the inclusion of the portion of the District encompassing the Property in the CCN of the Utility. The District and Developer shall provide any reasonable and prompt assistance to Utility in adding the Property to the Utility's CCN and for obtaining, if necessary, any other permits required to deliver utility service to Customers in the District promptly upon request from Utility.

2.03 **Rate Tariff.** All connections to the Utility water and/or wastewater systems shall become permanent customers of Utility; and such customers shall be obligated to pay water and wastewater bills for use of such systems in accordance with the then current Rate Tariff approved by any Regulatory Authority.

2.04 **Construction.**

a. The Utility shall be solely responsible for the design, engineering, installation, and construction of the Central Plants needed to serve the Property as Customers are added to the System. All construction shall be in accordance with all applicable rules of any Regulatory Authority.

b. Developer shall be solely responsible for the design, engineering, installation, and construction of the Interior lines needed to serve the Property as Customers are added to the System. All construction shall be in accordance with all applicable rules of any Regulatory Authority.

c. The Utility and Developer shall, at their respective sole cost and expense, design and construct the Central Plants and Interior Lines to serve the Property in accordance with the general layout attached hereto as Exhibit "B" and in accordance with the schedule attached hereto as Exhibit "C". Failure of Utility to have the Central Plants designed, constructed and on line on the Delivery Date shall be a Default. Developer's failure to have the Interior Lines designed, constructed and on line on the Delivery Date shall not be Default.

d. The District and/or Developer shall inform the Utility of the progress of development on the Property, and the Utility shall inform the District and the Developer of the capacity of the System. All reports shall be in writing. The Developer and/or District shall specify the number of ESFC projected forward for up to two (2) years in advance. Upon agreement of the Parties that an expansion of the Facilities is required or when any Central Plant is at 75% of capacity, the Utility shall prepare a schedule for design and construction of the expansion which shall be attached hereto as an additional page to Exhibit "C" when agreed upon by the Utility, the Developer and the District. Failure to have the expansion of the Facilities designed, constructed and on line on or before the Delivery Date shall be a Default.

ARTICLE III.
COMPENSATION

3.01 **Reimbursement to Utility for Interim Wastewater Costs.**

a. During the preliminary stages of development of the Property the Parties acknowledge and agree that the most effective means of providing wastewater service is via Hold and Haul. The District shall reimburse Utility for all Hold and Haul Costs associated with the Property less the actual minimum sewer payments income received from actual connections on the Property. The District shall reimburse

Utility within forty-five (45) days of presentation of a bill for such costs, no more than two times per year.

b. Term of Wastewater Reimbursement. The Districts' obligation to reimburse the Utility for Hold and Haul Costs shall commence on the date the Facilities have Customers connected which are receiving water utility service and shall terminate on the earlier of the Delivery Date or the Service Commencement Date for the Central Wastewater Plant serving the Property.

3.02 **Reimbursement for Interim Water Service.**

a. Minimum Water Connection Costs. During the preliminary stages of development, the District and the Developer acknowledge that Utility must receive the funds equal to the revenue generated by at least seventy residential water connections in order to efficiently provide water service to the Property. Accordingly, the District shall reimburse Utility for Minimum Water Connection Costs. The District shall pay the Utility within forty-five (45) days of presentation of an invoice for such costs, no more than two times per year.

b. Term of Water Reimbursement. The District's obligation to reimburse Utility for Minimum Water Connection Costs shall commence on the Water Central Plant Service Commencement Date and shall terminate when there are seventy (70) ESFCs Actual Connections to the Utility's Water System.

ARTICLE IV.
LIMITATIONS AND EXCLUSIONS

4.01 Utility shall be free to provide water and/or wastewater service to other customers not on the Property or in the District using the Central Facilities, so long as Utility is not in Default as defined above and so long as rates to such other customers are not more favorable than rates available to Customers within the District, unless Utility is required to do so by a Rate Tariff approved by a Regulatory Authority.

4.02 The Utility shall not be obligated to provide water or service for fire protection unless and until (a) any Regulatory Authority specifically approves a Rate Tariff which includes the recovery of all fire protection costs (capital as well as operations) incurred by the Utility in such tariff; or (b) the District or the Developer pay to the Utility any incremental cost of upsizing the System to meet all existing fire protection requirements.

4.03 The District shall be free to provide water and wastewater services to other parties and tracts in the District which are not in the Property.

ARTICLE V.
DEFAULT AND REMEDIES

5.01 **Notice of Default by Utility and Opportunity to Cure.** During the Term this Agreement, if the District determines that Utility has committed a substantial failure as contemplated by Section 1.01(e)(i) of this Agreement, the District shall provide written notice of said breach ("Notice of Breach") to Utility by certified or registered mail, return receipt requested, or by fax with proof of receipt, setting forth a reasonable description of the purported material breach. Utility shall commence curing such purported material breach within ten (10) calendar days after receipt of such Notice of Breach and shall diligently pursue and complete such cure without unreasonable cessation of activities within sixty (60) days from the date of said Notice. In the event that Utility fails to cure the purported material breach within such sixty (60) day period, the District shall have the right to declare Utility in default of this Agreement and to proceed with the purchase of the System as provided in Section 5.04 of this Agreement, provided, however, if the breach is not reasonably susceptible to cure by Utility within such sixty (60) day period, the District agrees that it will not declare Utility in default of this Agreement so long as Utility has diligently pursued such cure within the foregoing sixty (60) days and diligently completes the work, without unreasonable cessation, within a reasonable time thereafter. The time authorized by this Agreement to cure the breach is the "Cure Period." The District shall provide written notice to Utility immediately upon acceptance of the cure of any such breach. Conversely, in the event that Utility fails to cure a material breach of this Agreement within the Cure Period provided for herein, the District shall have the right to declare Utility in default of this Agreement and to proceed with the purchase of the System as provided in Section 5.04 of this Agreement.

5.02 **Default.** The occurrence of Habitual Violations or other uncured Default shall trigger an Option by the District to purchase the System pursuant to this Article of this Agreement.

5.03 **Dispute Resolution.** Notwithstanding anything to the contrary set forth herein, in the event that the District declares Utility to be in default of this Agreement, and Utility contests said declaration in writing in accordance with the notice provisions of this Agreement, the District and Utility agree to meet, within ninety (90) days of receipt of each party's respective written notices, to negotiate in good faith and attempt to resolve any conflicts. In the event that that the District and Utility are not able to resolve such conflict to their mutual satisfaction, the District and Utility agree to submit to mediation and shall participate in such mediation in good faith. Each party shall bear its own expenses in connection with any such mediation. Neither party is prohibited from initiating litigation to resolve any controversy between the parties; except that District and Utility agree that prior to any trial on the merits concerning a controversy, the parties shall submit to mediation and shall participate in such mediation in good faith.

5.04 **Option to Purchase.**

a. Grant of Option. In consideration of Ten dollars ($10.00) and other good and valuable consideration, including the covenants and agreements contained in this Agreement, in the event of a Default, the Utility grants to the District an exclusive option to purchase the Facilities (the "Option") at the Purchase Price.

b. Exercise of Option. The District may, but is not obligated, to exercise the Option after a Default by the Utility. The Option may be exercised by delivery of a notice from the District to the Utility stating that a Default exists, and that the District has elected to exercise its Option to purchase the Facilities and that the District has complied with any notice, cure, and dispute resolution provisions of this Agreement.

c. Determination of Purchase Price. Upon delivery of the notice of exercise of the Option, each of the Utility and the District shall engage an appraiser within thirty (30) calendar days to appraise the Facilities subject to the Option. The appraisers shall be qualified to make real estate appraisals and business appraisals. Each appraisal shall take into consideration the age and condition of the System, the income generated from current Customers of the Facilities, income to be generated from future Customers of the Utility to be connected to the Facilities pursuant to verifiable contracts and commitments for additional development, and the requirements of any Regulatory Authority. The completed appraisals shall be delivered to the party requesting the appraisal within forty-five (45) days after engagement, and each party shall exchange its appraisal with the other no later than the fifth (5^{th}) calendar day after the last of the appraisals is complete. In the event the two (2) appraisals are within ten (10%) of each other, the Purchase Price shall be an amount equal to the average of the two (2) appraisals. In the event the two (2) appraisals are not within ten (10%), within ten (10) calendar days of the exchange of the appraisals, the two (2) appraisers shall agree on and engage a third appraiser who shall appraise the Facilities in the manner described above. The third appraisal shall be delivered to the Parties within forty-five (45) days of engagement. The average of the three (3) appraisals shall be the Purchase Price. Each Party shall be responsible for the cost of its appraisal and the Parties shall each pay 50% of the cost of the third appraiser, if any. Failure of any Party to timely engage an appraiser or deliver, pay for or pursue any portion of the appraisal or closing process shall be a Default. The Purchase Price for the Facilities shall not be lower than the amount at which the Facilities are accounted for and reflected in the Utility's rate base, that amount being actual original cost less depreciation.

5.05 **Right of First Refusal.**

a. Limited to System. The District shall have a right of first refusal to purchase the Facilities, if the Utility elects to sell the System which includes the Facilities to an unrelated third party. This right of first refusal shall not exist if Utility's sale of the System includes other assets or systems owned by the Utility, nor shall it apply if the Utility transfers ownership of the System or the Facilities to an affiliated entity.

b. Notice of Event. Within ten (10) calendar days after receipt and acceptance by the Utility of a bona fide offer to sell the Facilities as described in section 5.04(a) above, the Utility shall notify the District of such offer.

c. Exercise of Right of First Refusal. The District shall notify the Utility within forty-five (45) days of receipt of notice thereof from Utility whether District intends to exercise its right of first refusal to purchase the Facilities.

d. Determination of Purchase Price. The right of first refusal to purchase the Facilities from the Utility shall be at a purchase price equal to the amount of the bona fide offer. The existence of this right of first refusal shall be disclosed by Utility to any potential party of any of the transactions contemplated.

5.05 **Closing.** Upon determination of the Purchase Price the District shall submit to the TCEQ (a) a bond application to issue an amount of bonds sufficient to pay the Purchase Price plus any costs of the transaction and (b) an application for consent to purchase the Facilities or Systems covered by the bond application, together with such appraisals, engineering reports and other data in support of such applications as may be reasonably required to obtain approval. The District shall pursue each application and upon approval of both applications by the TCEQ, shall close and fund the purchase of the System and/or Facilities. If the sale of the bonds and the closing and funding of the Facilities at the Purchase Price does not occur within one hundred twenty (120) days after the determination of the Purchase Price, the District's ability to purchase the Facilities shall terminate. The Utility shall cooperate and shall execute any documents reasonable required by the District to consummate the transactions contemplated by this Agreement and take any action as may be required by 30 T.A.C. Section 293.69 or other Regulatory Requirement. After Closing and Funding, the Utility shall immediately file all documentation with each Regulatory Authority to terminate the CCN of the Utility over the Property and the District.

ARTICLE VI.
MISCELLANEOUS

6.01 **Governing Law.** This Agreement, all attachments hereto, and all documents and instruments to be furnished or delivered hereto, shall be governed by the laws of the State of Texas without giving effect to conflicts of laws principles.

6.02 **Assignment; Change in Ownership.** No Party shall assign its rights and obligations under this Agreement, directly or indirectly, voluntarily or involuntarily, without the prior written approval of all other Parties, which consent shall not be unreasonably withheld. It is expressly agreed that the Developer may assign all rights and obligations under this Agreement to any person which purchases a substantial amount of the land in the District. Any assignment by the Utility may be subject to the right of first refusal in favor of the District as provided in Section 5.04.

6.03 **Taxes.** All federal, state and local taxes, excise taxes, permit fees, and similar fees and taxes in connection with this Agreement, including without limitation, any sales or use taxes and taxes on contributions in aid of construction, any and all income taxes imposed on any party, shall be paid by the party incurring said tax obligation.

6.04 **Survival of Provisions on Contribution or Termination.** All warranties, representations, Agreements and covenants made by any Party in this Agreement, or in any document or instrument referred to in, or to be delivered or furnished pursuant to, this Agreement, will survive any termination of this Agreement.

6.05 **Entire Agreement; Amendments.** This Agreement, together with all exhibits and attachments, and the final executed form of all documents for which the form is set forth in the attachments, constitute the entire agreement among the Parties with respect to the matters addressed herein. Prior or contemporaneous discussions or Agreements are not part of this Agreement, and are of no force or effect. This Agreement may be modified or amended only by a writing signed by all Parties.

6.06 **Severability.** The provisions of this Agreement and all other agreements and documents referred to herein are to be deemed severable, and the invalidity or unenforceability of any provision shall not affect or impair such provision to the extent it has been deemed valid and enforceable, nor the remaining provisions, which shall continue in full force and effect.

6.07 **Third Parties.** Nothing contained in this Agreement shall be deemed to confer upon any third party any right against any of the Parties hereto.

6.08 **Headings.** The headings of any section or subsection of this Agreement are for convenience only and shall not be used to interpret any provision of this Agreement.

6.09 **Binding Agreement; Successors and Assigns.** This Agreement is binding on and will inure to the benefit of the Parties and their successors and permitted assigns.

6.10 **Notices.** Notices, demands and requests required or permitted to be given under this Agreement (collectively Notices) must be in writing and must be delivered personally or by nationally-recognized courier or sent by United States certified mail, return receipt requested, postage prepaid. Notices must be addressed to the party at its address set forth below. A notice is effective when actually received or rejected. The initial addresses of the parties may be changed by appropriate notice:

To the Developer:
Joe Bullard, President
Merenco Realty, Inc.
520 Post Oak, Suite 457
Houston, Texas 77027

To the Utility:
Robert L. Laughman, President
Aqua Texas, Inc.
1106 Clayton Lane, Suite 400W
Austin, Texas 78723

To the District:
Harris County Improvement District No. 17
c/o Johnson Petrov LLP
1001 McKinney, Suite 1000
Houston, TX 77002-6424

[SIGNATURES FOLLOW ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the day and year first above written above:

AQUA TEXAS, INC., as Utility

By: ______________________
Robert L. Laughman, President

MERENCO REALTY, INC., as Developer

By: ______________________
Joe Bullard, President

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 17, as District

By: ______________________
Joe Bullard, President

DESCRIPTION
HARRIS COUNTY IMPROVEMENT
DISTRICT NO. 17

EXHIBIT A

620.652 acres of land situated in the Chauncey Goodrich Survey, Abstract Number 305, Harris County, Texas, being the remainder of that certain called 640 acres of land, that certain called 18.9062 acres of land, that certain called 20.000 acres of land, that certain called 2.145 acres of land (Tract 1), that certain called 20.000 acres of land (Tract 2) and that certain called 5.0098 acres of land as described in deed and recorded respectively in the Official Public Records of Real Property of Harris County, Texas, under, County Clerk's File Numbers 20130384778, 20140138412, 20140049212, 20140038882 and Z484126, said 620.652 acres of land being more particularly described by metes and bounds as follows:

BEGINNING at a 1 inch iron pipe found in the North line of that certain called Boudreaux Estates, Section One, an unrecorded subdivision, for the most Southerly corner of that certain called 1.679 acres of land described in deed and recorded in the Official Public Records of Real Property of Harris County, Texas, under County Clerk's File Number L951535;

Thence, S 87°11'31" W, along the Northerly line of said Boudreaux Estates, Section One, the Northerly line of that certain called 16.349 acres of land described in deed and recorded in the Official Public Records of Real Property of Harris County, Texas, under County Clerk's File Number F196319, and a Northerly line of that certain called 617.6016 acres of land, described in deed and recorded in the Official Public Records of Real Property of Harris County, Texas, under County Clerk's File Number 20100175659, a distance of 5278.75 feet to a 1 inch iron pipe found for an interior corner of said 617.6016 acre tract;

Thence, N 02°44'11" W, along an Easterly line of said 617.6016 acre tract, a distance of 5320.55 feet to a wooden fence post found for an exterior corner of said 617.6016 acre tract;

Thence, N 87°37'49" E, along the Southerly line of that certain called Calverts Subdivision, an unrecorded subdivision, the Southerly line of Calvert Road (60 foot right-of-way) the Southerly line of those certain called 1.0240 acre, 0.4213 of one acre and 0.885 of one acre tracts described in deed and recorded respectively in the Official Public Records of Real Property of Harris County, Texas, under County Clerk's File Numbers N106888, R474620 and N343714, and the Southerly line of that certain called Alice Acres, an unrecorded subdivision, a distance of 5160.79 feet to a 5/8 inch iron rod found in the Westerly line of State Highway Number 249, (350 foot right-of-way);

Thence, S 26°12'57" E, along the Southwesterly line of said State Highway 249, a distance of 276.44 feet to a 5/8 inch iron rod set at the intersection of said Westerly right-of-way line of State Highway 249 and the Westerly line of that certain called 160 foot wide Harris County Flood Control District fee strip (Parcel "D") as described in deed and recorded in the Official Public Records of Real Property of Harris County, Texas, under County Clerk's File Number L951535;

Thence, S 02°49'41" E, along the Westerly line of said Parcel "D" and the Westerly line of said Parcel "D" and the Westerly line of the remainder of that certain called 145.78 acres of land described in deed and recorded in the Official Public Records of Real Property of Harris County, Texas, under County Clerk's File Number F014298, a distance of 751.63 feet to the most Easterly Northeast corner of that certain called 9.26 acres of land described in deed and recorded under Volume 1063, Page 557 of the Deed Records of Harris County, Texas;

Thence, N 32°03'38" W, along the Northeasterly line of said 9.26 acre tract, a distance of 204.65 feet to a fence corner for the most Northerly Northeast corner of said 9.26 acre tract;

Thence, S 87°13'07" W, along the Northerly line of said 9.26 acre tract, a distance of 442.36 feet to a fence corner found for the Northwesterly corner of said 9.26 acre tract and the most Easterly Southeast corner of that certain called 7.7884 acres of land described in deed and recorded in the Official Public Records of Real Property of Harris County, Texas, under County Clerk's File Number U519393;

EXHIBIT A

Thence, N 02°08'16" W, along the most Easterly line of said 7.7884 acre tract, a distance of 504.08 feet to a fence corner found for the most Northeasterly corner of said 7.7884 acre tract;

Thence, S 88°51'41" W, along the Northerly line of said 7.7884 acre tract, a distance of 574.65 feet to a fence corner found for the Northwesterly corner of said 7.7884 acre tract;

Thence, S 01°52'45" E, along the Westerly line of said 7.7884 acre tract, a distance of 1259.44 feet to a 5/8 inch iron rod with cap set for the most Southwesterly corner of said 7.7884 acre tract;

Thence, N 87°59'57" E, along the most Southerly line of said 7.7884 acre tract, a distance of 60.00 feet, to a 5/8 inch iron rod found for the most Southerly Southeast corner of said 7.7884 acre tract;

Thence, N 01°54'57" W, along an Easterly line of said 7.7884 acre tract, a distance of 740.30 feet to a ½ inch iron rod with cap found for an interior corner of said 7.7884 acre tract;

Thence, N 87°17'18" E, partially along a Southerly line of said 7.7884 acre tract, a distance of 294.17 feet to a ½ inch iron rod with cap found for the Northeasterly corner of said 5.0098 acre tract;

Thence, S 01°55'28" E, along the Easterly line of said 5.0098 acre tract, a distance of 743.95 feet to a ½ inch iron rod found in the most Southerly line of that certain called 28.68 acres of land described in deed and recorded in the Official Public Records of Real Property of Harris County, Texas, under County Clerk's File Number C139334, for the Southeasterly corner of said 5.0098 acre tract;

Thence, N 87°59'57" E, along the most Southerly line of said 28.68 acre tract and the Southerly line of said 9.26 acre tract, a distance of 777.34 feet to a point for corner, from which a found drill hole bears S 11°14'49" E, 0.33 feet;

Thence, S 02°49'35" E, along the Westerly line of said remainder of 145.78 acre tract, the Westerly line of that certain called 150 foot wide Harris County Flood Control District fee strip (Parcel "B") as described in deed and recorded in the Official Public Records of Real Property of Harris County, Texas, under County Clerk's File Number L951535, the most Westerly line of that certain called 64.767 acre tract of land described in deed and recorded in the Official Public Records of Real Property of Harris County, Texas, under County Clerk's File Number Y495627, and the Westerly line of said 1.679 acre tract, a distance of 3700.07 feet to the POINT OF BEGINNING and containing 620.652 acres of land.

BEARING ORIENTATION BASED ON THE DISTRICT BOUNDARY MAP FOR HARRIS COUNTY IMPROVEMENT DISTRICT NO. 17 DATED MAY 2014.

This document was prepared in conjunction with the district boundary map for Harris County Improvement District No. 17, prepared by Hovis Surveying Co., Dated May 2014.

This document was prepared under 22 TAC 663.21, does not reflect the results of an on the ground survey, and is not to be used to convey or establish interests in real property except those right and interests implied or established by the creation or reconfiguration of the boundary of the political subdivision for which it was prepared.

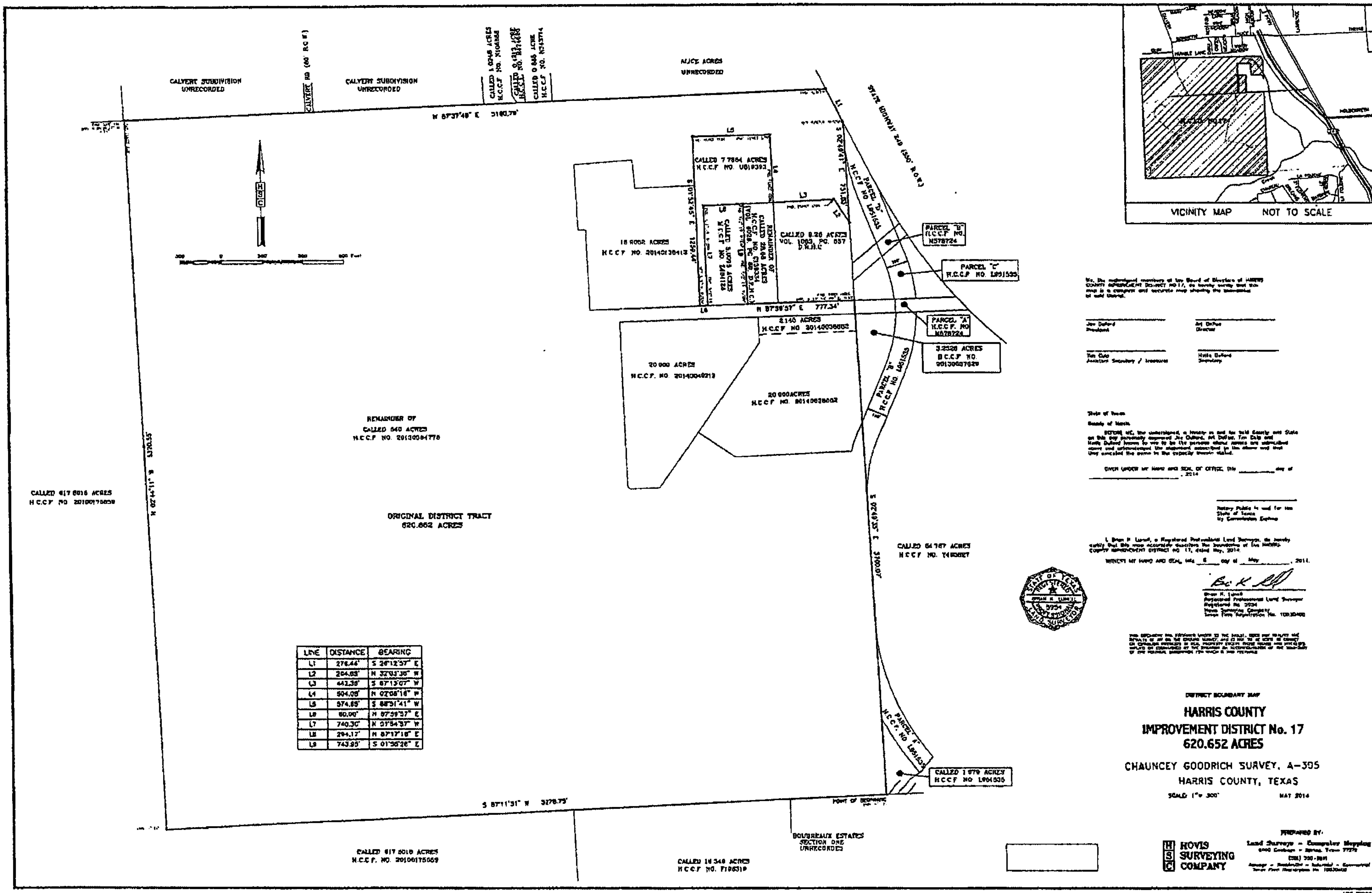
HOVIS SURVEYING COMPANY, INC.
TEXAS FIRM REGISTRATION NO. 10030400

By: ______________________

Date: May 9, 2014
Job No: 02-025-101
File No: N02-025.101D

STATE OF TEXAS
REGISTERED
BRIAN K. LUNELL
5954
PROFESSIONAL
LAND SURVEYOR

EXHIBIT A



LINE	DISTANCE	BEARING
L1	276.44'	S 26°12'37" E
L2	204.65'	N 32°03'36" W
L3	442.38'	S 87°13'07" W
L4	504.08'	N 02°08'16" W
L5	574.65'	S 88°31'41" W
L6	60.00'	N 87°39'37" E
L7	740.30'	N 01°54'37" W
L8	294.17'	N 87°17'16" E
L9	743.95'	S 01°56'26" E

DISTRICT BOUNDARY MAP

HARRIS COUNTY
IMPROVEMENT DISTRICT No. 17
620.652 ACRES

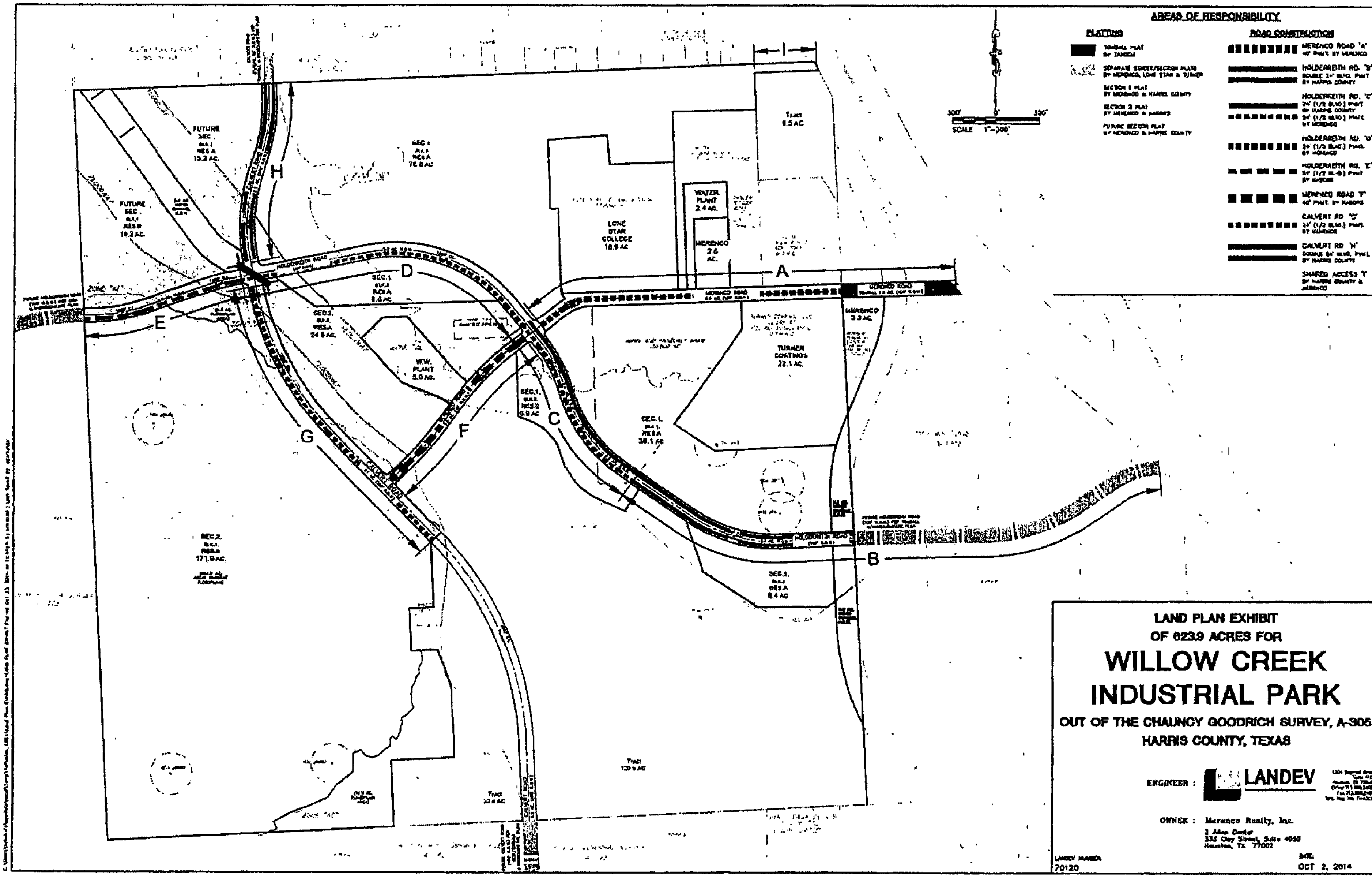
CHAUNCEY GOODRICH SURVEY, A-305
HARRIS COUNTY, TEXAS

SCALE: 1" = 300' MAY 2014

PREPARED BY:

HOVIS SURVEYING COMPANY

EXHIBIT B



WILLOW CREEK BUSINESS PARK - 70120
AREAS OF RESPONSIBILITY
PLATTING
ROAD CONSTRUCTION
SCALE 1"=300'
A
B
C
D
E
F
G
H
Tract 8.5 AC.
WATER PLANT 2.4 AC.
MERENCO 2.6 AC.
LONE STAR COLLEGE 18.9 AC.
MERENCO 3.3 AC.
TURNER COATINGS 22.1 AC.
SEC.1 BLK.1 RES.A 38.1 AC.
SEC.1 BLK.2 RES.A 8.6 AC.
SEC.1 BLK.2 RES.B 0.9 AC.
SEC.1 BLK.1 RES.A 6.4 AC.
SEC.1 BLK.1 RES.A 76.8 AC.
SEC.2 BLK.2 RES.A 24.6 AC.
W.W. PLANT 5.0 AC.
FUTURE SEC. BLK.1 RES.A 15.2 AC.
FUTURE SEC. BLK.1 RES.B 19.2 AC.
SEC.2 BLK.1 RES.A 171.9 AC.
Tract 129.4 AC.
Tract 22.8 AC.
LAND PLAN EXHIBIT
OF 623.9 ACRES FOR
WILLOW CREEK
INDUSTRIAL PARK
OUT OF THE CHAUNCY GOODRICH SURVEY, A-305
HARRIS COUNTY, TEXAS
ENGINEER : LANDEV
OWNER : Merenco Realty, Inc.
Houston, TX 77002
70120
OCT 2, 2014

ASSIGNMENT AND ASSUMPTION OF
RIGHTS AND OBLIGATIONS UNDER UTILITY SERVICE AGREEMENT

THE STATE OF TEXAS §
§ KNOW ALL MEN BY THESE PRESENTS:
COUNTY OF HARRIS §

This Assignment and Assumption of Rights and Obligations under Utility Service Agreement (the "Assignment") is executed effective as of the 23 day of December, 2014, by and between **MERENCO REALTY, INC.**, a Texas corporation (the "Assignor") and **615 WILLOW CREEK DEVELOPMENT, LTD.**, a Texas limited partnership (the "Assignee").

RECITALS

WHEREAS, Assignor, **HARRIS COUNTY IMPROVEMENT DISTRICT NO. 17**, a municipal management district and political subdivision of the State of Texas created operating pursuant to Article XVI, Section 59 and Article III, Section 16 of the Texas Constitution Chapter 375, Texas Local Government Code and Chapters 49 and 54, of the Texas Water Code (the "District"), and **AQUA TEXAS INC.**, a Texas corporation ("Aqua Texas"), entered into that certain Harris County Improvement District No. 17 Utility Service Agreement dated as of September 1, 2014 (the "Agreement"); and

WHEREAS, Assignor and Assignee have entered into an agreement for the assignment, transfer and conveyance by Assignor, and assumption by Assignee, of Assignor's right, title, and interest in and to certain properties within the District to Assignee, including any of Assignor's rights, titles, interests, obligations and benefits in, to, and under the Agreement, and all amendments, substitutions, or replacements of such Agreement;

NOW, THEREFORE, for good and valuable consideration paid to Assignor by Assignee, the receipt and adequacy of which are hereby acknowledged, Assignor and Assignee agree as follows:

1. **Assignment**. Assignor hereby grants, sells, assigns and conveys to Assignee all of the Assignor's rights, titles and interests, obligations and benefits under the Agreement, and (ii) Assignee hereby assumes all of Assignor's rights, titles, interests, obligations and benefits under the Agreement.

2. **Exception to Assignment and Assumption.** Reference is hereby made to that certain Agreement of Purchase and Sale – Unimproved Property by and between Assignor, as seller, and Nabors Corporate Services, Inc., as purchaser, as amended by that certain First Amendment date effective September 29, 2014, by that certain Second Amendment dated effective October 30, 2014, and by that certain Third Amendment dated as of December 1, 2014, (collectively, the "Nabors Contract") covering 158.62 acres of land, more or less, (the "Nabors Tract"). Reference is also

made to paragraph 2 of Addendum (Paragraph 12) of that certain Commercial Contract – Unimproved Property by and between Assignor and Assignee, as amended (the "Willow Creek Contract"). True and correct copies of the Nabors Contract and the Willow Creek Contract, are in the possession of both Assignor and Assignee.

a. As set forth of subparagraph 2a of the Addendum to the Willow Creek Contract, Assignor is responsible for certain work to be performed on the Nabors Tract, and the cost for that work, as set forth in said subparagraph 2a. Because the cost for that work is subject to reimbursement by the District, Assignor's rights, titles and interests, obligations and benefits under the Agreement for that work is hereby excepted from this Assignment.

b. Further, as set forth in subparagraph 2b of the Addendum to the Willow Creek Contract, Assignor is responsible for certain work to be performed, and the cost for that work, as set forth in said subparagraph 2b. Because the cost for that work is subject to reimbursement by the District, Assignor's rights, titles and interests, obligations and benefits under the Agreement for that work is hereby excepted from this Assignment.

3. **District and Aqua Consent to Assignment.** Assignor and Assignee acknowledge the requirements under Section 6.02 of the Agreement regarding the assignment of the rights and obligations under the Agreement to obtain the consent to such assignment by all parties to the Agreement. By the execution of this Agreement, the District and Aqua Texas confirm their respective consents to this Assignment.

   a. Nothing in this Assignment shall be construed to create any additional obligations on the part of Utility or District other than those obligations specifically set forth in the Agreement. The Parties hereto acknowledge and agree that the Obligations of Utility and District are limited to those specifically set forth in the Agreement. It is further acknowledged and agreed that Utility and/or District may enforce obligations of Assignor under the Agreement against Assignee.

   b. Assignor and Assignee, jointly, promise and agree to hold harmless and indemnify District and Utility from and against any and all losses, liabilities, damages, expenses, costs, and reasonable attorney's fees incurred by District or Utility pursuant to this Assignment or defending, protecting, enforcing, or prosecuting their interests herein. Payment of any such loss, liability, or expense so incurred shall be paid to Utility or District by Assignor and/or Assignee upon notice and demand.

4. **Assignor's Duties and Obligations Under Agreement.** All responsibilities, duties and obligations of Assignor in, to and under the Agreement are hereby assumed by Assignee.

EXECUTED by Assignor and Assignee in multiple counterparts the date of the acknowledgment, to be effective as of the date first written above.

"Assignor"

MERENCO REALTY, INC.
A Texas corporation

By: ______________________________
Joe Bullard, President

"Assignee"

615 WILLOW CREEK DEVELOPMENT, LTD.
A Texas limited partnership
By: **615 WILLOW CREEK DEVELOPMENT GP, INC.**
A Texas corporation, its General Partner

By: ______________________________
Joe Fogarty, President

EXECUTED by the District and Aqua Texas to confirm their respective consents to this Assignment in multiple counterparts the date of the acknowledgment, to be effective as of the date first written above.

"District"

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 17

By: ______________________________
Joe Bullard, President

"Aqua Texas"

AQUA TEXAS, INC.
A Texas corporation

By: ______________________________
Robert L. Laughman, President

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 17

By: ______________________________
Joe Bullard, President

"Aqua Texas"

AQUA TEXAS, INC.
A Texas corporation

By: ______________________________
Robert L. Laughman, President

THE STATE OF TEXAS §
§
COUNTYOF HARRIS §

This instrument was acknowledged before me this ___ day of December, 2014, by Joe Bullard, President of **MERENCO REALTY, INC.**, a Texas corporation, on behalf of said corporation.

____
Notary Public
State of Texas

THE STATE OF TEXAS §
§
COUNTY OF HARRIS §

This instrument was acknowledged before me this ___ day of December, 2014, by Joe Fogarty, President of **615 WILLOW CREEK DEVELOPMENT GP, INC.**, a Texas corporation, on behalf of said corporation, as the General Partner of **615 WILLOW CREEK DEVELOPMENT, LTD.**, a Texas limited partnership, on behalf of said limited partnership.

Notary Public
State of Texas
____

THE STATE OF TEXAS §
§
COUNTYOF HARRIS §

This instrument was acknowledged before me this 23 day of December, 2014, by Joe Bullard, President of **MERENCO REALTY, INC.**, a Texas corporation, on behalf of said corporation.

JANE K. MATHEWS
Notary Public, State of Texas
My Commission Expires 01-21-2016

Jane Mathews
Notary Public
State of Texas

THE STATE OF TEXAS §
§
COUNTY OF HARRIS §

This instrument was acknowledged before me this 23 day of December, 2014, by Joe Fogarty, President of **615 WILLOW CREEK DEVELOPMENT GP, INC.**, a Texas corporation, on behalf of said corporation, as the General Partner of **615 WILLOW CREEK DEVELOPMENT, LTD.**, a Texas limited partnership, on behalf of said limited partnership.

JANE K. MATHEWS
Notary Public, State of Texas
My Commission Expires 01-21-2016

Jane Mathews
Notary Public
State of Texas

THE STATE OF TEXAS §
§
COUNTY OF HARRIS §

This instrument was acknowledged before me this 23 day of December, 2014, by Joe Bullard, President of **HARRIS COUNTY IMPROVEMENT DISTRICT NO. 17**, a municipal management district and political subdivision of the State of Texas created operating pursuant to Article XVI, Section 59 and Article III, Section 16 of the Texas Constitution Chapter 375, Texas Local Government Code and Chapters 49 and 54, of the Texas Water Code a Texas corporation, on behalf of said district.

JANE K. MATHEWS
Notary Public, State of Texas
My Commission Expires 01-21-2016

Jane Mathews
Notary Public
State of Texas

THE STATE OF TEXAS §
§
COUNTY OF HARRIS §

This instrument was acknowledged before me this ___ day of December, 2014, by Robert L. Laughman, President of **AQUA TEXAS, INC.**, a Texas corporation, on behalf of said corporation.

____
Notary Public
State of Texas

THE STATE OF TEXAS §
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COUNTY OF HARRIS §

~~This instrument was acknowledged before me this ___ day of December, 2014, by Joe Bullard, President of **HARRIS COUNTY IMPROVEMENT DISTRICT NO. 17**, a municipal management district and political subdivision of the State of Texas created operating pursuant to Article XVI, Section 59 and Article III, Section 16 of the Texas Constitution Chapter 375, Texas Local Government Code and Chapters 49 and 54, of the Texas Water Code a Texas corporation, on behalf of said district.~~

SARA MENDEZ
MY COMMISSION EXPIRES
August 14, 2017

Notary Public
State of Texas

THE STATE OF TEXAS §
§
COUNTY OF HARRIS §

This instrument was acknowledged before me this ___ day of December, 2014, by Robert L. Laughman, President of **AQUA TEXAS, INC.**., a Texas corporation, on behalf of said corporation.

SARA MENDEZ
MY COMMISSION EXPIRES
August 14, 2017

Notary Public
State of Texas

Attachment 5

MERENCO HCID 17 REIMBURSEMENT AGREEMENT

THIS Merenco HCID 17 Reimbursement Agreement ("MRA") is made as of October 22, 2014, by and between Aqua Texas, Inc., a Texas corporation, whose corporate headquarters and principal place of business is at 1106 Clayton Lane, Suite. 400W, Austin, Texas 78723 ("Aqua Texas") and Merenco Realty, Inc., a Texas corporation whose office is located at 520 Post Oak, Suite 457, Houston, Texas 77027 ("Merenco").

BACKGROUND AND RECITALS

Merenco is the owner and developer of real estate presently located in or which will be annexed into Harris County Improvement District No. 17 (the "District"). Aqua Texas is the owner and operator of private water and wastewater utilities throughout the state of Texas.

Merenco wishes to utilize Aqua Texas as the sole and exclusive provider of water and wastewater for the real estate development projects which are located in the District, and Aqua Texas is willing to be the water and wastewater service provider of all of Merenco's real estate endeavors located in the District.

Aqua Texas represents that it has sufficient capacity or will build sufficient capacity in its regional wastewater and water systems to provide continuous and adequate retail utility services to Merenco's endeavor's in the District according to the statues of the State of Texas and the rules of the Texas Commission on Environmental Quality (TCEQ).

Aqua Texas is willing to reimburse Merenco for certain expenses incurred by Merenco in installing water and wastewater lines in the District which become part of the Aqua Texas utility systems, pursuant to the terms and conditions described in this MRA.

In consideration of the mutual covenants contained in this MRA, and intending to be legally bound, the Aqua Texas and Merenco agree as follows:

A. **<u>GENERAL CONCEPTS.</u>** The general concept of the MRA and the intent of the parties with respect to this MRA arrangement and all associated agreements executed in connection herewith is as follows:

1. Merenco will cause all of its real estate development in the District (the "Projects") to be covered by this MRA and to be included in the Aqua Texas CCN Service Area.