

- (e) **Interruption of Service for Maintenance.** Notwithstanding anything in this Agreement or in the requirements of any regulatory agency to the contrary, Arlington shall be entitled at any and all times to install, repair, maintain, and replace such equipment or devices or to take any other action under an Emergency (including reduction or cessation of water service to BWSC) as necessary or appropriate to allow Arlington at all times to maintain a minimum pressure as required by applicable law or regulation at all retail service locations directly served by the Arlington Treated Water System. Arlington shall use commercially reasonable efforts to work with BWSC to install, repair, maintain, and replace such equipment and devices at a time to minimize the impact on BWSC's system. Arlington may install at the Delivery and/or Metering Points appropriate devices to monitor and enforce all or any of these limitations. In the event of such service interruptions, Arlington shall make every reasonable effort to expedite the restoration of service in a timely manner.

3.2 Regulatory Requirements. BWSC acknowledges and agrees that this Agreement defines the extent of Arlington's obligations to supply Treated Water to BWSC and that, except as expressly provided by this Agreement, Arlington is under no obligation to provide BWSC with a sufficient amount of Treated Water for BWSC to meet its minimum production, storage, service pump, or pressure maintenance requirements, or any other requirements imposed on Arlington by virtue of 30 Texas Administrative Code Chapters 290 or 291, 16 Texas Administrative Code Chapter 24 or any other Regulatory Requirements.

3.3 Delivery Point. Subject to the conditions set forth herein, Arlington agrees to divert, transport, treat, and deliver Treated Water to BWSC at the Delivery Point(s). The location of the Delivery Point(s) shall be mutually agreed upon by and between BWSC and Arlington, and the Delivery Point(s) shall not be moved or relocated except by their mutual consent in writing.

3.4 Relocated Delivery Point. Requests for a relocated Delivery Point shall be submitted in writing by the requesting party. If the relocated Delivery Point is mutually agreed upon, the requesting party will be responsible for funding all costs related to constructing the improvements, unless the Parties agree on a division of costs based on mutual benefit.

- (1) For any costs attributable to BWSC in this Article 3.4 for improvements constructed by Arlington, BWSC shall be responsible for reimbursing Arlington, as agreed upon in writing, for the cost of such improvements including the acquisition of any easements or right-of-way. Prior to beginning construction, the Parties will enter into a written agreement to specify the manner and timeframe for such reimbursement to Arlington and the time for and costs of construction.
- (2) If BWSC is to construct the necessary improvements for a relocated Delivery Point, BWSC will submit documents to acquire rights-of-way and will submit plans for the construction of the improvements to Arlington for approval prior to construction commencing. If Arlington

approves the documents and plans submitted, Arlington will give BWSC notice of said approval in writing within a commercially reasonable time. During the construction, Arlington may, but is not obligated to, inspect improvements under construction at its sole cost. All costs for the construction of the improvements, including the costs for any easements and/or rights-of-way, shall be borne as agreed upon in writing. Arlington may, but is not obligated to, make a final inspection and approval, at its sole cost, after construction of the improvements is completed and before the improvements are approved, by Arlington, for use; provided, however, such approval shall not be unreasonably withheld or delayed.

3.5 Additional Delivery Points and Delivery Line. It is anticipated that BWSC may request an additional delivery point(s) and/or delivery line(s). Such request(s) shall be made in writing by BWSC and Arlington and shall provide a written response within a commercially reasonable amount of time of receipt of such request. If additional Delivery Point(s) and/or line(s) are mutually agreed upon, the Parties shall, prior to and as a condition of any binding agreement regarding such matters, agree in writing as to the responsibility, whether shared or assigned to one Party, for the costs associated therewith.

(1) For any costs attributable to BWSC in this Article 3.5 for improvements constructed by Arlington, BWSC shall be responsible for reimbursing Arlington for the entire cost of the improvements, including the acquisition of any easements or right-of-way. Prior to beginning construction, the Parties will enter into a written agreement for BWSC (i) to approve the amount of anticipated construction costs and (ii) to specify the manner and timeframe for such reimbursement to Arlington and the time for construction.

(2) If BWSC is to construct the necessary improvements for an additional Delivery Point(s) and/or delivery line(s), BWSC will submit documents to acquire rights-of-way and/or easements and will submit plans for the construction of the improvements to Arlington for approval prior to construction commencing; provided, however, such approval shall not be unreasonably withheld or delayed. If Arlington approves the documents and plans submitted, Arlington will give BWSC notice of said approval in writing. During the construction of such improvements, Arlington may, but is not obligated to, inspect improvements under construction at its sole cost. All costs for the construction of the improvements, including the costs for any easements and/or rights-of-way, shall be borne by BWSC. Arlington may, but is not obligated to, make a final inspection and approval, at its sole cost, after construction of the improvements are completed and before the improvements are approved, by Arlington, for use; provided, however, such approval shall not be unreasonably withheld or delayed.

3.6 Improvements to Existing Delivery Point. If BWSC requests that improvements be made to a Delivery Point, BWSC shall submit the request in writing to Arlington. If

Arlington approves the request, the Parties will then decide whether Arlington or BWSC will be responsible for constructing the improvements and shall follow the procedures set forth in Section 3.4; provided, however, such approval shall not be unreasonably withheld or delayed.

- 3.7 Responsibilities for additional Water Line that Connect to the Metering Point.** BWSC shall be responsible for the construction and associated construction costs of any additional water transmission line that connects to the Metering Point. BWSC shall maintain ownership of said water transmission line for the term of this Agreement and shall be responsible for the maintenance and repair of said water transmission line.
- 3.8 Accessing the additional Water Line that Connects to Metering Point.** At no time during the term of this Agreement shall there be any connections to or tap into the Treated Water Transmission Line, if any, that connects to the Metering Point without the prior agreement of the Parties; provided, however, such agreement shall not be unreasonably withheld or delayed. The water measurement and flow control of any connection to said Treated Water Transmission Line will be subject to Article 4 of this Agreement. Billing for this meter shall be as agreed upon by the parties. Any such connection shall be metered separately as agreed upon by the parties. All cost associated with the design, construction of the connection and meter(s) shall be borne by the requesting party.
- 3.9 Valves at Delivery Point.** All valves releasing water from the Arlington Treated Water System to BWSC shall be solely operated and maintained by Arlington. BWSC shall not obstruct or block access to those valves.
- 3.10 Property of Arlington.** Any acquired easements and/or rights-of-way shall name Arlington as a grantee for the portion of the easement and/or right-of-way on Arlington's side of the Delivery Point. Upon the completion of construction and final approval by Arlington of any new, relocated or improved Delivery Point and/or Metering Point, the constructed improvements and metering device and appurtenances on Arlington's side of the Delivery Point shall become the property of Arlington.

ARTICLE 4

Metering and Rate of Flow Control

- 4.1 Treated Water Measurement and Control.** BWSC shall install at its sole cost, a Meter(s) and appropriate valves, back flow prevention, flow controllers, and other appropriate equipment at the Metering Point to measure and control the amount of Treated Water delivered to BWSC under the terms of this Agreement. Said Meter shall be specified by Arlington and meet appropriate AWWA standards. Said Meter(s) shall be installed and tested prior to actual water delivery. Upon installation of the Meter(s), valves, and related equipment, said equipment shall become the sole property of Arlington to be owned, operated, and maintained by Arlington at Arlington's sole cost.
- 4.2 Rate-of-Flow Controllers.** The rate at which Treated Water is withdrawn by BWSC from the Arlington System shall be regulated by rate-of-flow controllers. The rate of withdrawal will be controlled so that the maximum rate shall not exceed the

Maximum Allowed Rate of Flow without a specific written request by BWSC to Arlington. Notwithstanding anything in this Agreement to the contrary, approval of a request to increase the rate of flow and the length of time the request will be at Arlington's sole discretion, which will not be unreasonably withheld. Arlington will respond to the request within 96 hours of receiving the request. If Arlington approves the request, Arlington will make the adjustments within 48 hours of responding to the request. Rate of Flow setting shall be solely operated and maintained by BWSC. All meters and associated facilities will be designed to measure an instantaneous flow rate and totalized flow and ability to transmit to both BWSC and Arlington SCADA.

4.3 Calibration of Meters.

- (a) **Testing.** Meters will be serviced and calibrated as necessary. Copies of the results of such calibration and all related information shall be provided to BWSC within 30 days of such calibration. BWSC shall have access to the Meter(s) at all reasonable times; provided, however, that any reading, calibration or adjustment to such Meter(s) shall be done by employees or agents of Arlington, or other mutually approved third party calibration agent, in the presence of representatives of BWSC and Arlington, if so requested by BWSC. Arlington shall provide BWSC with 72 hours written notice prior to such reading, calibration or adjustment.
- (b) **Inaccuracy.** Upon any calibration, if it is determined that the accuracy envelope of such Meter(s) is found to be lower than ninety-five percent (95%) or higher than one hundred five percent (105%) expressed as a percentage of the full scale of the Meter(s), or Meter(s) fail to perform to AWWA water metering standards (whichever is more restrictive), then the registration of the flow as determined by such defective Meter(s) shall be corrected for a period extending back to the time such inaccuracy began, if such time is ascertainable; or, if such time is not ascertainable, then for a period extending back one-half (1/2) of the time elapsed since the date of the last calibration, but in no event further back than a period of three (3) months. In the event it is determined that there are inaccuracies with any Meter, Arlington shall debit or credit BWSC's invoice in the subsequent month, as appropriate, to reflect BWSC's prior overpayments or underpayments. Arlington shall debit or credit BWSC's account in an amount equal to the difference between the amount actually paid by BWSC and the amount that should have been paid by BWSC, as determined by the corrected registration of the flow of the inaccurate Meter during the period of inaccuracy as determined in this subsection. Payment adjustments for inaccurate flow measurements will be applied to volume charges only. The Meter(s) will be properly sealed, and the seals shall not be broken unless representatives of both BWSC and Arlington have been notified and given a reasonable opportunity to be present.
- (c) **Meter out of Service - No Readings.** If the Meter(s) used to determine the flow of Treated Water to BWSC is out of service or out of repair so that the amount of Treated Water metered cannot be ascertained or computed from the reading thereof, the Treated Water delivered during the period such Meter(s) is out of service or out of repair shall be estimated and agreed upon by BWSC

and Arlington upon the basis of the best data available. The basis for estimating such flow includes, but is not limited to, extrapolation of past patterns of flow for said Meter(s) under similar conditions. In the event that BWSC and Arlington cannot agree on the extrapolated estimate of Treated Water volume delivered before the payment due date, BWSC will make payment to Arlington based on the same month in the previous year on or before the payment due date. After making such payment, BWSC may request that the matter be submitted to non-binding mediation as provided herein. Arlington may also request that the matter be submitted to non-binding mediation, as hereinafter provided.

4.4 Meter Reading.

- (a) Arlington will read all Meter(s) provided for herein at monthly intervals, and BWSC and Arlington shall have free access to read these respective Meter(s) daily, if either Party so desires. It shall be the duty of both BWSC and Arlington to give immediate notice, each to the other, should any Meter(s) be found to not be functioning properly, and, upon such notice, repairs to such Meter(s) shall be made promptly.
- (b) BWSC shall have access to records on the Meter(s) readings during reasonable business hours and shall be furnished a copy of readings upon request.

4.5 Additional Testing of the Meter(s). BWSC shall have the right to request Arlington to test any Meter(s), but no more frequently than once per month. Upon any such request, Arlington agrees to perform its testing and calibration of the Meter(s) with notice to BWSC, and the Parties shall be entitled to jointly observe any testing, calibration, and adjustments that are made to the Meter(s), in the event such modifications shall be necessary. For such additional testing requests, Arlington shall give BWSC notice forty-eight (48) hours in advance of the time when any such testing shall occur. BWSC shall pay the cost of any such additional testing request for any Meter(s) if the test shows that such Meter(s) is accurate (within five percent (5%) registration), but Arlington shall pay the costs of such additional test if the results indicate that such Meter(s) is not accurate (in excess of five percent (5%) registration).

ARTICLE 5 Fees, Billing, and Payment

5.1 Charges for Water.

- (a) **Treated Water.** BWSC will pay to Arlington the fees and charges for the Treated Water delivered by Arlington that may include Late Fees.

5.2 Water Rates.

- (a) **Initial Rates.** Upon the Effective Date of this Agreement, the Volume Rate shall be:

Volume Rate - \$2.09 per 1,000 gallons

The Maximum Day Demand is 5.0 MGD

The component costs of the Volume Rate on the Effective Date is:

Raw Water Costs - \$1.19 per 1,000 gallons

Electrical Costs - \$0.14 per 1,000 gallons

Chemical Costs - \$0.10 per 1,000 gallons

Regulatory Costs - \$0.00

Operation and Carrying Costs - \$0.66 per 1,000 gallons

- (b) **Subsequent Rates.** The Operation and Carrying Costs component of the Volume Rate shall increase at the same percentage rate of the retail residential rate of Arlington. The new Volume Rate will be instituted and be effective on the first calendar day of the month following the adoption of the rate by Arlington. Raw Water costs, consisting of the raw water rate charged to Arlington for Raw Water by Tarrant Regional Water District will be adjusted as Tarrant Regional Water District adjusts its raw water rate charged to Arlington and shall be passed through to BWSC as is without further surcharge by Arlington. The additional cost of treatment of Treated Water will also be passed through in the rates upon 60 days notice of the increase. Regulatory Costs, Electrical Costs, and Chemical Costs components of the Volume Rate will be adjusted as charged to Arlington and shall be passed through to BWSC “as is” without further surcharge by Arlington upon 60 days notice of the increase. Should such rates as changed exceed wholesale rates for Treated Water reasonably available to BWSC by other suppliers by a factor in excess of ten percent (10%), BWSC may at its sole option, by written notice to Arlington, either demand a reduction in the increased rate, or reduce or eliminate the Minimum Monthly Amount.

5.3 Billing and Payment.

- (a) **Volume Charge.** Each month during the term of this Agreement, Arlington shall read the Meter(s) measuring Treated Water being provided to BWSC. BWSC shall be billed on a monthly basis for the greater amount of: (i) the amount of Treated Water measured by the Meter(s), or, (ii) 15 million gallons of Treated Water per month (“Minimum Monthly Amount”). The number of gallons of Treated Water measured by the Meter(s) or the Minimum Monthly Amount, as appropriate, will be multiplied by the Volume Rate to determine the Volume Charge (“Volume Charge”). Arlington shall prepare and deliver to BWSC a statement showing the Volume Charge to BWSC. Payment for the Volume Charge shall be made by the 30th Day after delivery of the statement.
- (b) **Late Fees.** If BWSC is late in the payment of any charge or fee due and payable to Arlington under this Agreement, late payments shall bear per annum interest at a rate equal to the lesser of: (i) two percentage points (2%) above the Prime Interest Rate as published in the Wall Street Journal on the

Day said statement becomes delinquent, or (ii) the maximum allowed by law to be charged to BWSC, until paid. If any billed amounts or interest remain unpaid at the expiration of thirty (30) Days after such amounts are due, BWSC shall be in default under this Agreement, and Arlington may invoke the remedies specified herein or otherwise available by law.

- 5.4 Inspection and Audit.** Complete records and accounts required to be maintained by each Party shall be kept for a period of five (5) years. Each Party shall at all times, upon notice, have the right at reasonable times to examine and inspect said records and accounts during normal business hours. If required by any law, rule or regulation, a Party shall make said records and accounts available to federal and/or state auditors.
- 5.5 Minimum Purchase.** BWSC agrees to purchase a minimum of 182.5 million gallons of Treated Water per annum at the Delivery Point(s), whether such amount is used by BWSC or not. BWSC shall be billed for a minimum of 15 million gallons of Treated Water per month. On or within 120 days of the anniversary date of this Agreement, the Parties shall review the Volume of Treated Water purchased by BWSC for the preceding contract year, and shall determine if BWSC has purchased the annual minimum gallons described herein. In the event that BWSC has not purchased the annual minimum, Arlington shall bill BWSC for the Volume left unpurchased by BWSC for the preceding contract year. BWSC shall pay at the same time and under the same conditions as described in Section 5.3 for monthly billing. In the event that BWSC's Volume of Treated Water recorded at the Meter(s) per annum is less than the cumulative amount of Treated Water paid for by BWSC in the monthly Volume Charges collected by Arlington pursuant to Section 5.3 and said Volume of Treated Water exceeds 182.5 million gallons of Treated Water per annum, then Arlington shall reimburse the difference between the cumulative Volume Charges collected monthly and the actual amount of Treated Water used by BWSC per annum multiplied by the Volume Charge. Arlington shall provide said reimbursement within 150 days from the anniversary date of this Agreement.

ARTICLE 6

Treated Water Transmission Line

- 6.1 Treated Water Transmission Line.** (a) BWSC shall be responsible for all costs for the construction of any transmission line or facilities needed to connect to the Delivery Point(s) and any other cost for facilities to provide conveyance of Treated Water to BWSC on the BWSC side of the Delivery Point.
- (b) Parties acknowledge that there are costs to Arlington associated with extending water transmission lines from Arlington's existing system to the Delivery Point. Parties will participate in said costs in the percentage participation levels described in Exhibit B. The route for the line extension shall be sized according to the sizes described in Exhibit B and shown on the map contained in Exhibit A. Parties shall pay for the actual costs of the line segments in the percentages reflected in Exhibit B. Additionally, BWSC shall be solely responsible for payment of a new pump to be placed as described in Exhibit B and shown on the map contained in Exhibit A.

Arlington shall oversee construction, design, and installation of the lines described in Exhibit B and illustrated on Exhibit A.

(c) Arlington shall solely own the water transmission line described in Exhibit B and shown on Exhibit A.

(d) All costs for construction shall be invoiced to BWSC. BWSC shall pay said invoices within 30 Days of mailing. Failure to pay any invoice shall be considered a breach of this Agreement.

6.2 Treated Water Transmission Line Operation. Arlington shall operate, maintain, and own any facility to the Delivery Point(s), at Arlington's expense, and BWSC shall be responsible for all costs related to any lines after the Delivery Point(s).

6.3 Future Treated Water Transmission Lines. Cost sharing arrangements and operational responsibilities for the future treated water transmission lines or facilities shall be established through either written agreement separate from this Agreement or as an amendment to the Agreement.

6.4 Water Transmission Rights and Fees. Arlington acknowledges that the water facilities or improvements installed by BWSC or by developers or others hereunder may be used by Arlington to transmit water through BWSC's territory to portions of Arlington's water system outside such area. BWSC agrees that upon termination of this Agreement or the termination of any extension term hereof for any reason whatsoever, the right of Arlington to continue to transit water through the water system located in BWSC's service area to portions of Arlington's system located outside such area shall remain in effect, regardless of ownership of the water system or any portions thereof, upon Arlington's paying a transmission fee of ten cents per thousand gallons of water transmitted by Arlington through the BWSC service area, said price to remain in effect during the initial five years following such termination. Effective with the commencement of the second five-year period following such termination and at the commencement of each successive five year period thereafter, such fee shall be adjusted by a percentage equal to the net percentage by which rates for residential customers within BWSC service area were adjusted during the preceding five year period. Arlington shall remit said payments to BWSC on or before the 15th day of each month, based upon the quantity of water measured by meters for the prior month. Arlington agrees that such transmission shall not negatively affect water service and pressures within the BWSC service area, to be determined by BWSC in BWSC's sole discretion. In the event that BWSC believes that Arlington's use of the BWSC for transmission service affects the BWSC system negatively, BWSC shall provide Arlington notice of such negative issue, and the parties shall jointly investigate the cause of such negative transmission issues. If Arlington is the sole cause of the negative issue, Arlington shall have 120 days to cure such issue.

ARTICLE 7
Restrictions and Conditions

- 7.1 Resale of Treated Water.** BWSC and Arlington agree that the Treated Water supplied to BWSC by Arlington shall be used solely by BWSC to meet the reasonable water supply needs of BWSC's retail potable water customers to include residential, commercial and industrial (including gas well sites) located within BWSC's service area defined by BWSC's CCN, as currently authorized or as may be amended in the future.
- 7.2 Amendment to Certificate of Convenience and Necessity.** BWSC agrees that during the term of this Agreement it will not amend its Water CCN to increase its service area within the ETJ of Arlington without the prior written consent of Arlington.
- 7.3 Water Conservation and Demand Management.**
- (a) Water Conservation.** BWSC shall cooperate with and assist Arlington and TRWD in their efforts to promote Water Conservation. This may include the development of any conservation or rationing plans by either Arlington, TRWD, or BWSC that may be necessary or appropriate to address operational constraints, whether or not the same are required by any state or federal regulatory agency. Additionally, upon the development and distribution of model drought contingency or water conservation plans by Arlington, BWSC agrees to implement a drought contingency or water conservation plan that meets or exceeds the water conservation goals adopted by Arlington. BWSC shall provide a copy of any drought contingency or water conservation plan adopted by BWSC to Arlington within 30 days from the Effective Date.
 - (b) Demand Management.** If Arlington or TRWD shall manage Water demand through rationing the use of Water to their retail customers, BWSC shall achieve or exceed the targeted water conservation goals mandated by Arlington. BWSC may utilize any water conservation measure, policy, or practice in order to achieve said water conservation goals demanded by Arlington. If at any period, Arlington implements Stage 2 water restrictions per its ordinance or policy and requires BWSC to achieve similar water conservation goals, BWSC shall be relieved of its obligation to pay the minimum monthly Volume Charge. Once the Stage 2 water restrictions imposed in the previous sentence are lifted or removed by Arlington, BWSC shall immediately be required to pay the minimum monthly Volume Charge. A failure to meet said water conservation measures by BWSC shall be considered a breach of this Agreement.
 - (c) Temporary Rationing.** Where an Emergency may dictate temporary conservation or rationing requirements for either Arlington or BWSC, either Party may implement any measures considered appropriate by it to alleviate the Emergency. If BWSC implements measures to alleviate an Emergency, BWSC shall notify Arlington in writing within five (5) days of implementing such measures. Action taken under this subsection does not relieve BWSC from its obligation to pay the minimum monthly Volume Charge.

- 7.4 Federal and State Laws.** This Agreement is subject to all applicable federal and state laws and any applicable permits, amendments, orders, or regulations of any state or federal governmental authority having or asserting jurisdiction, but nothing contained herein shall be construed as a waiver of any right to question or contest any such law, order, rule or regulation in any forum having jurisdiction. BWSC agrees to abide by any changes in this Agreement made necessary by any new, amended, or revised state or federal regulation.
- 7.5 Support of Arlington on Permits and Governmental Agency Approvals.** BWSC shall use commercially reasonable efforts to support and assist Arlington in obtaining permits and approvals from governmental agencies in order to protect, repair, maintain, replace, add to, supplement and/or enlarge the Arlington Raw Water System and/or the Arlington Treated Water System. Such support and assistance shall include, but is not limited to: providing information to Arlington when requested by Arlington in order to facilitate any permit or approval; providing written and oral statements of support and assistance or testimony, information, and evidence if appropriate and if requested by Arlington in order to obtain any permit or approval; and taking reasonable action as may be appropriate to support and assist Arlington in obtaining any permit or approval.

ARTICLE 8

Term of Agreement and Extension

- 8.1 Term of Agreement.** Unless terminated as provided in this Agreement, this Agreement shall commence upon the Effective Date and shall remain in effect for a term of twenty (20) years with the ability subject to mutual agreement of the parties the ability to renew for two additional ten (10) year renewals. The parties must abide by Section 8.2 below to exercise both renewals.
- 8.2 Renewal of Agreement.**
- (a) BWSC shall have the option to renew this Agreement for a quantity of water and at a rate as may be mutually agreed in writing by the Parties. In the absence of renewal, and except as specifically provided to the contrary, this Agreement and the obligations of the Agreement shall end on the Expiration Date. BWSC expressly acknowledges that it has no right or entitlement to Raw Water or Treated Water from Arlington after the expiration of this Agreement except to the extent that this Agreement is renewed as provided herein.
 - (b) BWSC is required to give notice of its intent to terminate or not renew this Agreement, at least two (2) years prior to the Expiration Date. Arlington and BWSC expressly agree that BWSC's failure to provide notice of intent to terminate on or before two (2) years prior to the Expiration Date of this Agreement shall constitute BWSC's determination to renew.
 - (c) If this Agreement is not renewed, after expiration of this Agreement, BWSC shall nonetheless pay Arlington for all Volume Charges for Treated Water delivered pursuant to this Agreement, along with all applicable Charges,

including Late Fees due under the terms of this Agreement plus an additional fifty percent (50%) of the Volume Charge each month..

ARTICLE 9

Termination and Default

- 9.1 Termination by Mutual Consent.** This Agreement may be terminated in whole or in part by the mutual written consent of BWSC and Arlington. In the event of termination of this Agreement by such mutual consent, the Parties shall make no claim of any kind whatsoever against each other, its agents or representatives, by reason of such termination or any act incident thereto. If the Parties agree to terminate this Agreement, BWSC shall nonetheless pay Arlington for all Volume Charges for Treated Water delivered prior to the termination of this Agreement, along with all penalties such as Late Fees under the terms of this Agreement. The provisions of this section, Article Five, and other provisions providing for rights and duties of the Parties after delivery of and payment for water, survive termination of this Agreement.
- 9.2 Default.** In the event a Party is in default under the terms of this Agreement, the non-defaulting Party shall give written notice of such default. If the default is not cured after the expiration of thirty (30) days after the receipt of such written notification, the non-defaulting Party may terminate this Agreement.
- (a)** If Arlington terminates this Agreement, BWSC shall nonetheless pay Arlington for all Volume Charges for Treated Water delivered prior to the termination of this Agreement, along with all applicable Late Fees under the terms of this Agreement, and shall be obligated to pay said charges during the time BWSC is in default prior to termination. The provisions of this subsection survive termination of this Agreement.
 - (b)** In the event of termination of this Agreement under this Section 9.2, all rights, powers, and privileges of BWSC hereunder shall cease and terminate. BWSC shall make no claim of any kind whatsoever against Arlington, its agents or representatives, by reason of such termination or any act incident thereto, provided Arlington acted reasonably and such termination was not unreasonable, arbitrary, and capricious. The provisions of this subsection survive termination of this Agreement.

ARTICLE 10

Force Majeure

- 10.1 Definition.** The term *Force Majeure* as used herein shall mean a cause or causes beyond the reasonable control of the Party claiming *Force Majeure*, and shall include but not be limited to natural disasters, strikes, lockouts or other industrial disturbances, acts of public enemy, orders of any kind of the United States of America or the State of Texas or any civil or military authority, insurrections, riots, epidemics, lightning, fires, hurricanes, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions and breakage or accidents to machinery, pipelines, or facilities; however, lockouts shall be entirely within the discretion of the Party having the difficulty, and the above requirement that any *Force*

Majeure shall be remedied with all dispatch shall not require the settlement of strikes and lockouts by acceding to the demands of the opposing Party or Parties when such settlement is unfavorable in the judgment of the Party having the difficulty.

- 10.2 Notice; Suspension of Obligations.** By reason of Force Majeure, if any Party hereto shall be rendered partially or wholly unable to carry out its obligations under this Agreement, then such Party shall give notice in writing of such Force Majeure to the other Party within a reasonable time after occurrence of the event or cause relied on, so far as it is affected by such Force Majeure. Monthly Demand Charges for services actually received from Arlington hereunder, shall be suspended during the continuance of the inability then claimed, and such Party shall endeavor to remove or overcome such inability with all commercially reasonable dispatch; and until such inability has been removed, no Party shall be deemed to be in default of this Agreement. BWSC shall have no minimum monthly requirement to take or pay for water, and Arlington shall have no duty to deliver water, during the time in which such Force Majeure affects the Party's ability to perform under this Agreement.

ARTICLE 11

Ownership, Liability, Indemnification, and Insurance

- 11.1 Responsibility for Damages for Water.** Arlington shall be the owner of and responsible for the Treated Water only to the Delivery Point(s). After the Treated Water has passed through the Delivery Point(s), it becomes the property and responsibility of BWSC. Unless otherwise provided in this Agreement, responsibility for damages arising from the improper treatment, transportation, and delivery of all Treated Water provided under this Agreement shall remain with Arlington to the Delivery Point(s). Upon passing through the Delivery Point(s), liability for all damages arising from improper transportation and delivery of the Treated Water after it leaves the Arlington system shall pass to BWSC, unless such damages are determined to have been caused by Arlington's use of BWSC's system under Article 6.4. Arlington's sole responsibility is to provide to BWSC at the Delivery Point(s) potable water meeting the minimum quality requirements for human consumption as prescribed by the TCEQ or appropriate governing agency. A new Exhibit A will be attached to this agreement upon the completion of construction if necessary to reflect any changes during the design and construction of the improvements.
- 11.2 Immunities under State Law.** Nothing in this Agreement shall be construed as waiving sovereign immunity or any other immunity that Arlington or BWSC may be entitled to under state or federal law.
- 11.3 Direct or Consequential Damages.** Neither Arlington nor BWSC shall be liable to the other for loss, either direct or consequential, arising out of damage to or destruction of the rights-of-way or the facilities thereon, when such loss is caused by an act of God or any of the periods that are included within or insured against by a form of property insurance. All such claims for any and all loss, however caused, hereby are waived. Said absence of liability shall exist whether or not the damage or destruction is caused by the negligence of either Party or by any of their respective agents, servants, or employees.

- 11.4 Indirect or Consequential Damages.** BWSC's or Arlington's liability, if any, to the other Party in contract or in tort under this Agreement specifically excludes any and all indirect or consequential damages that may arise from providing Water to BWSC or that may arise from the operation, maintenance, and management of the Arlington Raw Water System and the Arlington Treated Water System.
- 11.5 Waiver or Subrogation.** It is the intention and agreement of both Parties that any insurance carriers involved shall not be entitled to subrogation under any circumstances against any Party to this Agreement. Neither Party shall have any interest or claim in the other's insurance policy or policies, or in the proceeds thereof, unless specifically covered therein as an additional insured.

ARTICLE 12

Dispute Resolution

- 12.1 Non-binding mediation.** Each Party agrees that prior to filing a lawsuit or an administrative complaint with a regulatory agency on an issue related to the terms of this Agreement or otherwise related to water supply in lieu of this Agreement, the Party will submit the dispute to non-binding mediation. This provision survives termination of this Agreement.

ARTICLE 13

Notice

- 13.1 Manner of Giving Notice.** Unless otherwise provided in this Agreement, any notice, communication, request, reply, advice, approval or consent herein provided or permitted to be given, made, or accepted by either Party to the other, must be in writing and may be given or be served by depositing the same in the United States Mail postpaid and registered or certified and addressed to the Party to be notified with return receipt requested, or by delivering the same to the Mayor/City Manager or Chief Executive Office, or by prepaid telegram, when appropriate, addressed to the Party to be notified. Any such matter deposited in the mail in the manner hereinabove described shall become exclusively deemed to be effective, unless otherwise stated in this Agreement, from and after the earlier of actual receipt of notice or the expiration of four (4) days after it is so deposited. Any such notice given in any other manner shall be effective only if and when received by the Party to be notified.

Notice to Arlington.

City Manager
City of Arlington
101 W Abram St
Arlington, Texas 76010

Notice to BWSC.

General Manager
Bethesda Water Supply Corporation
PO Box 130
Burleson, Texas 76097

- 13.2** The Parties shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address by at least five (5) days written notice to the other Party.

ARTICLE 14

Miscellaneous Provisions

- 14.1 Governing Law.** This Agreement shall be governed by the applicable law of the State of Texas and due performance by each Party or any action arising under this Agreement shall lie in Tarrant County, Texas. Jurisdiction and venue shall be in Tarrant County, Texas, and each of the Parties submit to personal jurisdiction in the state district courts in such county.
- 14.2 No Waiver.** Nothing in this Agreement shall be deemed to waive, modify or amend any legal defense available at law or in equity to any of the Parties nor to create any legal rights or claim on behalf of any third party. No Party waives, modifies, or alters to any extent whatsoever the availability of the defense of governmental immunity under the laws of the State of Texas of the United States.
- 14.3 Entire Agreement.** This Agreement and any Exhibits hereto embody the entire agreement and understanding of the Parties hereto and supersede any and all prior agreements, arrangements and understandings relating to the matters provided for herein. No amendment, waiver of compliance with any provision or condition hereof or consent pursuant to this Agreement shall be effective unless evidenced by an instrument in writing signed by the Party against whom enforcement of any amendment, waiver or consent is sought. This Agreement may not be amended or modified except in writing executed by all Parties and authorized by their respective governing bodies.
- 14.4 Partial Invalidity.** If any provision of this Agreement is held to be invalid, illegal, or unenforceable in any judicial action, the remaining provisions will be unaffected. In the event any provision of this Agreement is held to be invalid, illegal, or unenforceable in any judicial action, the Parties shall, upon the request of a Party, promptly renegotiate in good faith a new provision to eliminate the invalidity and to restore this Agreement, as nearly as possible, to its original intent and effect.
- 14.5 Duty to Review and Revise.** The Parties will review and revise this Agreement to ensure compliance with the federal and state laws and rules and regulations as necessary.
- 14.6 Survival.** Any provision that by its terms survives the termination of this Agreement shall bind the Parties' legal representatives, heirs, and assigns as set forth herein.

14.7 Assignment. This Agreement shall not be assignable by either Party without the prior written consent of the other Party nor in contravention of any other provisions contained herein.

14.8 Benefits. This Agreement shall bind and the benefits thereof shall inure to the respective Parties hereto, their heirs, legal representative, executors, administrators, successors, and assigns. This Agreement shall not be construed as creating any rights in any third party or any duty to any third party.

14.9 Multiple Copies. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall be considered fully executed as of the date when all Parties have executed an identical counterpart, notwithstanding that all signatures may not appear on the same counterpart.

14.10 Deadlines. To the extent that the date for any payment or notice due hereunder by either Party shall fall on a Day that is not a Business Day, such deadline for payment or notice, as the case may be, shall be automatically extended to the next following Business Day.

IN WITNESS WHEREOF, the Parties have executed and attested this Agreement by their officers thereunto duly authorized as of the date signed.

Executed this _____ day of _____ 2015.

City of Arlington

BY: WJ Proctor

Date 12/16/15

ATTEST

APPROVED AS TO FORM:

City Attorney

By: Mary W. Supino
Mary W. Supino, City Secretary

By: Eddie Martin

Bethesda Water Supply Corporation

Melvin Allen

Date 11/17/15

ATTEST

By Charles Clark
Board Secretary

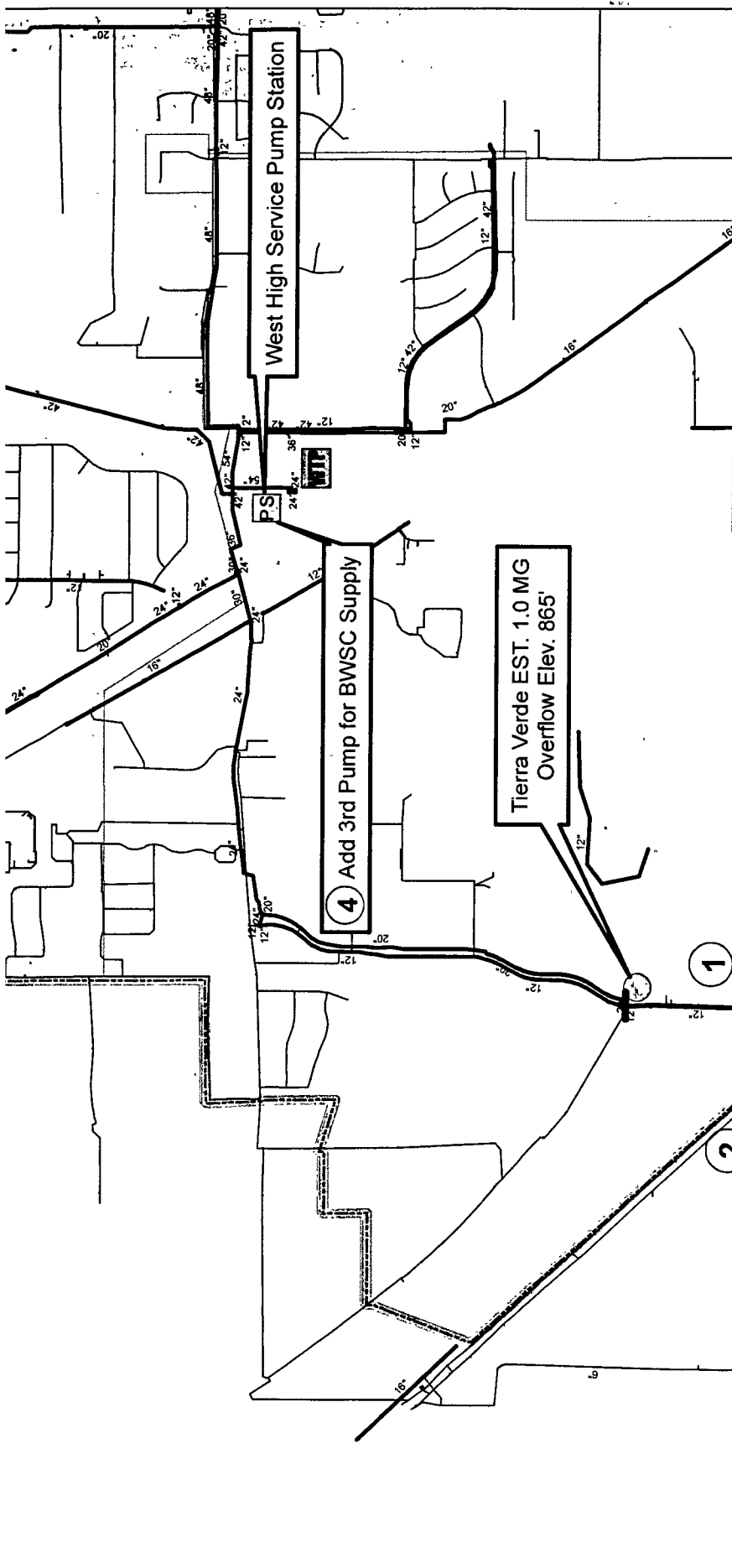


Exhibit A

Bethesda Water Supply Corporation Wholesale Supply

Capital Improvements Plan

Legend

- John F. Kubala Water Treatment Plant
- Terra Verde Elevated Water Tank
- Prop. Water Transmission Main
-
-

- City Limits
- Upper Pressure Plane
- West Pressure Plane

ARLINGTON
THE AMERICAN ARCADE CITY

Water Information Services
October 27, 2015

EXHIBIT B

Pro-rata funding correlated to water line routing and pump upgrade depicted in Exhibit A.

Section	Description / Diameter	Approx. Length (ft)	Arlington Cost Share	Bethesda Cost Share
1	0" - 20"	1,500	0%	100%
	20" - 24"		50%	50%
2	0" - 24"	3,800	50%	50%
3	0" - 20"	4,200	0%	100%
	20" - 24"		50%	50%
4	Pump Upgrade	-	0%	100%

Section 6 B1

§

EX B

BETHESDA WATER SUPPLY CORPORATION

Audited Financial Statements

December 31, 2012 and 2011

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

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

CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

Board of Directors
Bethesda Water Supply Corporation
Burleson, Texas

We have audited the accompanying financial statements of Bethesda Water Supply Corporation, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bethesda Water Supply Corporation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating expenses on page 20 and 21 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gilliam, Wharram & Co., P.C.

Gilliam, Wharram & Co., P.C.

March 1, 2013

Financial Statements

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and cash equivalents	\$ 4,122,189	\$ 4,286,742
Investment in certificates of deposit	324,543	324,159
Accounts receivable (net)	414,071	392,243
Notes receivable	1,538	957
Inventory	128,201	92,896
Prepaid expenses	11,143	11,607
Total Current Assets	<u>5,001,685</u>	<u>5,108,604</u>
Restricted Assets:		
Interest and sinking fund	<u>276,549</u>	<u>276,158</u>
Total Restricted Assets	<u>276,549</u>	<u>276,158</u>
Property, Plant and Equipment:		
Property, plant and equipment, total	49,984,987	48,340,669
Less: Accumulated depreciation	<u>(23,234,860)</u>	<u>(21,789,281)</u>
Total Property, Plant and Equipment, net	<u>26,750,127</u>	<u>26,551,388</u>
Other Assets:		
Deferred debt issue costs, net of amortization	354,072	371,776
Deposits	<u>100</u>	<u>100</u>
Total Other Assets	<u>354,172</u>	<u>371,876</u>
Total Assets	<u><u>\$ 32,382,533</u></u>	<u><u>\$ 32,308,026</u></u>

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current Liabilities:		
Accounts payable	\$ 195,926	\$ 146,855
Other accrued expenses	60,084	91,520
Current portion of long-term debt	<u>240,992</u>	<u>222,328</u>
Total Current Liabilities	<u>497,002</u>	<u>460,703</u>
Long-Term Debt:		
Bonds payable	6,420,000	6,570,000
Note payable	1,235,537	1,307,147
Less: Current portion of long-term debt	<u>(240,992)</u>	<u>(222,328)</u>
Total Long-Term Debt	<u>7,414,545</u>	<u>7,654,819</u>
Total Liabilities	<u>7,911,547</u>	<u>8,115,522</u>
Net Assets:		
Contributed Capital (Unrestricted)	4,583,111	4,658,327
Memberships (Temporarily Restricted)	672,070	660,020
Retained Earnings:		
Unrestricted	18,939,256	18,597,999
Temporarily Restricted	<u>276,549</u>	<u>276,158</u>
Total Retained Earnings	<u>19,215,805</u>	<u>18,874,157</u>
Total Net Assets	<u>24,470,986</u>	<u>24,192,504</u>
Total Liabilities and Net Assets	<u><u>\$ 32,382,533</u></u>	<u><u>\$ 32,308,026</u></u>

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Water and sewer sales	\$ 6,803,790	\$ 8,135,555
Water meter fees	314,758	309,297
Tie on fees	<u>95,500</u>	<u>89,440</u>
Total Operating Revenues	<u>7,214,048</u>	<u>8,534,292</u>
Operating Expenses:		
Distribution	4,261,440	4,715,023
Administration	398,040	423,975
Office	<u>460,241</u>	<u>444,939</u>
Total Operating Expenses	<u>5,119,721</u>	<u>5,583,937</u>
Income from Operations	<u>2,094,327</u>	<u>2,950,355</u>
Other Revenues (Expenses):		
Other income	100,255	165,632
Gain on sale of assets	7,815	9,000
Interest income	2,983	3,955
Interest expense	(497,147)	(509,039)
Amortization of bond issue costs	(17,704)	(17,704)
Depreciation expense	<u>(1,489,613)</u>	<u>(1,375,569)</u>
Total Other Revenues (Expenses)	<u>(1,893,411)</u>	<u>(1,723,725)</u>
Increase in Net Assets -- Unrestricted Retained Earnings	<u>\$ 200,916</u>	<u>\$ 1,226,630</u>

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Contributed Capital (Unrestricted)	Memberships (Temporarily Restricted)	Retained Earnings		Total Net Assets
			Unrestricted	Temporarily Restricted	
Net assets, December 31, 2010	\$ 4,721,881	\$ 648,655	\$ 17,225,951	\$ 278,730	\$ 22,875,217
Increase in net assets - unrestricted retained earnings			1,226,630		1,226,630
Interest income earned on temporarily restricted cash			(413)	413	
Release from restriction	-	-	2,985	(2,985)	-
Increase in members	-	11,365	-	-	11,365
Distribution system contributed from new developments	79,292	-	-	-	79,292
Amortization of contributed capital	(142,846)	-	142,846	-	-
Change in net assets	(63,554)	11,365	1,372,048	(2,572)	1,317,287
Net assets, December 31, 2011	4,658,327	660,020	18,597,999	276,158	24,192,504
Increase in net assets - unrestricted retained earnings			200,916		200,916
Interest income earned on temporarily restricted cash			(547)	547	
Release from restriction		-	156	(156)	-
Increase in members		12,050	-	-	12,050
Distribution system contributed from new developments	65,516	-	-	-	65,516
Amortization of contributed capital	(140,732)		140,732	-	-
Change in net assets	(75,216)	12,050	341,257	391	278,482
Net assets, December 31, 2012	\$ 4,583,111	\$ 672,070	\$ 18,939,256	\$ 276,549	\$ 24,470,986

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Activities:		
Increase in net assets - unrestricted retained earnings	\$ 200,916	\$ 1,226,630
Adjustments to reconcile increase in net assets - unrestricted retained earnings to cash provided by operating activities:		
Depreciation & amortization	1,507,317	1,393,273
Gain on sale of assets	(7,815)	(9,000)
Increase (decrease) in working capital related to:		
Accounts receivable	(21,828)	15,754
Inventory	(35,305)	27,044
Prepaid expenses	464	697
Accounts payable	49,071	3,080
Accrued expenses	(31,436)	28,293
Net cash provided by operating activities	<u>1,661,384</u>	<u>2,685,771</u>
Investing Activities:		
Acquisition of plant and equipment	(1,693,637)	(2,179,719)
Proceeds from sale of assets	13,100	22,309
Reimbursements from developers	65,516	79,292
(Increase) decrease in notes receivable	(581)	2,855
(Increase) decrease in restricted cash	(391)	2,572
(Increase) decrease in investments in certificates of deposit	(384)	(563)
Net cash used in investing activities	<u>(1,616,377)</u>	<u>(2,073,254)</u>
Financing Activities:		
Retirement of bonds and note payable	(221,610)	(212,549)
Increase in memberships	12,050	11,365
Net cash used in financing activities	<u>(209,560)</u>	<u>(201,184)</u>
Net increase (decrease) in cash	(164,553)	411,333
Cash and cash equivalents, at beginning of year	<u>4,286,742</u>	<u>3,875,409</u>
Cash and cash equivalents, at end of year	<u>\$ 4,122,189</u>	<u>\$ 4,286,742</u>
Supplemental disclosures:		
Cash paid for interest on debt	\$ 497,147	\$ 509,039

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

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

Note 1: Nature of Activities and Significant Accounting Policies

Nature of Activities

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

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

Summary of Significant Accounting Policies

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

Basis of Presentation

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

The Corporation is also required to report information regarding its net assets according to the following three net asset classes: *unrestricted* which includes the operating funds expended in daily operations; *temporarily restricted* which includes amounts designated for memberships and amounts reserved in accordance with debt covenants (see Note 3); and *permanently restricted* which would be amounts restricted in perpetuity of which the Corporation has none.

Investments

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

Accounts Receivable

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

Inventory

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

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

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

Fixed Assets

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

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

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

Maintenance and repairs are charged to expense as incurred and major renewals or betterments are capitalized. In 2012 and 2011, depreciation expense was \$1,489,613 and \$1,375,569, respectively.

Amortization of Debt Issue Costs

The Corporation is amortizing the costs associated with the issuance of the *Revenue Improvement and Refunding Bonds Taxable Series 2002* over the term of the bonds on the straight-line basis. In 2012 and 2011, amortization expense amounted to \$17,704 for both years.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. The investments in certificates of deposits are not considered to be cash equivalents.

Use of Estimates

Management used estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could vary from the estimates that were used.

Federal Income Tax

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

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

Note 2: Cash and Cash Equivalents

At December 31, 2012 and 2011, the balance of the Corporation's deposits (cash, checking, money market, and savings accounts) amounted to \$4,122,189 and \$4,286,742, respectively.

Note 3: Investments

At December 31, 2012 and 2011, the Corporation's investments consist of the following:

	2012	2011
Certificates of deposit	\$ 324,543	\$ 324,159
Restricted asset:		
TexStar	276,549	276,158
	<u>\$ 601,092</u>	<u>\$ 600,317</u>

Certificates of Deposit

The certificates of deposit have interest rates ranging from 0.12% to 0.65% and mature from March 2013 through December 2013.

Restricted Assets

The Corporation's restricted assets consist of an investment in a public funds investment pool at TexStar as an *Interest and Sinking Fund* account, established for the payment of bonded indebtedness as required by debt covenants. The Corporation was in compliance with its debt covenant and investment policy as of December 31, 2012 and 2011.

Fair Value Measurements

The Fair Value Measurements and Disclosures topic of FASB ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This guidance establishes market or observable inputs as the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. This standard also establishes a hierarchy for grouping assets and liabilities, measured at fair value on a recurring basis, based upon the significance level of the following inputs:

Level I – Quoted prices in active markets for identical assets or liabilities.

Level II – Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant drivers are observable.

Level III – Significant inputs to the valuation model are unobservable.

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

Note 3: Investments (continued)

The following is a summary of the fair value measurements as of December 31, 2012, for the statement of financial position items that are required to be presented at fair value:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Certificates of deposit	\$ -	\$ 324,543	\$ -
TexStar	-	276,549	-

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

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Certificates of deposit	\$ -	\$ 324,159	\$ -
TexStar	-	276,158	-

Note 4: Accounts Receivable

The Corporation's accounts receivable consist of billings for water usage as follows:

	<u>2012</u>	<u>2011</u>
Accounts receivable	\$ 454,903	\$ 429,117
Allowance for uncollectible accounts	(40,832)	(36,874)
	<u>\$ 414,071</u>	<u>\$ 392,243</u>

Note 5: Notes Receivable

The Corporation has notes receivable from members. The amount due from notes receivable from members at December 31, 2012 and 2011 was \$1,538 and \$957, respectively. All amounts are due within one year.

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

Note 6: Property, Plant and Equipment

A summary of changes in property, plant and equipment during the year ended December 31, 2012, is as follows:

	Beginning Balance	Additions	Retirements & Reclassifications	Ending Balance
Land	\$ 1,223,972	\$ 5,000	\$ -	\$ 1,228,972
Buildings	2,252,006	-	-	2,252,006
Distribution system	42,662,529	2,005,036	-	44,667,565
Machinery and equipment	662,544	-	-	662,544
Vehicles	478,273	42,649	(49,319)	471,603
Furniture and fixtures	433,711	-	-	433,711
Construction in progress	627,634	1,158,350	(1,517,398)	268,586
	<u>48,340,669</u>	<u>3,211,035</u>	<u>(1,566,717)</u>	<u>49,984,987</u>
Less accumulated depreciation	<u>(21,789,281)</u>	<u>(1,489,613)</u>	<u>44,034</u>	<u>(23,234,860)</u>
	<u>\$ 26,551,388</u>	<u>\$ 1,721,422</u>	<u>\$ (1,522,683)</u>	<u>\$ 26,750,127</u>

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

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

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

Note 7: Long-Term Debt

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

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

On February 13, 2009, an interim construction note was entered into with a local financial institution in the amount of \$1,427,075 for the construction of a service complex building. The note has a term of fifteen years and nine months with an initial interest rate of 5%. The first nine months of the term require interest-only monthly payments, then monthly principal and interest payments of \$11,337. The interest rate adjusts every three years to the Wall Street Journal prime rate plus 1% with a floor of 5%. During 2010, the remaining available funds were drawn and monthly principal and interest payments began. The note is secured by 8.359 acres of land improved with a 3,464 square foot building, a 22,500 square foot building and a 4,800 square foot building with a net book value of \$2,172,961 and \$2,241,321, respectively, at December 31, 2012 and 2011.

A summary of long-term debt for the year ended December 31, 2012, is as follows:

Date of Issue	Payment Dates	Interest Rates	Original Amount	Beginning Balance	Additions	Retirements	Ending Balance
Dec. 20, 2002	6/1 & 12/1	5.40%-6.70%	\$ 7,500,000	\$ 6,570,000	\$ -	\$ 150,000	\$ 6,420,000
Feb. 23, 2009	10 th of the month	5.0%	1,427,075	1,307,147	-	71,610	1,235,537
Totals				<u>\$ 7,877,147</u>	<u>\$ -</u>	<u>\$ 221,610</u>	<u>\$ 7,655,537</u>

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

Date of Issue	Payment Dates	Interest Rates	Original Amount	Beginning Balance	Additions	Retirements	Ending Balance
Dec. 20, 2002	6/1 & 12/1	5.40%-6.70%	\$ 7,500,000	\$ 6,715,000	\$ -	\$ 145,000	\$ 6,570,000
Feb. 23, 2009	10 th of the month	5.0%	1,427,075	1,374,696	-	67,549	1,307,147
Totals				<u>\$ 6,866,627</u>	<u>\$ -</u>	<u>\$ 212,549</u>	<u>\$ 7,877,147</u>

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

Note 7: Long-Term Debt (continued)

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

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

Note 8: Amortization of Contributed Capital

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

Note 9: Net Assets

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

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

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

Note 10: Retirement Plans

401(k) Retirement Plan

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

Profit Sharing Plan

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

Note 11: Compensated Absences

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

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

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

Note 12: Commitments and Contingencies

Water Purchase Contract

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

Construction

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

Litigation

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

Note 13: Concentrations of Credit Risk

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

Note 14: Subsequent Events

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

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

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Supplementary Schedules

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

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

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

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

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BETHESDA WATER SUPPLY CORPORATION

Audited Financial Statements

December 31, 2013 and 2012

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

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

CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

To the Board of Directors
Bethesda Water Supply Corporation
Burleson, Texas

We have audited the accompanying financial statements of Bethesda Water Supply Corporation, which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



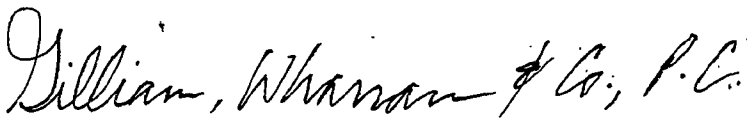
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bethesda Water Supply Corporation as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating expenses on page 20 and 21 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Gilliam, Wharram & Co., P.C.

Cleburne, Texas

March 3, 2014

Financial Statements

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and cash equivalents	\$ 4,833,120	\$ 4,122,189
Investment in certificates of deposit	324,899	324,543
Accounts receivable, net of allowance	318,279	414,071
Notes receivable	4,625	1,538
Inventory	168,569	128,201
Prepaid expenses	17,374	11,143
Total Current Assets	<u>5,666,866</u>	<u>5,001,685</u>
Restricted Assets:		
Interest and sinking fund	-	276,549
Total Restricted Assets	<u>-</u>	<u>276,549</u>
Property, Plant and Equipment:		
Property, plant and equipment, total	51,010,227	49,984,987
Less: Accumulated depreciation	<u>(24,720,639)</u>	<u>(23,234,860)</u>
Total Property, Plant and Equipment, net	<u>26,289,588</u>	<u>26,750,127</u>
Other Assets:		
Deferred debt issue costs, net of amortization	182,366	354,072
Deposits	<u>100</u>	<u>100</u>
Total Other Assets	<u>182,466</u>	<u>354,172</u>
Total Assets	<u>\$ 32,138,920</u>	<u>\$ 32,382,533</u>

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2013 AND 2012

<u>LIABILITIES AND NET ASSETS</u>		
	<u>2013</u>	<u>2012</u>
Current Liabilities:		
Accounts payable	\$ 228,061	\$ 195,926
Other accrued expenses	107,588	60,084
Current portion of long-term debt	<u>275,000</u>	<u>240,992</u>
Total Current Liabilities	<u>610,649</u>	<u>497,002</u>
Long-Term Debt:		
Bonds payable	-	6,420,000
Notes payable	7,305,000	1,235,537
Less: Current portion of long-term debt	<u>(275,000)</u>	<u>(240,992)</u>
Total Long-Term Debt	<u>7,030,000</u>	<u>7,414,545</u>
Total Liabilities	<u>7,640,649</u>	<u>7,911,547</u>
Net Assets:		
Contributed capital (unrestricted)	4,507,867	4,583,111
Memberships (temporarily restricted)	686,670	672,070
Retained earnings:		
Unrestricted	19,303,734	18,939,256
Temporarily restricted	<u>-</u>	<u>276,549</u>
Total Retained Earnings	<u>19,303,734</u>	<u>19,215,805</u>
Total Net Assets	<u>24,498,271</u>	<u>24,470,986</u>
Total Liabilities and Net Assets	<u>\$ 32,138,920</u>	<u>\$ 32,382,533</u>

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Water and sewer sales	\$ 6,744,404	\$ 6,803,790
Water meter fees	313,396	314,758
Tie on fees	97,500	95,500
Total Operating Revenues	<u>7,155,300</u>	<u>7,214,048</u>
Operating Expenses:		
Distribution	4,277,457	4,261,440
Administration	395,208	398,040
Office	418,568	460,241
Total Operating Expenses	<u>5,091,233</u>	<u>5,119,721</u>
Income from Operations	<u>2,064,067</u>	<u>2,094,327</u>
Other Revenues (Expenses):		
Other income	161,245	100,255
Gain on sale of assets	18,300	7,815
Interest income	5,458	2,983
Interest expense	(404,083)	(497,147)
Amortization of debt issue costs	(13,713)	(17,704)
Loss on early extinguishment of debt	(349,647)	-
Depreciation expense	(1,532,139)	(1,489,613)
Total Other Revenues (Expenses)	<u>(2,114,579)</u>	<u>(1,893,411)</u>
Change in Net Assets - Unrestricted Retained Earnings	<u>\$ (50,512)</u>	<u>\$ 200,916</u>

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Contributed Capital (Unrestricted)	Memberships (Temporarily Restricted)	Retained Earnings		Total Net Assets
			Unrestricted	Temporarily Restricted	
Net assets, December 31, 2011	\$ 4,658,327	\$ 660,020	\$ 18,597,999	\$ 276,158	\$ 24,192,504
Change in net assets - unrestricted retained earnings			200,916		200,916
Interest income earned on temporarily restricted cash			(547)	547	
Release from restriction		-	156	(156)	-
Increase in members		12,050	-	-	12,050
Distribution system contributed from new developments	65,516	-	-	-	65,516
Amortization of contributed capital	(140,732)	-	140,732	-	-
Change in net assets	(75,216)	12,050	341,257	391	278,482
Net assets, December 31, 2012	4,583,111	672,070	18,939,256	276,549	24,470,986
Change in net assets - unrestricted retained earnings			(50,512)		(50,512)
Interest income earned on temporarily restricted cash			(28)	28	-
Release from restriction		-	276,577	(276,577)	-
Increase in members		14,600	-	-	14,600
Distribution system contributed from new developments	63,197	-	-	-	63,197
Amortization of contributed capital	(138,441)	-	138,441	-	-
Change in net assets	(75,244)	14,600	364,478	(276,549)	27,285
Net assets, December 31, 2013	\$ 4,507,867	\$ 686,670	\$ 19,303,734	\$ -	\$ 24,498,271

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Activities:		
Change in net assets - unrestricted retained earnings	\$ (50,512)	\$ 200,916
Adjustments to reconcile change in net assets - unrestricted retained earnings to cash provided by operating activities:		
Depreciation & amortization	1,545,852	1,507,317
Gain on sale of equipment	(18,300)	(7,815)
Loss on early extinguishment of debt	349,647	-
Increase (decrease) in working capital related to:		
Accounts receivable	95,792	(21,828)
Inventory	(40,368)	(35,305)
Prepaid expenses	(6,231)	464
Accounts payable	32,135	49,071
Accrued expenses	47,504	(31,436)
Net cash provided by operating activities	<u>1,955,519</u>	<u>1,661,384</u>
Investing Activities:		
Acquisition of plant and equipment	(1,071,600)	(1,693,637)
Proceeds from sale of assets	18,300	13,100
Contributions (i.e., reimbursements) from new developments	63,197	65,516
(Increase) decrease in notes receivable	(3,087)	(581)
(Increase) decrease in restricted cash	276,549	(391)
Increase in investments in certificates of deposit	(356)	(384)
Net cash used in investing activities	<u>(716,997)</u>	<u>(1,616,377)</u>
Financing Activities:		
Note proceeds	7,630,000	-
Debt issuance costs	(191,654)	-
Retirement of bonds & notes payable	(7,980,537)	(221,610)
Increase in memberships	14,600	12,050
Net cash used in financing activities	<u>(527,591)</u>	<u>(209,560)</u>
Net increase (decrease) in cash	710,931	(164,553)
Cash and cash equivalents, at beginning of year	<u>4,122,189</u>	<u>4,286,742</u>
Cash and cash equivalents, at end of year	<u>\$ 4,833,120</u>	<u>\$ 4,122,189</u>
Supplemental disclosures:		
Cash paid for interest on debt	\$ 404,083	\$ 497,147

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

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 1: Nature of Activities and Significant Accounting Policies

Nature of Activities

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

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

Summary of Significant Accounting Policies

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

Basis of Presentation

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

The Corporation is also required to report information regarding its net assets according to the following three net asset classes: *unrestricted* which includes the operating funds expended in daily operations; *temporarily restricted* which includes amounts designated for memberships and amounts reserved in accordance with debt covenants (see Note 3); and *permanently restricted* which would be amounts restricted in perpetuity of which the Corporation has none.

Investments

Investments are reported at cost and are classified as investments to be held to maturity. The Corporation's investment policy is to invest in quality assets that produce a reasonable rate of return and liquidity that may include U.S. government securities, collective or pooled funds, money market funds, certificates of deposit, commercial paper, and stocks with an average rating of "A". The Corporation was in compliance with its investment policy as of December 31, 2013 and 2012.

Accounts Receivable

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

Inventory

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

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

Fixed Assets

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

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

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

Maintenance and repairs are charged to expense as incurred and major renewals or betterments are capitalized. In 2013 and 2012, depreciation expense was \$1,532,139 and \$1,489,613, respectively.

Amortization of Debt Issue Costs

The Corporation is amortizing the costs associated with the issuance of the *Revenue Improvement and Refunding Bonds, Taxable Series 2002* and the BBVA/Compass Bank note over their repayment terms on the straight-line basis. In 2013 and 2012, amortization expense amounted to \$13,713 and \$17,704, respectively.

With the redemption of the Series 2002 bonds, the unamortized debt issue costs associated with it were written-off at the time of refinancing and reported as a *loss on early extinguishment of debt* in the amount of \$349,647 in 2013.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. The investments in certificates of deposits are not considered to be cash equivalents.

Use of Estimates

Management used estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could vary from the estimates that were used.

Federal Income Tax

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

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 2: Cash and Cash Equivalents

At December 31, 2013 and 2012, the balance of the Corporation's deposits (cash, checking, money market, and savings accounts) amounted to \$4,833,120 and \$4,122,189, respectively.

Note 3: Investments

At December 31, 2013 and 2012, the Corporation's investments consist of the following:

	2013	2012
Certificates of deposit	\$ 324,899	\$ 324,543
Restricted asset:		
TexStar	-	276,549
	<u>\$ 324,899</u>	<u>\$ 601,092</u>

Certificates of Deposit

The certificates of deposit have interest rates ranging from 0.10% to 0.65% and mature from March 2014 through December 2014.

Restricted Assets

The Corporation's restricted assets consisted of an investment in a public funds investment pool at TexStar as an *Interest and Sinking Fund* account, established for the payment of bonded indebtedness as required by the Series 2002 bond covenants. The Corporation was in compliance with its bonded indebtedness covenant as of December 31, 2012. Upon redemption of the bonds, this account was closed in 2013.

Fair Value Measurements

The Fair Value Measurements and Disclosures topic of FASB ASC defines fair-value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This guidance establishes market or observable inputs as the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. This standard also establishes a hierarchy for grouping assets and liabilities, measured at fair value on a recurring basis, based upon the significance level of the following inputs:

Level I – Quoted prices in active markets for identical assets or liabilities.

Level II – Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant drivers are observable.

Level III – Significant inputs to the valuation model are unobservable.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 3: Investments (continued)

The following is a summary of the fair value measurements as of December 31, 2013, for the statement of financial position items that are required to be presented at fair value:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Certificates of deposit	\$ -	\$ 324,899	\$ -

The following is a summary of the fair value measurements as of December 31, 2012, for the statement of financial position items that are required to be presented at fair value:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Certificates of deposit	\$ -	\$ 324,543	\$ -
TexStar	-	276,549	

Note 4: Accounts Receivable

The Corporation's accounts receivable consist of billings for water usage as follows:

	<u>2013</u>	<u>2012</u>
Accounts Receivable	\$ 362,744	\$ 454,903
Allowance for uncollectible accounts	(44,465)	(40,832)
	<u>\$ 318,279</u>	<u>\$ 414,071</u>

Note 5: Notes Receivable

The Corporation has notes receivable from members. The amount due from notes receivable from members at December 31, 2013 and 2012 was \$4,625 and \$1,538, respectively. All amounts are due within one year.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 6: Property, Plant and Equipment

A summary of changes in property, plant and equipment during the year ended December 31, 2013, is as follows:

	Beginning Balance	Additions	Retirements & Reclassifications	Ending Balance
Land	\$ 1,228,972	\$ -	\$ -	\$ 1,228,972
Buildings	2,252,006	-	-	2,252,006
Distribution system	44,667,565	590,770	560,002	45,818,337
Machinery & equipment	662,544	60,500	-	723,044
Vehicles	471,603	83,147	(46,360)	508,390
Furniture & fixtures	433,711	-	-	433,711
Construction in progress	268,586	337,183	(560,002)	45,767
	49,984,987	1,071,600	(46,360)	51,010,227
Less accumulated depreciation	(23,234,860)	(1,532,139)	46,360	(24,720,639)
	<u>\$ 26,750,127</u>	<u>\$ (460,539)</u>	<u>\$ -</u>	<u>\$ 26,289,588</u>

A summary of changes in property, plant and equipment during the year ended December 31, 2012, is as follows:

	Beginning Balance	Additions	Retirements & Reclassifications	Ending Balance
Land	\$ 1,223,972	\$ 5,000	\$ -	\$ 1,228,972
Buildings	2,252,006	-	-	2,252,006
Distribution system	42,662,529	487,638	1,517,398	44,667,565
Machinery & equipment	662,544	-	-	662,544
Vehicles	478,273	42,649	(49,319)	471,603
Furniture & fixtures	433,711	-	-	433,711
Construction in progress	627,634	1,158,350	(1,517,398)	268,586
	48,340,669	1,693,637	(49,319)	49,984,987
Less accumulated depreciation	(21,789,281)	(1,489,613)	44,034	(23,234,860)
	<u>\$ 26,551,388</u>	<u>\$ 204,024</u>	<u>\$ (5,285)</u>	<u>\$ 26,750,127</u>

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 7: Long-Term Debt

The *Revenue Improvement and Refunding Bonds, Taxable Series 2002* were issued for the purpose of upgrading and/or expanding the Corporation's water distribution system and refinancing existing debt. The debt was collateralized by the water distribution system and revenues therefrom. The 2002 bonds were issued in three series with the final maturity of December 1, 2032; however, the Corporation had the option of redeeming the bonds on December 1, 2012, as a whole or in part in principal amounts of \$5,000 or any integral multiple thereof plus accrued interest thereon to the date of redemption which was exercised and redeemed on February 8, 2013, as discussed below.

On February 13, 2009, an interim construction note was entered into with a local financial institution in the amount of \$1,427,075 for the construction of a service complex building. The note had a term of fifteen years and nine months with an initial interest rate of 5%. The first nine months of the term required interest-only monthly payments, then monthly principal and interest payments of \$11,337. The interest rate was to adjust every three years to the Wall Street Journal prime rate plus 1% with a floor of 5%. During 2010, the remaining available funds were drawn and monthly principal and interest payments began. The note was secured by 8.359 acres of land improved with a 3,464 square foot building, a 22,500 square foot building and a 4,800 square foot building with a net book value of \$2,172,961 at December 31, 2012. This loan was also refinanced on February 8, 2013, as discussed below.

On February 8, 2013, all existing debt was refinanced with BBVA/Compass Bank in the amount of \$7,630,000 at a lower fixed rate of interest for a significant savings to the Corporation. Discounted to net present value, this produced an economic savings of \$1,071,012. The note requires semiannual payments of interest only on June 1st and principal and interest on December 1st of each year with a final payment on December 1, 2031, the maturity date. Loan covenants require a debt service ratio greater than 1.5 to 1.0. Should the ratio fall below 1.5 to 1.0, a reserve fund is to be established in an amount equal to the maximum annual debt service requirement. The Corporation was in compliance with the debt service ratio and other covenants as of December 31, 2013. The loan is secured by the net revenues of the Corporation.

A summary of long-term debt for the year ended December 31, 2013, is as follows:

Date of Issue	Payment Dates	Interest Rates	Original Amount	Beginning Balance	Additions	Retirements	Ending Balance
Dec. 20, 2002	6/1 & 12/1	5.40%-6.70%	\$ 7,500,000	\$ 6,420,000	\$ -	\$ 6,420,000	\$ -
Feb. 23, 2009	Monthly on 10th	5.0%	1,427,075	1,235,537	-	1,235,537	-
Feb. 8, 2013	6/1 & 12/1	4.37%	7,630,000	-	7,630,000	325,000	7,305,000
				<u>\$ 7,655,537</u>	<u>\$ 7,630,000</u>	<u>\$ 7,980,537</u>	<u>\$ 7,305,000</u>

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 7: Long-Term Debt (continued)

A summary of long-term debt for the year ended December 31, 2012, is as follows:

Date of Issue	Payment Dates	Interest Rates	Original Amount	Beginning Balance	Additions	Retirements	Ending Balance
Dec. 20, 2002	6/1 & 12/1	5.40%-6.70%	\$ 7,500,000	\$ 6,570,000	\$ -	\$ 150,000	\$ 6,420,000
Feb. 23, 2009	Monthly on 10th	5.0%	1,427,075	1,307,147	-	71,610	1,235,537
Totals				\$ 7,877,147	\$ -	\$ 221,610	\$ 7,655,537

Debt service requirements through maturity are as follows as of December 31, 2013:

Year ended December 31,	Principal	Interest	Total
2014	\$ 275,000	\$ 322,775	\$ 597,775
2015	285,000	311,478	596,478
2016	300,000	299,669	599,669
2017	310,000	285,558	595,558
2018	325,000	273,313	598,313
2019 to maturity	5,810,000	1,958,426	7,768,426
TOTALS	\$ 7,305,000	\$ 3,451,219	\$ 10,756,219

Note 8: Amortization of Contributed Capital

The Corporation has elected to amortize contributed capital over the estimated useful life of the plant and distribution system assets acquired for use by the Corporation through contribution from an outside source (i.e., residential development companies). This election is based on the same accounting principle used by a governmental enterprise fund to amortize contributed capital as a credit to retained earnings as an offset of depreciation expense on the above-mentioned assets. For the years ended December 31, 2013 and 2012, amortization of contributed capital amounted to \$138,441 and \$140,732, respectively.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 9: Net Assets

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

	2013	2012
Unrestricted net assets:		
Contributed capital	\$ 4,507,867	\$ 4,583,111
Retained earnings	19,303,734	18,939,256
Total unrestricted net assets	<u>23,811,601</u>	<u>23,522,367</u>
Temporarily restricted net assets:		
Memberships	686,670	672,070
Retained earnings (see Note 3)	-	276,549
Total temporarily restricted net assets	<u>686,670</u>	<u>948,619</u>
	<u><u>\$ 24,498,271</u></u>	<u><u>\$ 24,470,986</u></u>

Note 10: Retirement Plans

401(k) Retirement Plan

As of January 1, 2008, the Corporation established a 401(k) retirement plan for its employees. Employees are eligible to participate in the Plan after six months of service. In 2013 and 2012, an employee may contribute up to a maximum of \$17,500 and \$17,000, respectively (with an additional catch-up contribution of \$5,500 for qualified individuals) to the Plan. The Corporation contributes to the Plan through matching contributions. Participants are vested in the Corporation's contributions for its matching portion in 20% increments every year after two years of service and become fully vested after six years of service. The Corporation's contribution to the Plan for the years ended December 31, 2013 and 2012 was \$10,967 and \$13,042, respectively.

Profit Sharing Plan

The Corporation also has a non-contributory employee profit sharing retirement plan. Employees are eligible to participate in Plan contributions on the first day of the Plan year after six months of service and vest in 20% increments every year after two years of service and become fully vested after six years of service. The Corporation's profit sharing contribution is discretionary and is not limited to current or accumulated earnings. The amount contributed to the profit sharing plan is calculated on eligible employees' compensation excluding overtime and bonuses. The Corporation's contribution to the profit sharing plan for the year ended December 31, 2013 and 2012 amounted to \$71,052 and \$78,922, respectively.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 11: Compensated Absencés

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

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

Note 12: Commitments and Contingencies

Water Purchase Contract

In October 1992, the Corporation entered into a contract with the City of Fort Worth for the purpose of providing for surface water purchases. Under the terms of the contract, payments are based on consumption with annual rate adjustments effective each October 1st and payments are made monthly for the previous month's usage. In November 2010, the contract was revised with an effective date of January 1, 2011 and a termination date of September 30, 2031. The cost of water purchases amounted to \$2,168,917 and \$2,172,782 in 2013 and 2012, respectively.

Construction

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

Litigation

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

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 13: Concentrations of Credit Risk

The Corporation maintains cash balances at several banks. Accounts at each institution are insured by the FDIC and, beginning in 2013, balances in excess of the FDIC coverage are guaranteed by securities pledged by the financial institution. As of December 31, 2013, cash and cash equivalents as reported were fully collateralized. As of December 31, 2012, cash and cash equivalents as reported were in excess of FDIC coverage by \$1,804,191.

Note 14: Subsequent Events

Subsequent events have been evaluated through March 3, 2014, the date the financial statements were available to be issued.

Supplementary Schedules

BETHESDA WATER SUPPLY CORPORATION
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Distribution	Administration	Office	Total
Accounting and auditing fees	\$ -	\$ 13,660	\$ -	\$ 13,660
Advertising	-	4,110	-	4,110
Chemical analysis and testing	70,249	-	-	70,249
Communications	5,643	2,219	12,333	20,195
Contract billing	-	-	82,326	82,326
Contract labor	8,394	-	-	8,394
Customer notification	-	-	9,318	9,318
Dues and memberships	-	7,127	-	7,127
Filing fees	-	-	1,647	1,647
Health insurance	91,771	24,005	37,824	153,600
Insurance	66,362	444	-	66,806
Janitorial	-	-	5,391	5,391
Legal	-	12,808	-	12,808
Maintenance contracts	-	-	11,344	11,344
Meals and gatherings	-	9,499	-	9,499
Minor tools	597	-	-	597
Miscellaneous expense	-	3,768	85	3,853
Payroll taxes	34,172	17,432	12,530	64,134
Postage and freight	-	-	4,631	4,631
Pre-employment & other	289	-	571	860
Regulatory fees	-	20,864	-	20,864
Repairs and maintenance	565,269	-	14,143	579,412
Retirement and profit-sharing plan	41,403	27,387	13,229	82,019
Safety gear and uniforms	11,408	-	-	11,408
Salaries and wages	462,584	231,870	175,976	870,430
SCADA	53,463	-	-	53,463
Supplies	-	-	18,813	18,813
Training	1,149	13,509	-	14,658
Transportation	94,729	6,232	-	100,961
Uncollectible accounts	-	274	-	274
Utilities	505,789	-	18,407	524,196
Water treatment	37,462	-	-	37,462
Wholesale sewer expense	57,807	-	-	57,807
Wholesale water purchased	2,168,917	-	-	2,168,917
	<u>\$ 4,277,457</u>	<u>\$ 395,208</u>	<u>\$ 418,568</u>	<u>\$ 5,091,233</u>

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

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

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BETHESDA WATER SUPPLY CORPORATION

Audited Financial Statements

December 31, 2014 and 2013

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

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

CERTIFIED PUBLIC ACCOUNTANTS

107 WESTMEADOW DR. • P.O. BOX 118
CLEBURNE, TEXAS 76033 • (817) 641-2274
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Independent Auditor's Report

To the Board of Directors
Bethesda Water Supply Corporation
Burleson, Texas

We have audited the accompanying financial statements of Bethesda Water Supply Corporation, which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bethesda Water Supply Corporation as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating expenses on page 20 and 21 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gilliam, Wharram & Co., P.C.

Gilliam, Wharram & Co., P.C.

Cleburne, Texas

February 27, 2015

Financial Statements

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and cash equivalents	\$ 5,573,716	\$ 4,833,120
Investment in certificates of deposit	325,126	324,899
Accounts receivable, net of allowance	373,882	318,279
Notes receivable	847	4,625
Inventory	183,828	168,569
Prepaid expenses	8,982	17,374
	<u>6,466,381</u>	<u>5,666,866</u>
Property, Plant and Equipment:		
Property, plant and equipment, total	51,965,971	51,010,227
Less: Accumulated depreciation	<u>(26,154,567)</u>	<u>(24,720,639)</u>
	<u>25,811,404</u>	<u>26,289,588</u>
Other Assets:		
Deferred debt issue costs, net of amortization	172,235	182,366
Deposits	<u>100</u>	<u>100</u>
	<u>172,335</u>	<u>182,466</u>
Total Assets	<u><u>\$ 32,450,120</u></u>	<u><u>\$ 32,138,920</u></u>

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2014 AND 2013

<u>LIABILITIES AND NET ASSETS</u>			
		<u>2014</u>	<u>2013</u>
Current Liabilities:			
Accounts payable		\$ 191,578	\$ 228,061
Other accrued expenses		91,324	107,588
Current portion of long-term debt		<u>285,000</u>	<u>275,000</u>
Total Current Liabilities		<u>567,902</u>	<u>610,649</u>
Long-Term Debt:			
Note payable		7,030,000	7,305,000
Less: Current portion of long-term debt		<u>(285,000)</u>	<u>(275,000)</u>
Total Long-Term Debt		<u>6,745,000</u>	<u>7,030,000</u>
Total Liabilities		<u>7,312,902</u>	<u>7,640,649</u>
Net Assets:			
Contributed capital (unrestricted)		4,475,692	4,507,867
Memberships (temporarily restricted)		718,532	686,670
Retained earnings:			
Unrestricted		<u>19,942,994</u>	<u>19,303,734</u>
Total Net Assets		<u>25,137,218</u>	<u>24,498,271</u>
Total Liabilities and Net Assets		<u><u>\$ 32,450,120</u></u>	<u><u>\$ 32,138,920</u></u>

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Water and sewer sales	\$ 7,223,287	\$ 6,744,404
Water meter fees	341,142	313,396
Tie on fees	<u>164,500</u>	<u>97,500</u>
Total Operating Revenues	<u>7,728,929</u>	<u>7,155,300</u>
Operating Expenses:		
Distribution	4,658,190	4,277,457
Administration	401,960	395,208
Office	<u>423,990</u>	<u>418,568</u>
Total Operating Expenses	<u>5,484,140</u>	<u>5,091,233</u>
Income from Operations	<u>2,244,789</u>	<u>2,064,067</u>
Other Revenues (Expenses):		
Other income	144,068	161,245
Gain on sale of assets	11,694	18,300
Interest income	6,955	5,458
Interest expense	(324,017)	(404,083)
Amortization of debt issue costs	(10,131)	(13,713)
Loss on early extinguishment of debt	-	(349,647)
Depreciation expense	<u>(1,570,903)</u>	<u>(1,532,139)</u>
Total Other Revenues (Expenses)	<u>(1,742,334)</u>	<u>(2,114,579)</u>
Change in Net Assets - Unrestricted Retained Earnings	<u>\$ 502,455</u>	<u>\$ (50,512)</u>

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Contributed Capital (Unrestricted)	Memberships (Temporarily Restricted)	Retained Earnings		Total Net Assets
			Unrestricted	Temporarily Restricted	
Net assets, December 31, 2012	\$ 4,583,111	\$ 672,070	\$ 18,939,256	\$ 276,549	\$ 24,470,986
Change in net assets - unrestricted retained earnings			(50,512)		(50,512)
Interest income earned on temporarily restricted cash			(28)	28	
Release from restriction		-	276,577	(276,577)	-
Increase in members	-	14,600	-	-	14,600
Distribution system contributed from new developments	63,197	-	-	-	63,197
Amortization of contributed capital	(138,441)	-	138,441	-	-
Change in net assets	(75,244)	14,600	364,478	(276,549)	27,285
Net assets, December 31, 2013	4,507,867	686,670	19,303,734	-	24,498,271
Change in net assets - unrestricted retained earnings			502,455		502,455
Increase in members	-	31,862	-		31,862
Distribution system contributed from new developments	104,630	-	-	-	104,630
Amortization of contributed capital	(136,805)	-	136,805	-	-
Change in net assets	(32,175)	31,862	639,260	-	638,947
Net assets, December 31, 2014	\$ 4,475,692	\$ 718,532	\$ 19,942,994	\$ -	\$ 25,137,218

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

BETHESDA WATER SUPPLY CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating Activities:		
Change in net assets - unrestricted retained earnings	\$ 502,455	\$ (50,512)
Adjustments to reconcile change in net assets - unrestricted retained earnings to cash provided by operating activities:		
Depreciation & amortization	1,581,034	1,545,852
Gain on sale of equipment	(11,694)	(18,300)
Loss on early extinguishment of debt	-	349,647
Increase (decrease) in working capital related to:		
Accounts receivable	(55,603)	95,792
Inventory	(15,259)	(40,368)
Prepaid expenses	8,392	(6,231)
Accounts payable	(36,483)	32,135
Accrued expenses	(16,264)	47,504
Net cash provided by operating activities	<u>1,956,578</u>	<u>1,955,519</u>
Investing Activities:		
Acquisition of plant and equipment	(1,096,175)	(1,071,600)
Proceeds from sale of assets	15,150	18,300
Contributions (i.e., reimbursements) from new developments	104,630	63,197
(Increase) decrease in notes receivable	3,778	(3,087)
(Increase) decrease in restricted cash	-	276,549
Increase in investments in certificates of deposit	(227)	(356)
Net cash used in investing activities	<u>(972,844)</u>	<u>(716,997)</u>
Financing Activities:		
Note proceeds	-	7,630,000
Debt issuance costs	-	(191,654)
Retirement of bonds & notes payable	(275,000)	(7,980,537)
Increase in memberships	31,862	14,600
Net cash used in financing activities	<u>(243,138)</u>	<u>(527,591)</u>
Net increase in cash	740,596	710,931
Cash and cash equivalents, at beginning of year	<u>4,833,120</u>	<u>4,122,189</u>
Cash and cash equivalents, at end of year	<u>\$ 5,573,716</u>	<u>\$ 4,833,120</u>
Supplemental disclosures:		
Cash paid for interest on debt	\$ 324,017	\$ 404,083

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

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 1: Nature of Activities and Significant Accounting Policies

Nature of Activities

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

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

Summary of Significant Accounting Policies

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

Basis of Presentation

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

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

Investments

Investments are reported at cost and are classified as investments to be held to maturity. The Corporation's investment policy is to invest in quality assets that produce a reasonable rate of return and liquidity that may include U.S. government securities, collective or pooled funds, money market funds, certificates of deposit, commercial paper, and stocks with an average rating of "A". The Corporation was in compliance with its investment policy as of December 31, 2014 and 2013.

Accounts Receivable

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

Inventory

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

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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

Fixed Assets

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

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

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

Maintenance and repairs are charged to expense as incurred and major renewals or betterments are capitalized. In 2014 and 2013, depreciation expense was \$1,570,903 and \$1,532,139, respectively.

Amortization of Debt Issue Costs

The Corporation is amortizing the costs associated with the issuance of the *Revenue Improvement and Refunding Bonds, Taxable Series 2002* and the BBVA/Compass Bank note over their repayment terms on the straight-line basis. In 2014 and 2013, amortization expense amounted to \$10,131 and \$13,713, respectively.

With the redemption of the Series 2002 bonds, the unamortized debt issue costs associated with it were written-off at the time of refinancing and reported as a *loss on early extinguishment of debt* in the amount of \$349,647 in 2013.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. The investments in certificates of deposits are not considered to be cash equivalents.

Use of Estimates

Management used estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could vary from the estimates that were used.

Federal Income Tax

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

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 2: Cash and Cash Equivalents

At December 31, 2014 and 2013, the balance of the Corporation's deposits (cash, checking, money market, and savings accounts) amounted to \$5,573,716 and \$4,833,120, respectively.

Note 3: Investments

At December 31, 2014 and 2013, the Corporation's investments consist of the following:

	<u>2014</u>	<u>2013</u>
Certificates of deposit	\$ 325,126	\$ 324,899
	<u>\$ 325,126</u>	<u>\$ 324,899</u>

Certificates of Deposit

The certificates of deposit have interest rates ranging from 0.10% to 0.65% and mature from February 2015 through December 2015.

Fair Value Measurements

The Fair Value Measurements and Disclosures topic of FASB ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This guidance establishes market or observable inputs as the preferred sources of values; followed by assumptions based on hypothetical transactions in the absence of market inputs. This standard also establishes a hierarchy for grouping assets and liabilities, measured at fair value on a recurring basis, based upon the significance level of the following inputs:

Level I – Quoted prices in active markets for identical assets or liabilities.

Level II – Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant drivers are observable.

Level III – Significant inputs to the valuation model are unobservable.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 3: Investments (continued)

The following is a summary of the fair value measurements as of December 31, 2014, for the statement of financial position items that are required to be presented at fair value:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Certificates of deposit	\$ -	\$ 325,126	\$ -

The following is a summary of the fair value measurements as of December 31, 2013, for the statement of financial position items that are required to be presented at fair value:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Certificates of deposit	\$ -	\$ 324,899	\$ -

Note 4: Accounts Receivable

The Corporation's accounts receivable consist of billings for water usage as follows:

	<u>2014</u>	<u>2013</u>
Accounts Receivable	\$ 420,731	\$ 362,744
Allowance for uncollectible accounts	(46,849)	(44,465)
	<u>\$ 373,882</u>	<u>\$ 318,279</u>

Note 5: Notes Receivable

The Corporation has notes receivable from members. The amount due from notes receivable from members at December 31, 2014 and 2013 was \$847 and \$4,625, respectively. All amounts are due within one year.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 6: Property, Plant and Equipment

A summary of changes in property, plant and equipment during the year ended December 31, 2014, is as follows:

	Beginning Balance	Additions	Retirements & Reclassifications	Ending Balance
Land	\$ 1,228,972	\$ -	\$ -	\$ 1,228,972
Buildings	2,252,006	-	-	2,252,006
Distribution system	45,818,337	502,574	443,797	46,764,708
Machinery & equipment	723,044	-	-	723,044
Vehicles	508,390	64,560	(140,431)	432,519
Furniture & fixtures	433,711	-	-	433,711
Construction in progress	45,767	529,041	(443,797)	131,011
	51,010,227	1,096,175	(140,431)	51,965,971
Less accumulated depreciation	(24,720,639)	(1,570,903)	136,975	(26,154,567)
	<u>\$ 26,289,588</u>	<u>\$ (474,728)</u>	<u>\$ (3,456)</u>	<u>\$ 25,811,404</u>

A summary of changes in property, plant and equipment during the year ended December 31, 2013, is as follows:

	Beginning Balance	Additions	Retirements & Reclassifications	Ending Balance
Land	\$ 1,228,972	\$ -	\$ -	\$ 1,228,972
Buildings	2,252,006	-	-	2,252,006
Distribution system	44,667,565	590,770	560,002	45,818,337
Machinery & equipment	662,544	60,500	-	723,044
Vehicles	471,603	83,147	(46,360)	508,390
Furniture & fixtures	433,711	-	-	433,711
Construction in progress	268,586	337,183	(560,002)	45,767
	49,984,987	1,071,600	(46,360)	51,010,227
Less accumulated depreciation	(23,234,860)	(1,532,139)	46,360	(24,720,639)
	<u>\$ 26,750,127</u>	<u>\$ (460,539)</u>	<u>\$ -</u>	<u>\$ 26,289,588</u>

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 7: Long-Term Debt

The *Revenue Improvement and Refunding Bonds, Taxable Series 2002* were issued for the purpose of upgrading and/or expanding the Corporation's water distribution system and refinancing existing debt. The debt was collateralized by the water distribution system and revenues therefrom. The 2002 bonds were issued in three series with the final maturity of December 1, 2032; however, the Corporation had the option of redeeming the bonds on December 1, 2012, as a whole or in part in principal amounts of \$5,000 or any integral multiple thereof, plus accrued interest thereon to the date of redemption which was exercised and redeemed on February 8, 2013, as discussed below.

On February 13, 2009, an interim construction note was entered into with a local financial institution in the amount of \$1,427,075 for the construction of a service complex building. The note had a term of fifteen years and nine months with an initial interest rate of 5%. The first nine months of the term required interest-only monthly payments, then monthly principal and interest payments of \$11,337. The interest rate was to adjust every three years to the Wall Street Journal prime rate plus 1% with a floor of 5%. During 2010, the remaining available funds were drawn and monthly principal and interest payments began. The note was secured by 8.359 acres of land improved with a 3,464 square foot building, a 22,500 square foot building and a 4,800 square foot building with a net book value of \$2,172,961 at December 31, 2013. This loan was also refinanced on February 8, 2013, as discussed below.

On February 8, 2013, all existing debt was refinanced with BBVA/Compass Bank in the amount of \$7,630,000 at a lower fixed rate of interest for a significant savings to the Corporation. Discounted to net present value, this produced an economic savings of \$1,071,012. The note requires semiannual payments of interest only on June 1st and principal and interest on December 1st of each year with a final payment on December 1, 2031, the maturity date. Loan covenants require a debt service ratio greater than 1.5 to 1.0. Should the ratio fall below 1.5 to 1.0, a reserve fund is to be established in an amount equal to the maximum annual debt service requirement. The Corporation was in compliance with the debt service ratio and other covenants as of December 31, 2014. The loan is secured by the net revenues of the Corporation.

A summary of long-term debt for the year ended December 31, 2014, is as follows:

Date of Issue	Payment Dates	Interest Rates	Original Amount	Beginning Balance	Additions	Retirements	Ending Balance
Feb. 8, 2013	6/1 & 12/1	4.37%	7,630,000	\$ 7,305,000	\$ -	\$ 275,000	\$ 7,030,000
				<u>\$ 7,305,000</u>	<u>\$ -</u>	<u>\$ 275,000</u>	<u>\$ 7,030,000</u>

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 7: Long-Term Debt (continued)

A summary of long-term debt for the year ended December 31, 2013, is as follows:

Date of Issue	Payment Dates	Interest Rates	Original Amount	Beginning Balance	Additions	Retirements	Ending Balance
Dec. 20, 2002	6/1 & 12/1	5.40%-6.70%	\$ 7,500,000	\$ 6,420,000	\$ -	\$ 6,420,000	\$ -
Feb. 23, 2009	Monthly on 10th	5.0%	1,427,075	1,235,537	-	1,235,537	-
Feb. 8, 2013	6/1 & 12/1	4.37%	7,630,000	-	7,630,000	325,000	7,305,000
Totals				\$ 7,655,537	\$ 7,630,000	\$ 7,980,537	\$ 7,305,000

Debt service requirements through maturity are as follows as of December 31, 2014:

Year ended December 31,	Principal	Interest	Total
2015	\$ 285,000	\$ 311,478	\$ 596,478
2016	300,000	299,669	599,669
2017	310,000	285,558	595,558
2018	325,000	273,313	598,313
2019	340,000	256,718	596,718
2020 to maturity	5,470,000	1,701,708	7,171,708
TOTALS	\$ 7,030,000	\$ 3,128,444	\$ 10,158,444

Note 8: Amortization of Contributed Capital

The Corporation has elected to amortize contributed capital over the estimated useful life of the plant and distribution system assets acquired for use by the Corporation through contribution from an outside source (i.e., residential development companies). This election is based on the same accounting principle used by a governmental enterprise fund to amortize contributed capital as a credit to retained earnings as an offset of depreciation expense on the above-mentioned assets. For the years ended December 31, 2014 and 2013, amortization of contributed capital amounted to \$136,805 and \$138,441, respectively.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 9: Net Assets

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

	2014	2013
Unrestricted net assets:		
Contributed capital	\$ 4,475,692	\$ 4,507,867
Retained earnings	19,942,994	19,303,734
Total unrestricted net assets	<u>24,418,686</u>	<u>23,811,601</u>
Temporarily restricted net assets:		
Memberships	718,532	686,670
Total temporarily restricted net assets	<u>718,532</u>	<u>686,670</u>
	<u>\$ 25,137,218</u>	<u>\$ 24,498,271</u>

Note 10: Retirement Plans

401(k) Retirement Plan

As of January 1, 2008, the Corporation established a 401(k) retirement plan for its employees. Employees are eligible to participate in the Plan after six months of service. In 2014 and 2013, an employee may contribute up to a maximum of \$17,500 (with an additional catch-up contribution of \$5,500 for qualified individuals) to the Plan. The Corporation contributes to the Plan through matching contributions. Participants are vested in the Corporation's contributions for its matching portion in 20% increments every year after two years of service and become fully vested after six years of service. The Corporation's contribution to the Plan for the years ended December 31, 2014 and 2013 was \$12,079 and \$10,967, respectively.

Profit Sharing Plan

The Corporation also has a non-contributory employee profit sharing retirement plan. Employees are eligible to participate in Plan contributions on the first day of the Plan year after six months of service and vest in 20% increments every year after two years of service and become fully vested after six years of service. The Corporation's profit sharing contribution is discretionary and is not limited to current or accumulated earnings. The amount contributed to the profit sharing plan is calculated on eligible employees' compensation excluding overtime and bonuses. The Corporation's contribution to the profit sharing plan for the year ended December 31, 2014 and 2013 amounted to \$75,164 and \$71,052, respectively.

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 11: Compensated Absences

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

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

Note 12: Commitments and Contingencies

Water Purchase Contract

In October 1992, the Corporation entered into a contract with the City of Fort Worth for the purpose of providing for surface water purchases. Under the terms of the contract, payments are based on consumption with annual rate adjustments effective each October 1st and payments are made monthly for the previous month's usage. In November 2010, the contract was revised with an effective date of January 1, 2011 and a termination date of September 30, 2031. The cost of water purchases amounted to \$2,513,181 and \$2,168,917 in 2014 and 2013, respectively.

Construction

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

Litigation

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

BETHESDA WATER SUPPLY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 13: Concentrations of Credit Risk

The Corporation maintains cash balances at several banks. Accounts at each institution are insured by the FDIC and, beginning in 2013, balances in excess of the FDIC coverage are guaranteed by securities pledged by the financial institution. As of December 31, 2014 and 2013, cash and cash equivalents as reported were fully collateralized.

Note 14: Subsequent Events

Subsequent events have been evaluated through February 27, 2015, the date the financial statements were available to be issued.

Supplementary Schedules

BETHESDA WATER SUPPLY CORPORATION
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Distribution	Administration	Office	Total
Accounting and auditing fees	\$ -	\$ 14,350	\$ -	\$ 14,350
Advertising	-	3,591	-	3,591
Chemical analysis and testing	19,943	-	-	19,943
Communications	6,011	3,579	13,625	23,215
Contract billing	-	-	85,183	85,183
Contract labor	15,565	-	-	15,565
Customer notification	-	-	5,844	5,844
Dues and memberships	-	11,085	-	11,085
Filing fees	-	-	7,144	7,144
Health insurance	87,739	27,116	40,758	155,613
Insurance	61,874	455	-	62,329
Janitorial	-	-	6,144	6,144
Legal	-	2,794	-	2,794
Maintenance contracts	-	-	10,134	10,134
Meals and gatherings	-	7,925	-	7,925
Minor tools	3,456	-	-	3,456
Miscellaneous expense	-	4,048	223	4,271
Payroll taxes	32,870	17,917	12,416	63,203
Postage and freight	-	-	3,590	3,590
Pre-employment & other	538	-	266	804
Regulatory fees	-	21,164	-	21,164
Repairs and maintenance	641,500	-	17,223	658,723
Retirement and profit-sharing plan	43,194	26,724	17,325	87,243
Safety gear and uniforms	9,698	-	-	9,698
Salaries and wages	441,452	238,222	167,969	847,643
SCADA	71,975	-	-	71,975
Supplies	-	-	15,612	15,612
Training	1,310	14,701	-	16,011
Transportation	90,090	5,905	-	95,995
Uncollectible accounts	-	2,384	-	2,384
Utilities	530,269	-	20,534	550,803
Water treatment	45,653	-	-	45,653
Wholesale sewer expense	41,872	-	-	41,872
Wholesale water purchased	2,513,181	-	-	2,513,181
	<u>\$ 4,658,190</u>	<u>\$ 401,960</u>	<u>\$ 423,990</u>	<u>\$ 5,484,140</u>

BETHESDA WATER SUPPLY CORPORATION
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Distribution	Administration	Office	Total
Accounting and auditing fees	\$ -	\$ 13,660	\$ -	\$ 13,660
Advertising	-	4,110	-	4,110
Chemical analysis and testing	70,249	-	-	70,249
Communications	5,643	2,219	12,333	20,195
Contract billing	-	-	82,326	82,326
Contract labor	8,394	-	-	8,394
Customer notification	-	-	9,318	9,318
Dues and memberships	-	7,127	-	7,127
Filing fees	-	-	1,647	1,647
Health Insurance	91,771	24,005	37,824	153,600
Insurance	66,362	444	-	66,806
Janitorial	-	-	5,391	5,391
Legal	-	12,808	-	12,808
Maintenance contracts	-	-	11,344	11,344
Meals and gatherings	-	9,499	-	9,499
Minor tools	597	-	-	597
Miscellaneous expense	-	3,768	85	3,853
Payroll taxes	34,172	17,432	12,530	64,134
Postage and freight	-	-	4,631	4,631
Pre-employment & other	289	-	571	860
Regulatory fees	-	20,864	-	20,864
Repairs and maintenance	565,269	-	14,143	579,412
Retirement and profit-sharing plan	41,403	27,387	13,229	82,019
Safety gear and uniforms	11,408	-	-	11,408
Salaries and wages	462,584	231,870	175,976	870,430
SCADA	53,463	-	-	53,463
Supplies	-	-	18,813	18,813
Training	1,149	13,509	-	14,658
Transportation	94,729	6,232	-	100,961
Uncollectible accounts	-	274	-	274
Utilities	505,789	-	18,407	524,196
Water treatment	37,462	-	-	37,462
Wholesale sewer expense	57,807	-	-	57,807
Wholesale water purchased	2,168,917	-	-	2,168,917
	<u>\$ 4,277,457</u>	<u>\$ 395,208</u>	<u>\$ 418,568</u>	<u>\$ 5,091,233</u>

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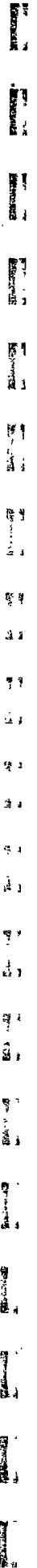
BETHESDA WATER SUPPLY CORPORATION

Audited Financial Statements

December 31, 2015 and 2014

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

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BETHESDA WATER SUPPLY CORPORATION
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