

MHWSC

*MILITARY HIGHWAY
WATER SUPPLY CORPORATION*

MANAGEMENT PLAN

MANAGEMENT PLAN

Military Highway Water Supply Corporation (MHWSC) is a Member-owned, non-profit Corporation organized to furnish a water supply for general rural and domestic purposes in Cameron and Hidalgo Counties, Texas, and the surrounding area. Military Highway Water Supply Corporation was incorporated May 21, 1971, under the provision of Articles 1434a of the Revised Civil Statutes of Texas of 1925, as amended, supplemented by the Texas Non-Profit Corporation Act, Articles 1.01 of et seq., as amended. Military Highway Water Supply Corporation is authorized by its present charter, as amended on July 12, 1982, to provide water supply and sewer services to individuals, towns and corporations and to provide other community services which are beneficial to the Corporation's general membership. MHWSC has obtained Certificate of Convenience and Necessity #10551 to provide water service and Certificate of Convenience and Necessity #20571 to provide sewer service.

Membership in the corporation and provision of water service is provided to all applicants who comply with provisions of the Corporation's tariff. Sewer service is provided pursuant to development of service capabilities. Military Highway Water Supply Corporation will respond to community needs for water and sewer service, as its resources permit and as requests are tendered. Its service area and Owner/Members are represented by an elected Board of Directors who are Owner/Members.

The Board of Directors and MHWSC staff are responsible for:

1. Assuring the development of adequate water resources to serve the geographic area covered by its Certificate of Convenience and Necessity.
2. Providing a reliable supply of potable water which consistently meets or exceeds the standards established by applicable regulatory agencies.
3. Maintaining all components of the water resource, treatment, storage, and distribution system at the highest possible standard, consistent with sound fiscal and operational procedures and within applicable regulatory standards.
4. Assuring the development of regional sewerage collection and treatment facilities to serve high density population in the geographic area covered by its Certificate of Convenience and Necessity.
5. Providing a reliable sewage collection and treatment system which consistently meets or exceeds the standards established by applicable regulatory agencies.
6. Maintaining all components of the sewage collection, treatment, and discharge system at the highest possible standard, consistent with sound fiscal and operational procedures and within applicable regulatory standards.

7. Expanding and/or enhancing the water and sewer system to meet the service requirements of additional Owner/Members in a fiscally sound manner.
8. Providing for the conservation and protection of water resources for the beneficial use of all, at the most reasonable cost and consistent with sound operating procedures.

ROLE OF THE OWNER/MEMBER

The Owner/Member of Military Highway Water Supply Corporation is the foundation of governance for the Corporation. Owner/Members are those applicants who:

1. have received a Membership Certificate from the Corporation;
2. are receiving water and/or sewer service from the Corporation; or
3. are reserving water service from the Corporation by paying the minimum monthly service charge.

The Owner/Members elect eleven of their number to serve as the Corporation's Board of Directors. Directors are elected for three-year terms on a staggered basis. They, in turn, elect a President, Vice-President, and Secretary-Treasurer from among their membership.

The Corporation has adopted Bylaws which establish the rights of Owner/Members, establish Membership voting rights, provide for annual and regular meetings, provide for the election of Directors, provide for reserve accounts, and other important regulations of the Corporation. A copy of the Bylaws is provided to each Owner/Member with the Membership Certificate and as Amended thereafter.

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors of Military Highway Water Supply Corporation is responsible for the following areas:

1. The Board of Directors defines the stated purpose of the Corporation, sets goals and objectives which meet the purpose, and assures those objectives are met.
 - a. The Board reviews and approves objectives, policies, plans and programs designed to accomplish the Corporation's goals including, but not limited to, personnel, financial, operational, maintenance, expansion, and customer service.

- b. The Board delegates the responsibility, authority and accountability to implement these objectives, policies, plans and programs to the General Manager.
2. The Board of Directors sets policies and approves procedures for the Corporation.
- a. The Board makes policy decisions in the context of applicable State law and the approved Water Utility Tariff.
 - b. The Board delegates the responsibility, authority and accountability to implement these policy decisions to the General Manager.
 - c. The General Manager may delegate some or all of the responsibility, authority and accountability to the Corporation's staff for actions required to implement policy decisions.
 - d. The General Manager and Corporation Staff may assist the Board in reaching policy decisions by:
 - 1. identifying areas which require policy decisions from the Board.
 - 2. providing information on the possible outcomes of their decisions.
 - 3. assuring that the Board has the authority to make the decision.
 - 4. confirming that decisions conform with applicable laws and the approved Water and Sewer Utility Tariff.
 - e. The Board may seek additional expertise in legal, financial, technical, management, or political areas from Corporation consultants, regulatory agencies, and others.
 - f. Policies and procedures adopted by the Board are communicated to the Corporation's staff and, as applicable, to its Owner/Members. They then become part of the Corporation's operating documents until either changed by Board action or modified because of changing internal or external conditions.
3. The Board of Directors employs the General Manager, Corporate Counsel, and specialized professional consultants deemed necessary for the orderly conduct of its business.

- a. The Board defines the relationships and limits of its authority to the Manager and retained professional consultants in areas including, but not limited to, financing, employment of subordinate staff, purchases of supplies or equipment, contracting for special services, and disposal of Corporation assets.
 - b. The Board sets personnel policies, compensation and benefits and assures their consistent and non-discriminatory implementation by management.
 - c. The Board acts as a grievance committee for appeals from employees and/or Owner/Members concerning implementation of Board-adopted policies and procedures.
 - d. The Board assures the integrity of the policy making/policy implementation functions through continuous assessment of its role and relationship with staff.
4. The Board of Directors is responsible for supervising and evaluating the performance of the General Manager.
- a. The Board receives monthly operating and financial reports from the General Manager.
 - b. The Board reviews personnel recommendations and actions made by the General Manager.
 - c. The Board evaluates the Corporation's performance under the General Manager's direction and determines appropriate rewards or corrective measures.
5. The Board raises and manages funds and holds property for the benefit of the Corporation and its Owner/Members.
- a. The Board assures that water and sewer rates and charges are based on bona fide cost of service principles.
 - b. The Board assures that control mechanisms are established to assure proper acquisition, dispersal and auditing of financial and other resources.
 - c. The Board assesses, adopts and communicates the need for changes in rates and charges, based on revenue requirements and cost of service analysis.

- d. The Board provides for an annual audit of the Corporation's finances and implements recommendations from the Auditor as specified in its management letter accompanying the final report.
 - e. The Board assures a comprehensive listing of all assets and liabilities, Owner/Member equity, Interlocal Cooperation agreements and the like and regularly reviews such documents to assure their accuracy and to fulfill the Board's fiduciary responsibilities.
 - f. The Board is responsible for regular and continuing communication with Owner/Member so that the governing body is familiar with policies, procedures, plans, and programs and can make informed decisions regarding their investment.
6. The Board appoints committees to study and recommend courses of action and to develop future leadership of the Corporation.

ROLE OF THE GENERAL MANAGER

The General Manager of Military Highway Water Supply Corporation is responsible for implementing policies and procedures adopted by the Board of Directors and for carrying out day-to-day organizational, operational, financial, personnel, and customer service objectives, policies, plans and programs.

1. Following adoption of a policy and procedures by the Board, the General Manager implements the policy and assures day- to-day compliance. Where policy is inadequately defined, unclear in terms of administration, or dated because of changing conditions, the General Manager is required to obtain clarification or redefinition from the Board.
2. Implementation, clarification and redefinition of policies and procedures are coordinated with and include commentary and advice from staff, professionals and, as appropriate, Owner/Members through established communication channels.
3. The General Manager recommends operating goals and objectives consistent with the Board's established Corporation goals.
4. The General Manager has authority, is responsible, and will be accountable for the planning, organizing, directing, controlling and communicating ongoing operations of the Corporation. The Board of Directors delegates these areas of authority, assures responsibility, and expects accountability in all matters. The

Board of Directors evaluates performance of the General Manager in these delegated areas.

5. The General Manger informs all Board Members; ensures that all Board Members have sufficient information about routine operations and finances so as to make informed decisions; and recommends new programs or resource requirements for Board approval. This includes, but is not limited to, long and short range goals, personnel and administrative policies, financial status, operating rules and procedures, problem identification and problem resolution strategies, projects, and future directions for the Corporation.
6. The General Manager prepares and submits a work plan to accompany the annual budget. The work plan includes goals for achievement, cost and staffing requirements, and proposed changes associated with service and regulatory mandates.
7. The General Manager is responsible for hiring, termination, personnel management, and compensation, subject to the advice and consent of the Board.
8. The General Manger assists in policy-making by supplying information and recommendations for Board action and by seeking clarification or modification of existing policies. All Corporation policies must be approved by the Board of Directors in open session of the Board.
9. The job description of the General Manager is as follows:

GENERAL MANAGER

GENERAL

This is executive management work, responsible for the overall goals, efficiency and effectiveness of Military Highway Water Supply Corporation. An employee in this class manages the Corporation by implementing and assuring compliance with policies of the Board of Directors; directs and coordinates financial controls, programs and practices; directs and coordinates the operations, maintenance, repair and modification of water production and distribution and wastewater collection and treatment systems of the Corporation; recommends policy and procedures concerning system operation and management to the Board of Directors; and assures orderly development of the Corporation's services within the framework of adopted policy, budget and available resources.

Work normally is accomplished in a 40-hour week, but the incumbent is expected to

expend such time as is required to complete the administrative, management, and coordination requirements of the position. Additionally, the General Manager is expected to attend all Board Meetings and workshops and to represent the Corporation in civic and utility industry organizations, as directed. Minimal supervision is provided by the Corporation's Board of Directors which evaluates performance and sets compensation. Strong individual initiative and exercise of judgement in the management of programs and personnel is required.

The General Manager plans, organizes, directs and coordinates allocating and using materials, equipment and personnel to provide effective, efficient and economical water and wastewater services. This includes selecting, training, assigning and evaluating personnel; preparing and administering operating and maintenance budgets; developing operating policies and procedures involving operational procedural and customer service problems and preparing performance and operational reports. It also includes monitoring and assisting consultants to the board of Directors in long-term planning for water and wastewater resources, treatment and quality; cost-effective financing of capital improvements and continuing evaluation of budget and debt-service requirements; rate making requirements for water and wastewater services; monitoring of consultant or outside contract activities associated with plant expansion / modification or system development; and interface with regulatory and legislative issues and organizations affecting the Corporation's goals.

The incumbent also is responsible for marketing the corporation's products and services within its CCN; interface with the Corporation's Board of Directors; and general management of daily operations of Corporation facilities through functional Managers.

EXAMPLES OF WORK PERFORMED

1. Manages the operational, financial and external affairs of the Corporation according to budgeted resources and program requirements. Plans, organizes, directs and coordinates all operations, maintenance, repair and modification activities for water production and distribution and wastewater collection and treatment within the guidelines set down by regulatory agencies, Board policy, and accepted industry safety and financial standards.
2. Assures the technical, professional and operational adequacy of all Corporation systems. Plans, organizes, directs and controls the procedures and methods used to efficiently, effectively and economically accomplish the Corporation's mission and to provide accurate and timely records and reporting of Corporation activities to the Board of Directors.
3. Assures that the quality and quantity of water production and wastewater treatment provided through the Corporation's facilities or water supply contracts meets or is better than all Federal, State and local requirements for potability

stream standards. Assures that the Corporation complies with all applicable regulations for public water utilities.

4. Meets with the Corporation's Board of Directors at all regular and special meetings. Provides reports on operations, financing, personnel, capital programs, system development, and regulatory and legislative issues. Assures that an Agenda for Board meetings is prepared and published; provides supporting materials and Agendas to Board Members in a timely manner. Assures that Board Meetings are completely documented. Provides new Board Members with an orientation to the Corporation and their responsibilities, and provides all Board Members with information required in the exercise of their duties as Corporation officers.
5. Actively participates in development of capital and operations/maintenance budgets for the Board's approval in conjunction with consultant recommendations and organization data. Monitors adopted financial programs to assure that the Corporation pays for capital improvement and ongoing operations and maintenance in a cost-effective and fiscally prudent manner. Recommends changes in financing, additions or changes to the O&M budget, and other economic actions needed for sound financial operations; assures financial accountability management and appropriate monthly reports.
6. Develops or recommends long-range finance programs, including regular cost of service analyses, rate schedules, cost-recovery programs and the like. Regularly provides Owner/Members with information on costs of providing water and wastewater services, anticipated new regulatory requirements which will affect costs, and the like in a timely manner so that Corporation rate-making can be completed in a fiscally responsible manner.
7. Markets the services of Military Highway Water Supply Corporation to existing and potential customers by direct involvement in community affairs. Coordinates community information projects, oversees ongoing public information efforts, meets with civic and citizen groups and regulatory agencies. Identifies new opportunities for the Corporation to market its product and services to the region, such as improved or expanded treatment, development of new customers, regional efforts, and expansion of present customer bases.
8. Recommends the need for various consulting and contractor services by the Corporation for Board approval. Requests proposals for services and materials from consultants, contractors and suppliers; evaluates proposals for content, applicability, and cost-effectiveness; makes recommendations to the Board concerning the qualifications of firms. Monitors the activities of selected consultants and contractors to assure that the Corporation obtains quality

products and services within the established project budgets.

9. Represents the Corporation in coordinating new plant construction, permit requirements and related technical matters with river authorities, municipalities and consultants.
10. Represents the corporation in coordinating with developers and builders on tap fees, tap locations, inspections and plan review, as well as other operations procedures adopted by the Corporation.
11. Assures adequacy of design for new construction projects and assures compliance with approved specifications when implemented. Manages surface water drainage control and conservation of natural resources within accepted professional guidelines and regulatory requirements.
12. Selects and directly supervises the Office Manager/Administrator, Field Operations Manager, Staff Accountant/Controller, and Secretary. Directly participates in the selection of all other employees and makes employment recommendations to the Board for its approval. Assigns personnel and assures training and performances review in functional areas through appropriate subordinates; reviews and evaluates personnel and program performance including weekly and monthly operations reports, absences, personnel actions, budget expenditures and the like. Provides supervision for functional areas in the absence of functional managers or in emergency situations.
13. Identifies and resolves functional and personnel problems; participates in establishing and implementing safety procedures and work standards to insure correct and efficient operations and high levels of productivity.
14. Plans, schedules and delegates major field operations projects undertaken by the Corporation or outside contracts; assures proper supervision under established policies; reviews and approves all invoices and bills presented by contractors for payment.
15. Maintains inventory and control systems for all field equipment, materials, supplies, meters and related appurtenances. Establishes and maintains control system for financial, human resource, Corporate records, and Owner/Member requirements. Monitors integrity of operational and fiscal control systems.
16. Develops appropriate method and procedures for providing quality utility services and for effective an efficient maintenance, service and billing programs. Assures coordination of field and office activities and proper notification of Owner/Member when work circumstance permit or so require.

17. Assists in resolving customer service inquiries when required. Monitors office/field/Owner-Member communications and establishes positive customer and public information programs for the Corporation.
18. Prepares and presents oral and written reports for the Board, community groups, professional consultants, and regulatory and industry agencies.
19. Recommends changes in Corporation policies and procedures based on operational data and sound management principles. Implements policies established by the Board and assures compliance with adopted` policies by employees, contractors, suppliers, other agents, and Owner/Members.
20. Represents the Corporation in all dealings with regulatory agencies. Monitors all operations to assure compliance with established law and regulations governing public utility services. Provides regular interface with regulatory agencies and legislators concerning rules and laws affecting the Corporation, including expert commentary regarding regulation having direct or indirect impact on water resources, treatment or quality of the Corporation's service area. Assures that all legislators from the service area are aware of and understand environmental legislation relating affecting the Corporation.
21. Approves or recommends changes in Corporation policies and procedures. Approves all human and material resource actions or expenditures not delegated to functional managers. Conducts periodic review of daily management work to assure that it complies with Corporation standards.
22. Represents the Corporation in regular meetings with Owner/Members to assure that ongoing information about system development, programs, policies, and procedures is presented in a timely and effective manner. Assures the publication of any informational materials necessary to keep Owner/Members informed of system requirements.
23. Develops and implements safety policies and procedures. Assures compliance with safety rules and provides training to promote an accident-free work environment. Investigates all personal and equipment accidents and prepares reports concerning causes and prevention methods. Maintain statistics concerning lost-time injuries, Worker Compensation claims, and the like.
24. Performs other duties as directed by the Corporation's Board of Directors.

Maintenance of Corporation Financial Records

The accounting policies of Military Highway Water Supply Corporation conform to generally accepted accounting principles as applicable to non-profit organizations. The following is a summary of the more significant policies:

A. Financial Statement Presentation

Military Highway Water Supply Corporation has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SEAS No. 117, Military Highway Water Supply Corporation is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, unrestricted designated net assets, and temporarily restricted net assets. in addition. Military Highway Water Supply Corporation is required to present a statement of cash flows.

B. Contributions

Military Highway Water Supply Corporation also adopted SEAS No. 116, Accounting for Contributions Received and Contributions Made. In accordance with SEAS No. 116, contributions received are recorded as unrestricted, unrestricted designated. and temporarily restricted support depending on the existence or nature of any donor restrictions. As permitted by SEAS No. 116. Military Highway Water Supply Corporation has applied the provision of this new statement.

The Board may designate certain amounts (appropriations) derived from special (fundraising) events for specific purposes, projects, or investments to assist in budgeting expenses and conserving assets. To facilitate this, the organization maintains separate accounts fur such board designations within the Unrestricted Net Assets.

C. Land. Buildings. Equipment. and Infrastructure

Contributions and Grants are recorded as support at their estimated fair value. Such contributions are recorded as temporarily restricted. Military Highway Water Supply Corporation considers all assets for infrastructure temporarily restricted until the asset is diminished or the approval by the grantor for the disposal of the asset. Property and equipment costing in excess of \$500 are capitalized. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets.

D. Investments

The Organization elected to adopt SFAS No. 124, "Accounting for Certain Investments Held by Not-for Profit Organizations." Under SFAS No. 124 investments in

marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. These effects are included in changes in unrestricted net assets because the gains and losses are unrestricted. This change had no effect on Military Highway Water Supply Corporation's financial statements.

E. Estimates

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

F. Encumbrance Accounting

Military Highway Water Supply Corporation does not use the encumbrance system of accounting.

G. Receivables

The direct write-off method is employed in accounting for bad debts. This method recognizes a bad debt only when an account is uncollectible.

H. Inventory

Inventories are stated at cost. Cost is determined by the most recent price paid for inventory replacements.

I. Income Tax

Military Highway Water Supply Corporation is exempt from federal taxes on income under Section 501 (c) (12) of the Internal Revenue Code. Federal information Form 990 exempt organizations, is filed annually with the Internal Revenue Service.

J. Disclosure About Fair Value of Financial Instruments

The estimated fair values of the Corporation's financial instruments at December 31 2009. and the methods and assumptions used to estimate such fair values, are as follows:

1. Cash and cash equivalents, restricted certificates of deposits

The fair value of cash, cash equivalents and restricted certificates of deposits approximates the carrying amount because of the short maturity of those instruments

2. Notes receivable, other receivable, restricted assets (Land and Improvements) and due from governments.

The fair value of the above approximates the carrying amount, as the origination date was December 31, 2008

3. Due to developers

The fair value of the amount due to developers reasonably approximates fair value as the amount is reflected only while construction and development of the subdivision is in process, which may be from one month to eighteen (18) months.

4. Service deposits payable

Service deposits payable is carried at the amount deposited and is not adjusted nor does it earn interest. The deposit is held for as long as an individual is a member of the corporation.

5. Customer advances in aid of construction

The fair value of the amount advances in aid of construction reasonable approximates fair value, because of the short duration that these funds are held. They are held during the time prior to executing a contract and before commencing construction.

K. Pervasiveness of Estimates

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

L. Advertising Costs

Advertising costs are charged to operations when incurred. Total advertising expense: tear ended December 31, 2008 were \$1,790.

NOTE: CASH AND CASH INVESTMENTS

The Corporation's deposits are in various financial institutions and are carried at cost. Deposits at December 31, 2008 were fully covered by federal depository Insurance (FDIC). The corporation does not maintain bank balances in excess of \$ 100 000 in any banking institution.