

OFFICIAL STATEMENT

Dated March 26, 2018

Ratings:

S&P (Insured): "AA" (stable outlook)

S&P (Underlying): "A" (stable outlook)

Insurance: BAM

See "BOND INSURANCE" and

"OTHER INFORMATION – Ratings" herein.

NEW ISSUE - Book-Entry-Only

In the opinion of Special Tax Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



\$2,560,000
CASH SPECIAL UTILITY DISTRICT
(Hunt, Hopkins, Rockwall, and Rains Counties, Texas)
REVENUE BONDS, SERIES 2018

Dated Date: March 15, 2018;

Due: September 1, as shown on page 2

Interest to Accrue from the Date of Initial Delivery

PAYMENT TERMS . . . Interest on the \$2,560,000 Cash Special Utility District Revenue Bonds, Series 2018 (the "Bonds") will accrue from the date of initial delivery of the Bonds, will be payable September 1 and March 1 of each year commencing September 1, 2018, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is UMB, NA, Austin, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE...The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Article XI, Section 59 of the Texas Constitution and Chapters 49 and 65, Texas Water Code, as amended, and the resolution (the "Resolution") passed by the Board of Directors of the Cash Special Utility District (the "District") on March 26, 2018. The Bonds, together with the District's outstanding parity revenue bonds and any additional parity obligations that may be issued from time to time in accordance with the Resolution (collectively, the "Prior Lien Obligations"), are payable, both as to principal and interest, solely from and secured by a lien on and pledge of the Pledged Revenues of the District's water system (the "System"). The Pledged Revenues consist of the net revenues of the System that remain after payment of all costs of operating and maintaining the System, plus any additional payment sources that may be pledged to secure the Prior Lien Obligations. **The District has no taxing powers and has not covenanted or obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "THE BONDS - Authority for Issuance", "SECURITY FOR THE BONDS" and "SELECTED PROVISIONS OF THE RESOLUTION").

PURPOSE . . . Proceeds of the Bonds will be used (i) for constructing certain transmission line improvements to the District's water supply system; (ii) to fund a debt service reserve fund; and (iii) to pay certain other costs related to the issuance of the Bonds. See "THE BONDS - Purpose".



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company. See "BOND INSURANCE" and "OTHER INFORMATION – Ratings."

CUSIP PREFIX: 14756D
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

LEGALITY... The Bonds are offered for delivery when, as and if issued and received by the initial purchaser(s) (the "Purchaser" or "Initial Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of McLean & Howard, L.L.P., Bond Counsel, Austin, Texas (see APPENDIX C, "Form of Bond Counsel's Opinion").

DELIVERY... The Bonds are expected to be available for delivery through DTC on April 26, 2018.

MATURITY SCHEDULE

Principal Amount	September 1 Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$ 50,000	2018	2.000%	1.850%	AW8
70,000	2019	2.000%	2.050%	AX6
75,000	2020	4.000%	2.150%	AY4
75,000	2021	4.000%	2.350%	AZ1
75,000	2022	2.000%	2.500%	BA5
80,000	2023	2.250%	2.600%	BB3
80,000	2024	3.000%	2.800%	BC1
85,000	2025	3.000%	2.900%	BD9
85,000	2026	3.000%	3.000%	BE7
90,000	2027	3.000%	3.100%	BF4
90,000	2028	3.000%	3.150%	BG2
95,000	2029	3.000%	3.200%	BH0

\$200,000 3.000% Term Bonds due September 1, 2031 Priced to Yield 3.250% - CUSIP Suffix ⁽¹⁾: BK3
\$215,000 3.125% Term Bonds due September 1, 2033 Priced to Yield 3.350% - CUSIP Suffix ⁽¹⁾: BM9
\$235,000 3.250% Term Bonds due September 1, 2035 Priced to Yield 3.450% - CUSIP Suffix ⁽¹⁾: BP2
\$245,000 3.375% Term Bonds due September 1, 2037 Priced to Yield 3.550% - CUSIP Suffix ⁽¹⁾: BR8
\$265,000 3.500% Term Bonds due September 1, 2039 Priced to Yield 3.600% - CUSIP Suffix ⁽¹⁾: BT4
\$450,000 3.500% Term Bonds due September 1, 2042 Priced to Yield 3.650% - CUSIP Suffix ⁽¹⁾: BW7

(Interest accrues from date of initial delivery)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor or the Purchaser shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

REDEMPTION . . . The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after September 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption"). In addition, the Bonds maturing on September 1, 2031, 2033, 2035, 2037, 2039 and 2042 are subject to mandatory sinking fund redemption, as further described herein (see "THE BONDS – Mandatory Sinking Fund Redemption").

This Official Statement, which includes the cover page and the Schedule and Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described.

Neither the District nor the Purchasers make any representation regarding the information contained in this Official Statement regarding The Depository Trust Company or its book-entry-only system, as such information has been provided by DTC. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau, and are included solely for the convenience of the owners of the Bonds. Neither the District nor the Purchasers shall be responsible for the selection or correctness of the CUSIP numbers shown on the inside cover page.

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “BOND INSURANCE” and “APPENDIX E - SPECIMEN MUNICIPAL BOND INSURANCE POLICY”.

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The cover page hereof, this page, the Schedule, the Appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

- THE DISTRICT**..... At an election held on May 3, 2003, the voters within the Cash Special Utility District (the “District”) confirmed the creation of the District and the conversion of Cash Water Supply Corporation into the District, which dissolved the Water Supply Corporation and transferred all assets, liabilities and equity of that organization to the District on July 1, 2003. The District is a conservation and reclamation district created under the terms and conditions of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 65 of the Texas Water Code (see “INTRODUCTION - Description of District”).
- THE BONDS** The \$2,560,000 Cash Special Utility District Revenue Bonds, Series 2018 are issued as serial bonds maturing September 1, 2018 through September 1, 2029 and Term Bonds maturing September 1 in the years 2031, 2033, 2035, 2037, 2039 and 2042 (see “THE BONDS - Description of the Bonds”).
- PAYMENT OF INTEREST** Interest on the Bonds accrues from the date of initial delivery, and is payable September 1, 2018, and each March 1 and September 1 thereafter until maturity or prior redemption (see “THE BONDS - Description of the Bonds” and “THE BONDS - Optional Redemption”).
- AUTHORITY FOR ISSUANCE** The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 65, Texas Water Code, as amended, and the resolution (the “Resolution”) passed by the Board of Directors of the District on March 26, 2018. The Bonds are special obligations of the District (see “THE BONDS - Authority for Issuance”).
- SECURITY FOR THE BONDS** The Bonds constitute special obligations of the District, and together with the District’s outstanding parity revenue bonds and any additional parity obligations that may be issued from time to time in accordance with the Resolution (collectively, with the Bonds, the “Prior Lien Obligations”), are payable, both as to principal and interest, from and secured by a lien on and pledge of the Pledged Revenues of the District’s water system (the “System”). The Pledged Revenues consist of the net revenues of the System that remain after payment of all costs of operating and maintaining the System, plus any additional payment sources that may be pledged to secure the Prior Lien Obligations. **The District has not covenanted or obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see “SECURITY FOR THE BONDS” and “SELECTED PROVISIONS OF THE RESOLUTION”).
- QUALIFIED TAX-EXEMPT OBLIGATIONS**..... The District has designated the Bonds as “Qualified Tax-Exempt Obligations” for financial institutions (see “TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions”).
- REDEMPTION** The District reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2029, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption”). In addition, the Bonds maturing on September 1, 2031, 2033, 2035, 2037, 2039 and 2042 are subject to mandatory sinking fund redemption, as further described herein (see “THE BONDS – Mandatory Sinking Fund Redemption”).
- TAX EXEMPTION**..... In the opinion of Special Tax Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption “TAX MATTERS” herein.
- USE OF PROCEEDS** Proceeds of the Bonds will be used (i) for constructing certain transmission line improvements to the District’s water supply system; (ii) to fund a debt service reserve fund; and (iii) to pay certain other costs related to the issuance of the Bonds. See “THE BONDS - Purpose”.

RATINGS The Bonds have been rated “AA” (stable outlook) by S&P Global Ratings, a division of S&P Global Inc. (“S&P”) by virtue of a municipal bond insurance policy to be issued by Build America Mutual. The Bonds have an unenhanced underlying rating of “A” (stable outlook) by S&P. See “BOND INSURANCE”, “BOND INSURANCE RISK FACTORS” and “OTHER INFORMATION - RATINGS.”

BOOK-ENTRY-ONLY

SYSTEM The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS - Book-Entry-Only System”).

PAYMENT RECORD The District has never defaulted in payment of its bonds.

For additional information regarding the District, please contact:

Clay Hodges
General Manager
Cash Special Utility District
172 East FM 1564
Greenville, Texas 75402
(903) 883-2695

or

Steven A. Adams, CFA
Paul N. Jasin
Specialized Public Finance Inc.
4925 Greenville, Suite 1350
Dallas, Texas 75206
(214) 373-3911

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DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Directors</u>	<u>Term Commenced</u>	<u>Term Expires</u>	<u>Occupation</u>
William C. Reese President	1990	May, 2020	Retired Electrical Engineer
Kevin J. Chilcoat Vice President	2013	May, 2019	Retired Engineer
James M. Fortenberry Secretary/Treasurer	2001	May, 2020	Retired Law Enforcement
Bryan C. Delgado Director	1994	May, 2019	Electrical Engineer
Craig Driggers Director	2014	May, 2019	Director - L-3 Communications
Norris R. Mayberry Director	2002	May, 2018	Verizon Technician
Staley J. Cash Director	2005	May, 2018	Financial Consultant
Bill F. Watkins Director	2017	May, 2018	Retired Chief of Police, Rockwall
David Lindsey Director	Recently Appointed	May, 2020	Retired Postal Worker

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service to the District</u>
Clay Hodges	General Manager	20 Years

CONSULTANTS AND ADVISORS

Auditors	Rutherford, Taylor & Company, P.C. Greenville, Texas
Bond Counsel	McLean & Howard, L.L.P. Austin, Texas
Special Tax Counsel.....	McCall, Parkhurst & Horton L.L.P. Dallas, Texas
Financial Advisor.....	Specialized Public Finance Inc. Dallas, Texas

**OFFICIAL STATEMENT
RELATING TO

\$2,560,000
CASH SPECIAL UTILITY DISTRICT
REVENUE BONDS, SERIES 2018**

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$2,560,000 Cash Special Utility District Revenue Bonds, Series 2018 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution (as hereinafter defined), except as otherwise indicated herein (see "SELECTED PROVISIONS OF THE RESOLUTION").

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Cash Special Utility District (the "District" or "Issuer") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Specialized Public Finance Inc., Dallas, Texas.

DESCRIPTION OF THE DISTRICT . . . Cash Special Utility District is the successor entity to Cash Water Supply Corporation (the "Corporation"). The Corporation was a member owned, non-profit water supply corporation incorporated in July, 1963 for the purpose of furnishing potable water utility service. The membership of the Corporation voted on April 8, 2002 to convert to a special utility district. The Texas Commission on Environmental Quality (the "TCEQ") approved the conversion on March 11, 2003. A confirmation election was held in the District on May 3, 2003. The new Special Utility District became effective on July 1, 2003. At that time, the Cash Water Supply Corporation was dissolved and all assets and liabilities were transferred to the newly created Cash Special Utility District. The District is governed by a nine member Board of Directors. Members of the Board are elected by registered voters residing within the District; have the authority to make decisions, appoint managers, and establish service policies and rates; and have the primary accountability for fiscal matters. Cash Special Utility District comprises approximately 154,240 acres in area, located in Hunt, Hopkins, Rockwall, and Rains Counties, Texas. The District currently supplies wholesale water to eleven entities.

THE BONDS

PURPOSE . . . Proceeds of the Bonds will be used (i) for constructing certain transmission line improvements to the District's water supply system; (ii) to fund a debt service reserve fund; and (iii) to pay certain other costs related to the issuance of the Bonds. See "THE BONDS - Purpose".

DESCRIPTION OF THE BONDS . . . The Bonds are dated March 15, 2018, and mature on September 1 in each of the years and in the amounts shown on page two hereof. Interest will accrue from the date of initial delivery of the Bonds, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on March 1 and September 1, commencing September 1, 2018, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid by the Paying Agent/Registrar (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity or upon prior redemption, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments on the Bonds will be made as described in "THE BONDS - Book-Entry-Only System" below.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 65, Texas Water Code, as amended, and the Resolution passed by the Board of Directors of the District on March 26, 2018.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2029, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of the Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

MANDATORY SINKING FUND REDEMPTION . . . The Bonds maturing on September 1, 2031, 2033, 2035, 2037, 2039 and 2042 (the “Term Bonds”) are subject to mandatory sinking fund redemption in part prior to maturity on the dates and in the amounts as follows:

Term Bonds Due September 1, 2031		Term Bonds Due September 1, 2033		Term Bonds Due September 1, 2035	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2030	\$ 100,000	September 1, 2032	\$ 105,000	September 1, 2034	\$ 115,000
September 1, 2031	100,000 ⁽¹⁾	September 1, 2033	110,000 ⁽¹⁾	September 1, 2035	120,000 ⁽¹⁾
Term Bonds Due September 1, 2037		Term Bonds Due September 1, 2039		Term Bonds Due September 1, 2042	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2036	\$ 120,000	September 1, 2038	\$ 130,000	September 1, 2040	\$ 145,000
September 1, 2037	125,000 ⁽¹⁾	September 1, 2039	135,000 ⁽¹⁾	September 1, 2041	150,000
				September 1, 2042	155,000 ⁽¹⁾

(1) Stated Maturity.

The particular Term Bonds to be redeemed shall be chosen by the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) at random by lot or other customary method; provided, however, that the principal amount of the Term Bonds of a stated maturity required to be redeemed pursuant to the operation of the mandatory redemption provisions shall be reduced, at the option of the District, by the principal amount of said Term Bonds of like maturity which, at least 45 days prior to mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

NOTICE OF REDEMPTION . . . Not less than thirty (30) days prior to a redemption date for the Bonds, the District shall cause a notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owners of each Bond or portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar on the day such notice of redemption is mailed. ANY NOTICE OF REDEMPTION SO MAILED TO THE REGISTERED OWNERS WILL BE DEEMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE OF THE REGISTERED OWNERS FAILED TO RECEIVE SUCH NOTICE. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions thereof which are to be so redeemed. If such notice of redemption is given and any other condition to redemption satisfied, all as provided above, the Bonds or portion thereof which are to be redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Resolution have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Bonds have not been redeemed.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption of Bonds, notice of proposed amendment or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be

governed by the Resolution and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "THE BONDS – Book-Entry-Only System" herein.)

DEFEASANCE . . . The Resolution provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent (or other financial institution permitted by applicable state law), in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities, that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Resolution provides that the term "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to refund, retire or otherwise discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The District has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Resolution does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or that for any other Defeasance Security will be maintained at any particular rating category.

Upon defeasance, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Upon making such deposit in the manner described, such defeased Bonds shall no longer be deemed outstanding obligations secured by the Resolution, but will be payable only from the funds and Defeasance Securities deposited in escrow and will not be considered debt of the District for purposes of taxation or applying any limitation on the District's ability to issue debt or for any other purpose.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Purchaser take any responsibility for the accuracy thereof.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT . . . In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Resolution will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District, the Financial Advisor, or the Purchaser.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is UMB, NA, Austin, Texas. In the Resolution, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds will be printed and delivered to the beneficial owners thereof and, thereafter, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. The Paying Agent/Registrar shall not be required to make any such transfer or exchange during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or, with respect to any Bond or any portion thereof called for redemption prior to maturity, within 30 days prior to its redemption date; provided, however, such limitation on transfer shall not be applicable to an exchange by the Registered Owner of an unredeemed balance of a Bond called for redemption in part.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the 15th day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS' REMEDIES . . . The Resolution establishes specific events of default with respect to the Bonds. If the District (i) defaults in the payment of the principal, premium, if any, or interest on the Bonds, (ii) defaults in the deposits and credits required to be made to the Interest and Sinking Fund or 2017 Reserve Fund, (iii) declares bankruptcy, or (iv) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in the Resolution, the Resolution and Chapter 65 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Resolution and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Resolution does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Resolution, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be

provided for by statute in “clear and unambiguous” language. Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, including the Bonds, permits the District to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, the District has not waived sovereign immunity, as permitted by Chapter 1371. As a result, Bondholders may not be able to bring such a suit against the District for breach of the Bond or Resolution covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as the Pledged Revenues, such provisions are subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, governmental immunity, and by principles of equity which permit the exercise of judicial discretion.

AMENDMENTS TO THE RESOLUTION . . . In the Resolution, the District has reserved the right to amend the Resolution without the consent of any owners for the purpose of amending or supplementing such Resolution to (1) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the owners, (2) grant additional rights or security for the benefit of the owners, (3) add events of default as shall not be inconsistent with the provisions of the Resolution that do not materially adversely affect the interests of the owners, (4) qualify the Resolution under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (5) make such other provisions in regard to matters or questions arising under the Resolution that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the District, do not materially adversely affect the interest of the owners.

The Resolution further provides that the owners of the Bonds aggregating in principal amount a majority of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Resolution if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the owners in original principal amount of the then outstanding Bonds no amendment may be made of the purpose of: (1) making any change in the maturity of any of the outstanding Bonds; (2) reducing the rate of interest borne by any of the outstanding Bonds; (3) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (4) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds, or imposing any condition with respect to such payment; or (5) changing the minimum percentage of principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Resolution for further provisions relating to the amendment thereof.

USE OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds:	
Par Amount of Bonds	\$ 2,560,000.00
Original Issue Discount	(73,585.94)
Total Sources of Funds	<u>\$ 2,486,414.06</u>
Uses of Funds:	
Deposit to Project Construction Fund	\$ 2,170,050.42
Deposit to Debt Service Reserve Fund	150,373.64
Costs of Issuance	165,990.00
Total Uses of Funds	<u>\$ 2,486,414.06</u>

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BOND INSURANCE

BOND INSURANCE POLICY . . . Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

BUILD AMERICA MUTUAL ASSURANCE COMPANY . . . BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM . . . BAM’s total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2017 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$515 million, \$87.7 million and \$427.3 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM’s most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM’s website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “BOND INSURANCE”.

Additional Information Available from BAM . . . Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM’s analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM’s website at buildamerica.com/creditsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of certificates that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profiles for those certificates. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes certificates insured by BAM, any pre-sale Credit Profiles will be updated and superseded by a final Credit Profiles to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM’s website at buildamerica.com/obligor/. BAM will produce a Credit Profiles for all certificates insured by BAM, whether or not a pre-sale Credit Profiles has been prepared for such certificates. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

The information in this “BOND INSURANCE” section regarding BAM has been provided by BAM for use in this Official Statement, but the District takes no responsibility for the accuracy or completeness thereof.

BOND INSURANCE RISKS

GENERAL . . . As a result of the purchase of the Policy by the Purchaser, the following risk factors are applicable to the Policy and the Bonds.

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable municipal bond insurance policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy will not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the Bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by BAM at such time and in such amounts as would have been due absent such prepayment by the District unless BAM chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of BAM without appropriate consent. BAM may reserve the right to direct and to consent to any remedies available to the holders of the Bonds and BAM’s consent may be required in connection with amendments to the Ordinance.

In the event the BAM is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from System revenues. In the event the BAM becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Bonds.

If a Policy is acquired, the long-term ratings on the Bonds will be dependent in part on the financial strength of the BAM and its claims-paying ability. The BAM’s financial strength and claims-paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the BAM and of the ratings on the Bonds, whether or not subject to a Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Bonds.

The obligations of BAM under a Policy are general obligations of the BAM and in an event of default by BAM, the remedies available may be limited by applicable bankruptcy law.

None of the District, the Financial Advisor, or the Purchaser have made independent investigation into the claims-paying ability of BAM and no assurance or representation regarding the financial strength or projected financial strength of BAM is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal of and interest on the Bonds and the claims-paying ability of BAM, particularly over the life of the Bonds.

CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS . . . Moody’s Investor Services, Inc., S&P Global Ratings, a division of S&P Global Inc., and Fitch Ratings (the “Rating Agencies”) have downgraded and/or placed on negative watch the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Bonds. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims-paying ability of any such bond insurer, particularly over the life of the Bonds.

SECURITY FOR THE BONDS

The following summary of the provisions of the Resolution that describe the security for the Bonds is qualified by reference to the Resolution, excerpts of which are included herein under the heading "SELECTED PROVISIONS OF THE RESOLUTION."

PLEGGED REVENUES . . . In the Resolution, the Board has pledged the Pledged Revenues to secure the payment of the Bonds and the outstanding \$8,695,000 Cash Special Utility District Water System Revenue Refunding Bonds, Series 2014 (the "Series 2014 Bonds") and has reserved the right, subject to certain conditions, to pledge the Pledged Revenues to secure additional parity obligations ("Additional Prior Lien Obligations," and, together with the Bonds and the Series 2014 Bonds, the "Prior Lien Obligations") from time to time in the future (see "Security for the Bonds - Issuance or Incurrence of Additional Prior Lien Obligations"). The Resolution defines "Pledged Revenues" as (1) the Net Revenues, plus (2) any additional revenues, received or to be received under specific contracts, which hereafter are pledged by the District to the payment of the Prior Lien Obligations pursuant to Section 65.503 of the Texas Water Code, and excluding those revenues excluded from Gross Revenues or excluded from Net Revenues. The Resolution defines "Net Revenues" as Gross Revenues remaining after deducting the "Maintenance and Operating Expenses," which are defined as all current expenses of operation and maintenance of the System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service (but only such repairs and extensions as, in the judgment of the Board, are necessary to keep the System in operation and render adequate service to the District and the inhabitants thereof, or such as might be necessary to meet some physical accident or conditions which would otherwise impair the Prior Lien Obligations), and all payments under contracts for materials and services provided to the District that are required to enable the District to render efficient service. The Resolution provides that depreciation shall never be considered as a Maintenance and Operating Expense of the District.

RESERVE FUND . . . In the Resolution, the District covenants to accumulate and maintain a reserve for the payment of the Bonds (the *Required Reserve*) equal to the lesser of (i) the Average Annual Debt Service (calculated on a Fiscal Year basis and determined as of the date of issuance of the Bonds, or at the option of the District, at the end of each fiscal year) for the Bonds or (ii) the maximum amount in a reasonably required reserve fund for the Bonds from time to time that can be invested without restriction as to yield pursuant to section 148 of the Internal Revenue Code of 1986, as amended (the *Reserve Fund*), which Fund or account shall be maintained at an official depository of the District. All funds deposited into the Reserve Fund (excluding surplus funds which include earnings and income derived or received from deposits or investments which will be transferred to the Revenue Fund during such period as there is on deposit in the Reserve Fund the Required Reserve) shall be used solely for the payment of the principal of and interest on the Bonds, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last stated maturity or interest on the Bonds.

Upon issuance of the Bonds, the total amount required to be accumulated and maintained in the Reserve Fund is hereby determined to be \$150,373.64, which is equal to not less than the Average Annual Debt Service for the Bonds, and on or before the 1st day of the month next following the month the Bonds are delivered to the Purchasers and on or before the 1st day of each following month, the District shall cause to be deposited to the Reserve Fund from the Pledged Revenues an amount equal to at least one-sixtieth (1/60th) of the Required Reserve. After the Required Reserve has been fully accumulated and while the total amount on deposit in the Reserve Fund is in excess of the Required Reserve, no monthly deposits shall be required to be made to the Reserve Fund.

As and when Additional Prior Lien Obligations are delivered or incurred, the District may create and establish a debt service reserve fund pursuant to the provisions of any order or other instrument authorizing the issuance of the Prior Lien Obligations for the purpose of securing that particular issue or series of Prior Lien Obligations or any specific group of issues or series of Prior Lien Obligations, and the amounts once deposited or credited to said debt service reserve funds shall no longer constitute Pledged Revenues and shall be held solely for the benefit of the owners of the particular Prior Lien Obligations for which such debt service reserve fund is established. Each debt service reserve fund shall receive a pro rata amount of the Pledged Revenues after the requirements of the Interest and Sinking Fund, which secures all Prior Lien Obligations, has first been met.

When and so long as the cash and investments in the Reserve Fund equal the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve (other than as the result of the issuance of Additional Prior Lien Obligations as provided in the preceding paragraph), the District covenants and agrees to cure the deficiency in the Required Reserve by resuming the monthly deposits to said Fund or account from the Pledged Revenues, or any other lawfully available funds, such monthly deposits to be in amounts equal to not less than 1/60th of the Required Reserve covenanted by the District to be maintained in the Reserve Fund with any such deficiency payments being made on or before the 1st day of each month until the Required Reserve has been fully restored. The District further covenants and agrees that, subject only to the prior payments to be made to the Interest and Sinking Fund, the Pledged Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amounts as required by the terms of the Resolution and any other order or Resolution pertaining to the issuance of Additional Prior Lien Obligations.

During such time as the Reserve Fund contains the Required Reserve, the District may, at its option, withdraw all surplus funds in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the Revenue Fund, unless such surplus funds represent proceeds of the Bonds, then such surplus will be transferred to the Interest and Sinking Fund. The District hereby designates its Depository as the custodian of the Reserve Fund.

For more detailed information on the Reserve Fund and the District's obligations relating thereto, see "SELECTED PROVISIONS OF THE RESOLUTION" herein.

FUNDS . . . The Resolution reaffirms the establishment and maintenance of the following funds: (1) the System Fund, (2) the Interest and Sinking Fund and (3) the Reserve Fund, and such funds are to be kept separate and apart from all other funds and accounts of the District and moneys deposited to the credit of such Funds shall be used and expended as provided in the Resolution.

RATES AND CHARGES . . . For the benefit of the Bondholders and in addition to all provisions and covenants in the laws of the State of Texas and in this Resolution, the District hereby expressly stipulates and agrees, while any of the Bonds are Outstanding, to establish, maintain and collect rates, charges and fees for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

- (i) To pay Maintenance and Operating Expenses, depreciation charges and replacement and betterment costs;
- (ii) To produce Net Earnings at least equal to the sum of 1.10 times the annual Debt Service requirements (computed on a Fiscal Year Basis) of all Prior Lien Obligations outstanding during each Fiscal Year;
- (iii) To pay the principal of and interest on the Prior Lien Obligations and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Obligations and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on the Pledged Revenues; and
- (iv) To pay all other indebtedness payable from the Pledged Revenues and/or secured by a lien on the properties or the revenues of the System.

RATE COVENANT . . . In the Resolution, the District has covenanted to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to generate Gross Revenues in each Fiscal Year reasonably anticipated to be sufficient: (i) to pay Maintenance and Operating Expenses, depreciation charges and replacement and betterment costs; (ii) to produce Net Earnings at least equal to the sum of 1.10 times the annual Debt Service requirements (computed on a Fiscal Year Basis) of all Prior Lien Obligations outstanding during each Fiscal Year; (iii) to pay the principal of and interest on the Prior Lien Obligations and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Obligations and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on the Pledged Revenues, and (iv) to pay all other indebtedness payable from the Pledged Revenues and/or secured by a lien on the properties or the revenues of the System.

In addition, in the Resolution, the District has covenanted to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce the Net Earnings at least equal to the sum of 1.10 times the Annual Debt Service Requirements (computed on a Fiscal Year basis), of all Prior Lien Obligations outstanding during each Fiscal Year.

ISSUANCE OR INCURRENCE OF ADDITIONAL PRIOR LIEN OBLIGATIONS . . . In the Resolution, the Board has reserved the right to issue or incur Prior Lien Obligations for any purpose authorized by law provided that: (i) the General Manager of the District (or other officer of the District then having primary responsibility for the financial affairs of the District) certifies (A) that the District is not then in default as to any covenant or requirement contained in any order authorizing the issuance of outstanding Prior Lien Obligations, and (B) either (I) payments into all special funds or accounts created and established for the payment and security of all outstanding Prior Lien Obligations have been made and that the amounts on deposit in such special funds or accounts are the amounts then required to be on deposit therein or (2) the application of the proceeds of sale of such obligations then being issued will cure any such deficiency; (ii) a certificate or opinion of a certified public accountant, that based on the books and records of the District, during either the next preceding Fiscal Year, or any twelve consecutive calendar month period out of the 15 months immediately preceding the month the order or resolution authorizing the issuance of the Additional Prior Lien Obligations is adopted, the Net Earnings (as defined in the Resolution) at least equal to the sum of 1.25 times the Average Annual Debt Service (computed on a Fiscal Year basis) of the Prior Lien Obligations and the Additional Prior Lien Obligations to be outstanding after the issuance of the then proposed Additional Prior Lien Obligations; and (iii) in making a determination of Net Earnings, such officer may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least 60 days prior (i) to the last day of the period for which Net Earnings are determined or (ii) the date the order authorizing the issuance of the Additional Prior Lien Obligations is adopted and, for purposes of satisfying the Net Earnings tests described above, make a pro forma determination of the Net Earnings of the System for the period of time covered by such certification based on such change in rates and charges being in effect for the entire period covered by the certification.

The Resolution provides that, at such time as the currently outstanding Bonds are no longer outstanding, the additional bonds test will be revised to no longer require a certificate from an independent certified public accountant. Rather, a designated financial officer of the District will be required to execute such certificate.

For purposes of satisfying the terms and conditions for the issuance of Additional Prior Lien Obligations, the term "Net Revenues of the System" means all of the Net Revenues of the System, except that in calculating Net Revenues there shall not be deducted as Maintenance and Operation Expenses any charge, disbursement or expenditure for extensions, repairs or otherwise which, under standard accounting practice, constitutes a capital expenditure. See "SELECTED PROVISIONS OF THE RESOLUTION" for a more complete description of the terms and conditions for the issuance of Additional Prior Lien Obligations.

THE UTILITY SYSTEM

WATERWORKS SYSTEM . . . Raw water is supplied through a water purchase contract with Sabine River Authority ("SRA") to provide for an aggregate peak daily amount of 8.5 million gallons per day and one contract for treated water with North Texas Municipal Water District that provides for a peak daily amount of 2.2 million gallons per day.

The contract with SRA provides for a termination date of October 1, 2049. In a letter to the District, dated July 26, 2004, the SRA stated that the Board of Directors of the SRA has authorized confirmation of a general policy that water supplied for municipal-type use is essentially perpetual and such uses cannot unilaterally be suspended by SRA. Except for quantities for water committed, at the conclusion of any contract term for such water supply all contract conditions become negotiable but quantities of water committed would be lowered by the SRA only if the yield of the water supply source were diminished.

The water supply contract with North Texas Municipal Water District expires on January 1, 2021.

The District currently operates a water treatment plant on Lake Tawakoni with a capacity of 4.2 million gallons per day to treat the raw water supply purchased from the SRA.

The raw water from Lake Tawakoni is treated by means of sedimentation, filtration and disinfection to remove harmful contaminants. This water supplies the Cumby, Lone Oak, East Greenville and Cash areas, South of Interstate 30. The treated water purchased from North Texas Municipal Water District, which obtains its raw water from Lake Lavon, supplies the West Greenville, Southeast Caddo Mills, Quinlan and Union Valley areas, South of Interstate 30.

The District currently owns the following facilities:

<u>Facility</u>	<u>Capacity of Facilities</u>
Fate Pump Station	405,000 Gallon G.S. Booster Pumps 3 @ 1,000 GPM
Union Valley Elevated Tower	200,000 Gallon Elevated Tower
Union Valley Pump Station	255,000 Gallon G.S., Booster Pumps 3 @ 960 GPM
Quinlan Elevated Tower	250,000 Gallon Elevated Tower
Cash Water Treatment Plant	4.2 MGD, 800,000 Gallon G.S., Booster Pumps 4 @ 1, 130 GPM
Cash Office Elevated Tower & Pump Station	300,000 Gallon Elevated Tower, Booster Pumps 2 @ 730 GPM
Dixon Elevated Tower	200,000 Gallon Elevated Tower
Greenville Elevated Tower	200,000 Gallon Elevated Tower
Cumby Elevated Tower	200,000 Gallon Elevated Tower
Lone Oak Elevated Tower & Pump Station	200,000 Gallon Elevated Tower, 500,000 Gallon G.S., Booster Pumps 4 @ 700 GPM

TABLE 1 – HISTORICAL WATER CONSUMPTION

Fiscal Year Ended 12/31	<u>Water Usage in Gallons</u>		Number of Water Customers
	Average	Total	
	Daily Usage	Usage	
2013	1,505,742	549,596,116	5,932
2014	1,374,636	501,742,185	6,066
2015	1,478,180	539,535,807	6,165
2016	1,468,458	535,987,289	6,338
2017	1,491,281	544,317,000	6,537

TABLE 2 – LARGEST WATER CUSTOMERS (AS OF DECEMBER 31, 2017)

Customer	Water Usage (in Million Gallons)	% of Total Water Usage
City of Quinlan	60.01	11.3%
City of Lone Oak	18.54	3.5%
Aqua Texas	11.80	2.2%
Boles Home	5.71	1.1%
Lone Oak ISD	4.03	0.8%
Boles ISD	2.84	0.5%
Total	102.92	19.4%

TABLE 3 – WATER RATES (AS OF DECEMBER 31, 2017)

MONTHLY CHARGES . . . The monthly charge for metered water service is based on demand by meter size. Each charge is assessed based on the number of 5/8" x 3/4" meters (as per American Water Works Association) maximum continuous flow specifications equivalent to the size indicated and is used as a base multiplier for the base monthly minimum rate and the standard residential service rates are as follows:

Standard Residential Service Rates	
Monthly Minimum	\$ 28.70

GALLONAGE CHARGE . . . In addition to the monthly charge, a gallonage charge is added at the following rates for usage during the billing period.

Gallonage Charge		
0-5,000	\$ 3.95	per 1,000 gallons
5,001-10,000	4.40	per 1,000 gallons
10,001-15,000	4.95	per 1,000 gallons
15,001-20,000	5.50	per 1,000 gallons
20,001-25,000	5.75	per 1,000 gallons
Over 25,000	7.50	per 1,000 gallons

The District collects from each of its retail customers a regulatory assessment equal to one-half of one percent of the charge for retail water service. This charge is collected in addition to other charges for utility service.

DEBT INFORMATION

TABLE 4 - REVENUE DEBT SERVICE REQUIREMENTS

Year Ending 12/31	Existing Debt Service Requirements	The Bonds ⁽¹⁾			Total Debt Service
		Principal	Interest	Total	
2018	\$ 973,551	\$ 50,000	\$ 28,160	\$ 78,160	\$ 1,051,711
2019	970,659	70,000	80,100	150,100	1,120,759
2020	977,448	75,000	78,700	153,700	1,131,148
2021	973,704	75,000	75,700	150,700	1,124,404
2022	969,640	75,000	72,700	147,700	1,117,340
2023	975,257	80,000	71,200	151,200	1,126,457
2024	975,342	80,000	69,400	149,400	1,124,742
2025	-	85,000	67,000	152,000	152,000
2026	-	85,000	64,450	149,450	149,450
2027	-	90,000	61,900	151,900	151,900
2028	-	90,000	59,200	149,200	149,200
2029	-	95,000	56,500	151,500	151,500
2030	-	100,000	53,650	153,650	153,650
2031	-	100,000	50,650	150,650	150,650
2032	-	105,000	47,650	152,650	152,650
2033	-	110,000	44,369	154,369	154,369
2034	-	115,000	40,931	155,931	155,931
2035	-	120,000	37,194	157,194	157,194
2036	-	120,000	33,294	153,294	153,294
2037	-	125,000	29,244	154,244	154,244
2038	-	130,000	25,025	155,025	155,025
2039	-	135,000	20,475	155,475	155,475
2040	-	145,000	15,750	160,750	160,750
2041	-	150,000	10,675	160,675	160,675
2042	-	155,000	5,425	160,425	160,425
	<u>\$ 6,815,600</u>	<u>\$ 2,560,000</u>	<u>\$ 1,199,341</u>	<u>\$ 3,759,341</u>	<u>\$ 10,574,941</u>

(1) Interest on the Bonds has been calculated at the rates set forth on the inside cover.

ANTICIPATED ISSUANCE OF REVENUE BONDS . . . The District does not anticipate issuing additional revenue bonds within the next twelve months.

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FINANCIAL INFORMATION

TABLE 5 - CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ended December 31,				
	2017	2016	2015	2014	2013
<u>Revenue:</u>					
Water Sales	\$ 4,582,672	\$ 4,480,991	\$ 4,362,550	\$ 4,065,019	\$ 4,181,205
Customer Charges/Fees	735,837	628,390	542,743	432,814	346,175
Interest Income	62,231	43,149	24,496	46,901	7,912
Total Revenue	<u>\$ 5,380,740</u>	<u>\$ 5,152,530</u>	<u>\$ 4,929,789</u>	<u>\$ 4,544,734</u>	<u>\$ 4,535,292</u>
<u>Expenses ⁽¹⁾:</u>					
Payroll and Benefits	\$ 1,227,457	\$ 1,134,477	\$ 1,063,287	\$ 1,089,708	\$ 998,123
Water Purchased	1,023,385	952,913	881,847	782,571	729,886
Repairs and Maintenance	309,154	196,603	232,826	332,555	319,283
Supplies	328,093	288,725	310,071	240,017	147,058
Professional Fees	128,044	29,319	33,837	36,866	16,732
Insurance	257,085	205,101	195,366	146,252	186,509
Other	444,881	431,168	447,735	464,907	445,008
Total Expenses	<u>\$ 3,718,099</u>	<u>\$ 3,238,306</u>	<u>\$ 3,164,969</u>	<u>\$ 3,092,876</u>	<u>\$ 2,842,599</u>
Net Revenues	<u>\$ 1,662,641</u>	<u>\$ 1,914,224</u>	<u>\$ 1,764,820</u>	<u>\$ 1,451,858</u>	<u>\$ 1,692,693</u>
Annual Total Debt Service Requirements	\$ 976,124	\$ 978,377	\$ 973,660	\$ 1,096,546	\$ 1,099,928
Coverage Annual Total Debt Service Requirements (Net Revenues)	1.70	1.96	1.81	1.32	1.54
Customer Count	6,537	6,338	6,165	6,066	5,932

(1) Excludes Depreciation.

TABLE 6 - COVERAGE AND FUND BALANCES ⁽¹⁾

Net Revenues, Fiscal Year ended 12/31/17	\$1,662,641
Annual Principal and Interest Requirement, 2018	\$1,051,711
Coverage (2017 Net Revenues)	1.58 x
Average Annual Principal and Interest Requirement, 2018-2042	\$ 422,998
Coverage (2017 Net Revenues)	3.93 x
Maximum Principal and Interest Requirement, 2020	\$1,131,148
Coverage (2017 Net Revenues)	1.47 x

(1) Projected, includes the Bonds.

PENSION PLANS

The District established a 457(b) deferred compensation plan for the employees of the District. The plan is a voluntary program where employees can elect to defer portions of their annual compensation. There is no responsibility of the District to match elective deferrals made by the employees.

Cash Special Utility District Profit Sharing Plan . . . The District contributes to the Cash Special Utility District Profit Sharing Plan (Plan), a defined contribution pension plan, for its full time employees. The Plan is administered by the District's Board with Edward Jones acting as the trustee. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the District's Board. The District is required to contribute 7% of employee's annual compensation to individual employee accounts for each participating employee. For the year ended December 31, 2017, the District contributed \$67,747 to the Plan.

INVESTMENTS

The District invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board of Directors of the District. Both State law and the District's investment policies are subject to change.

LEGAL INVESTMENTS . . . Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits or (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (iii) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the District appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit issued for the account of the District; (8) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Directors detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Directors; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

TABLE 7 - CURRENT INVESTMENTS

As of December 31, 2017 the District's investable funds were invested in the following categories:

Description	Market Value	% of Portfolio
TexStar	\$ 3,875,735	71%
Money Market	1,065,541	20%
Certificates of Deposit	500,921	9%
	\$ 5,442,197	100.00%

SELECTED PROVISIONS OF THE RESOLUTION

The following are excerpts of certain provisions of the Resolution to be adopted by the Board of Directors authorizing the issuance of the Bonds. Such excerpts do not purport to be complete and reference should be made to the Resolution for the entirety thereof. Copies of the Resolution are available upon request to the District or the District's Bond Counsel.

Section 2.1 Definitions. For all purposes of this Resolution, unless the context requires a different meaning or except as otherwise expressly provided, the following terms shall have the meanings assigned to them below:

“Additional Prior Lien Obligations” means revenue bonds or other evidences of indebtedness which the District reserves the right to issue or enter into, as the case may be, in the future in accordance with the terms and conditions provided in Section 10.1 hereof and which are equally and ratably secured by a lien on and pledge of the Pledged Revenues.

“Average Annual Debt Service” means that amount which, at the time of computation, is derived by dividing the total amount of Debt Service for all complete Fiscal Years to be paid over a period of years as the same is scheduled to become due and payable by the number of complete Fiscal Years taken into account in determining the total Debt Service. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

“Bonds” shall mean the Cash Special Utility District Revenue Bonds, Series 2018 issued and delivered pursuant to this Resolution and all substitute Bonds and Bonds exchanged therefor, as well as all other substitute bonds and replacement bonds issued pursuant hereto, and the term “Bond” shall mean any of the Bonds.

“Bondholder” or “Holder” when used with respect to any Bond shall mean the Person in whose name such Bond is registered on the Register.

“Business Day” means any day which is not a Saturday, Sunday or a day on which the Paying Agent/Registrar is authorized by law or executive order to remain closed or a legal holiday.

“Closing Date” shall mean the date on which the Bonds are initially authenticated and delivered to the Purchaser against payment therefor which shall also be the date the Definitive Bonds are delivered in exchange for the Initial Bond.

“Code” shall mean the Internal Revenue Code of 1986, as amended by any amendments thereto enacted prior to the Closing Date.

“Commission” means the Texas Commission on Environmental Quality.

“Construction Fund” means the Cash Special Utility District Revenue Bonds, Series 2018 Construction Fund established by Section 9.1 of this Resolution.

“Dated Date” shall mean March 15, 2018.

“Debt Service” means, as of any particular date of computation, with respect to any Prior Lien Obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the District as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations without a fixed numerical rate, that such obligations bear, or would have borne, interest at the highest lawful effective interest rate permitted by the terms thereof, and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to maturity, the principal amounts thereof will be redeemed prior to maturity in accordance with the mandatory redemption provisions applicable thereto.

“Definitive Bonds” shall mean the Initial Bond, as may be transferred and converted into or exchanged for fully registered Bonds in the denomination of \$5,000 or any integral multiple of \$5,000 in excess thereof.

“Depository Bank” means any financial institution duly designated by the Board of Directors of the District to serve as a depository for funds controlled by the Board of Directors of the District.

“District” shall mean Cash Special Utility District.

“Event of Default” means any event of default as provided in Section 15.1 hereof.

“Existing Obligations” means the Outstanding Series 2014 Bonds.

“Fiscal Year” means the twelve month accounting period used by the District in connection with the operation of the System which may be any twelve consecutive month period established by the District.

“Governmental Obligations” (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the District are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iv) any other then authorized securities or obligations under applicable law that may be used to defease obligations such as the Bonds.

“Gross Proceeds” means any proceeds as defined in Section 1.148-1(b) of the Regulations, and any replacement proceeds as defined in Section 1.148-1(c) of the Regulations, of the Bonds.

“Gross Revenues” means all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants in aid of construction) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Prior Lien Obligations.

“Initial Bond” shall mean the Bond authorized to be issued hereunder which has the registration certificate, executed on behalf of the Comptroller of Public Accounts of the State of Texas, as contemplated by Section 3.5(d) hereof.

“Interest and Sinking Fund” means the fund created or affirmed by Section 9.1 of this Resolution.

“Interest Payment Date” shall mean with respect to any installment of interest on any Bond the date specified in such Bond as the fixed date on which any such installment of interest is due and payable.

“Maintenance and Operating Expenses” means all current expenses of operating and maintaining the System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the Board of Directors, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the District and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Prior Lien Obligations shall be deducted in determining “Net Revenues”. Depreciation charges shall not be considered Maintenance and Operating Expenses. Maintenance and Operating Expenses shall include payments under contracts for the purchase of water supply or other materials, goods, services, or facilities for the System to the extent authorized by law and the provisions of such contract.

“Maturity Date” or “Maturity” when used with respect to any Bond shall mean the date on which the principal of such Bond becomes due and payable as therein provided, whether at the Stated Maturity, by call for redemption or otherwise.

“Net Earnings” means the Gross Revenues of the System after deducting Maintenance and Operating Expenses of the System, but not depreciation charges or other expenditures which, under generally accepted accounting principles, should be treated as capital expenditures.

“Net Revenues” means the Gross Revenues less the Maintenance and Operating Expenses.

“Resolution” shall mean this order authorizing the issuance of the Bonds.

“Outstanding” shall mean, with respect to Prior Lien Obligations means, as of the date of determination, all Prior Lien Obligations theretofore issued and delivered, except:

- (1) those Prior Lien Obligations cancelled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;
- (2) those Prior Lien Obligations paid or deemed to be paid in accordance with the provisions of Section 17.1 hereof, or substantially similar provisions with respect to Prior Lien Obligations; and
- (3) those Prior Lien Obligations that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 3.10 hereof or similar provisions with respect to Prior Lien Obligations.

“Paying Agent/Registrar Agreement” shall mean the agreement between the District and the Paying Agent/Registrar referred to in Section 5.2 pursuant to which the Paying Agent/Registrar will perform the duties required hereunder.

“Paying Agent/Registrar” shall mean UMB, NA, Austin, Texas, until a successor Paying Agent/Registrar shall have been appointed pursuant to the applicable provisions of this Resolution, and thereafter “Paying Agent/Registrar” shall mean such successor Paying Agent/Registrar.

“Person” shall mean any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

“Place of Payment” shall mean the designated office of the Paying Agent/Registrar in Austin, Texas.

“Pledged Revenues” shall mean (1) the Net Revenues of the District’s System plus (2) any additional revenues received or to be received under specific contracts, which hereafter are pledged by the District to the payment of the Prior Lien Obligations pursuant to Section 65.503 of the Texas Water Code, and excluding those revenues excluded from Gross Revenues or excluded from Net Revenues.

“Predecessor Bonds” of any particular Bond shall mean every previous Bond evidencing all or a portion of the same debt as that evidenced by such particular Bond, and, for purposes of this definition, any Bond registered and delivered under Section 3.10 in lieu of a mutilated, lost, destroyed or stolen Bond shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Bond.

“Prior Lien Obligations” means, collectively, the Bonds and any Additional Prior Lien Obligations.

“Project” shall mean the construction of water transmission line improvements to the existing waterworks system of the District, as more fully described in the application made by the District to the Texas Commission on Environmental Quality for approval for issuance of the Bonds.

“Purchaser” shall have the meaning stated in Section 7.1 hereof.

“Record Date” for the interest payable on any Interest Payment Date shall mean the close of business on the 15th day of the month next preceding the Interest Payment Date.

“Redemption Date” when used with respect to any Bond to be redeemed shall mean the date fixed for such redemption pursuant to the terms of this Resolution.

“Redemption Price” when used with respect to any Bond to be redeemed shall mean the price at which such Bond is to be redeemed pursuant to the terms of this Resolution, excluding installments of interest, the Interest Payment Date for which is on or before the Redemption Date.

“Register” shall have the meaning stated in Section 3.7 hereof.

“Regulations” shall mean the temporary or final Income Tax Regulations applicable to the Bonds issued pursuant to sections 103 and 141 through 150 of the Code. Any reference to a section of the Regulations shall also refer to any successor provision to such section hereafter promulgated by the Internal Revenue Service pursuant to sections 103 and 141 through 150 of the Code and applicable to the Bonds.

“Representation Letter” shall mean the Letter of Representations between the District and the DTC.

“Required Reserve” shall mean the reserve to be accumulated and maintained by the District for the payment of the Bonds as provided in Section 9.4 hereof.

“Reserve Fund” means the fund created or affirmed by Section 9.1 of this Resolution.

“Revenue Fund” means the Cash Special Utility District Water System Revenue Fund heretofore created and affirmed by Section 9.1 of this Resolution.

“Rule” shall mean SEC Rule 15c2-12, as amended from time to time.

“Series 2014 Bonds” shall mean the \$8,695,000 Cash Special Utility District Water System Revenue Refunding Bonds, Series 2014.

“Special Payment Date” shall have the meaning stated in Section 3.4 hereof.

“Special Project” shall mean, to the extent permitted by law, any waterworks or property, improvement or facility declared by the District not to be part of the System and substantially all of the costs of acquisition, construction, and installation of which is paid from proceeds of a financing transaction other than the issuance of bonds payable from Net Revenues, and for which all maintenance and operation expenses are payable from sources other than revenues of the System, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be

pledged to secure the payment or repayment of such costs of acquisition, construction and installation under such financing transaction.

“Special Record Date” shall have the meaning stated in Section 3.4 hereof.

“Stated Maturity” when used with respect to any Bond shall mean the date specified in such Bond as the fixed date on which the principal of such Bond is due and payable.

“Subordinate Lien Obligations” means the bonds permitted to be issued by the District pursuant to Section 10.3 of this Resolution.

“System” means all properties, facilities and plants currently owned, operated and maintained by the District for the supply, treatment and transmission of treated potable water, and all future extensions, improvements, replacements and additions to such property, facilities and plants described above; provided, however, that notwithstanding the foregoing and to the extent now or hereafter authorized or permitted by law, the term “System” shall not mean to include facilities of any kind which are declared not to be a part of the System and which are acquired or constructed by or on behalf of the District with the proceeds from the issuance of “Special Facilities Bonds”, which are hereby defined as being special revenue obligations of the District which are not Prior Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments not pledged to the payment of the Prior Lien Obligations including, but not limited to, special contract revenues or payments received from any legal entity in connection with such facilities.

Section 9.1 Creation of Funds.

(a) The following funds are hereby created or affirmed:

(i) “Cash Special Utility District Revenue Fund” (herein called the “Revenue Fund”) is hereby affirmed;

(ii) “Cash Special Utility District Revenue Bonds, Series 2018 Reserve Fund” (herein called the “Reserve Fund”) is hereby created; and

(iii) “Cash Special Utility District Water System Bonds, Series 2018 Interest and Sinking Fund” (herein called the “Interest and Sinking Fund”) is hereby created for the purpose of providing funds to pay the principal of, premium, if any, and interest on the Prior Lien Obligations as the same become due and payable; and

(iv) “Cash Special Utility District Revenue Bonds, Series 2018 Construction Fund” (herein called the “Construction Fund”) is hereby created.

(b) The District covenants and agrees that all revenues derived from the operation of the System shall be kept separate from other funds of the District.

Section 9.2 Revenue Fund. The Revenue Fund has previously been established on the books of the District in connection with the District's Existing Obligations. All Gross Revenues of every nature received from the operation and ownership of the System shall be deposited as collected into the Revenue Fund, and the reasonable, necessary, and proper Maintenance and Operation Expenses of the System shall be paid from the Revenue Fund. The revenues of the System not actually required to pay said expenses shall be deposited from the Revenue Fund into the interest and sinking funds as provided in the orders or resolutions authorizing the Prior Lien Obligations and the Reserve Fund to the extent provided hereunder for the Bonds and in any order authorizing the issuance of Additional Prior Lien Obligations. Any Gross Revenues remaining in the Revenue Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other District purpose now or hereafter permitted by law.

Section 9.3 Interest and Sinking Fund.

(a) Net Revenues of the System shall be deposited to the credit of the Interest and Sinking Fund at such times and in such amounts as necessary for the timely payment of the principal of and interest on the Bonds.

(b) Money on deposit in the Interest and Sinking Fund shall be used to pay the principal of and interest on the Bonds as such become due and payable.

Section 9.4 Reserve Fund.

(a) The District hereby agrees and covenants with the Holders of the Bonds to accumulate and, when accumulated, maintain in the Reserve Fund the Required Reserve equal to the lesser of (i) the Average Annual Debt Service (calculated on a Fiscal Year basis and determined as of the date of issuance of the Bonds, or at the option of the District, at the end of each fiscal year) for the Bonds or (ii) the maximum amount in a reasonably required reserve fund for the Bonds from time to time that can be invested without

restriction as to yield pursuant to section 148 of the Internal Revenue Code of 1986, as amended, which Reserve Fund or account shall be maintained at an official depository of the District. All funds deposited into the Reserve Fund (excluding surplus funds which include earnings and income derived or received from deposits or investments which will be transferred to the Revenue Fund during such period as there is on deposit in the Reserve Fund the Required Reserve) shall be used solely for the payment of the principal of and interest on the Bonds, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last stated maturity or interest on the Bonds.

(b) Upon issuance of the Bonds, the total amount required to be accumulated and maintained in the Reserve Fund is hereby determined to be \$150,373.64, which is equal to not less than the Average Annual Debt Service for the Bonds, and on or before the 1st day of the month next following the month the Bonds are delivered to the Purchasers and on or before the 1st day of each following month, the District shall cause to be deposited to the Reserve Fund from the Pledged Revenues an amount equal to at least one-sixtieth (1/60th) of the Required Reserve. After the Required Reserve has been fully accumulated and while the total amount on deposit in the Reserve Fund is in excess of the Required Reserve, no monthly deposits shall be required to be made to the Reserve Fund.

(c) As and when Additional Prior Lien Obligations are delivered or incurred, the District may create and establish a debt service reserve fund pursuant to the provisions of any order or other instrument authorizing the issuance of the Additional Prior Lien Obligations for the purpose of securing that particular issue or series of Prior Lien Obligations or any specific group of issues or series of Prior Lien Obligations, and the amounts once deposited or credited to said debt service reserve funds shall no longer constitute Pledged Revenues and shall be held solely for the benefit of the owners of the particular Prior Lien Obligations for which such debt service reserve fund is established. Each debt service reserve fund shall receive a pro rata amount of the Pledged Revenues after the requirements of the Interest and Sinking Fund, which secures all Prior Lien Obligations, has first been met.

(d) When and so long as the cash and investments in the Reserve Fund equal the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve (other than as the result of the issuance of Additional Prior Lien Obligations as provided in the preceding paragraph), the District covenants and agrees to cure the deficiency in the Required Reserve by resuming the monthly deposits to said Fund or account from the Pledged Revenues, or any other lawfully available funds, such monthly deposits to be in amounts equal to not less than 1/60th of the Required Reserve covenanted by the District to be maintained in the Reserve Fund with any such deficiency payments being made on or before the 1st day of each month until the Required Reserve has been fully restored. The District further covenants and agrees that, subject only to the prior payments to be made to the Interest and Sinking Fund, the Pledged Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amounts as required by the terms of the Resolution and any other order or Resolution pertaining to the issuance of Additional Prior Lien Obligations.

(e) During such time as the Reserve Fund contains the Required Reserve, the District may, at its option, withdraw all surplus funds in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the Revenue Fund, unless such surplus funds represent proceeds of the Bonds, then such surplus will be transferred to the Interest and Sinking Fund. The District hereby designates its Depository as the custodian of the Reserve Fund.

Section 9.5 Construction Fund.

(a) The Construction Fund shall be kept segregated and apart from other funds and accounts of the District.

(b) Monies on deposit in the Construction Fund shall be applied solely to the payments of costs related to the issuance of the Bonds and costs of the Project.

(c) Any excess funds remaining in the Construction Fund shall be utilized for the costs of purchasing, constructing, acquiring, owning, operating, repairing, improving, or extending the System as approved by the Commission.

Section 9.6 Deficiencies; Excess Revenues.

(a) If on any occasion there shall not be sufficient Gross Revenues to make the required deposits into the Interest and Sinking Fund or Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Gross Revenues, or from any other sources available for such purpose.

(b) Subject to making the required deposits to the Interest and Sinking Fund and the Reserve Fund when and as required by any order or resolution relating to authorizing the issuance of Prior Lien Obligations, the excess Gross Revenues may be used by the District for any lawful purpose related to the System.

Section 9.7 Investments-Security of Funds.

(a) All moneys on deposit in the funds referred to in this Resolution shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds, and moneys on deposit in such funds shall be used only for the purposes permitted by this Resolution.

(b) Investments.

(i) Money in the funds established by this Resolution, at the option of the District, may be invested in such securities or obligations as permitted under applicable law.

(ii) Any securities or obligations in which money is so invested shall be kept and held in trust for the benefit of the Owners and shall be sold and the proceeds of sale shall be timely applied to the making of all payments required to be made from the fund from which the investment was made.

(c) Investment Income. Interest and income derived from investment of any fund created by this Resolution shall be credited to such fund.

Section 9.8 Contributions in Aid of Construction. Any moneys that may be received by the District that shall represent contributions in aid of construction shall be deposited in a separate account at the Depository Bank. Such contributions shall not be considered as part of the Gross Revenues of the System. Payments from such bank account shall be made only for the purposes for which the contributions were made, including any refunds that may become due to any contributor.

Section 10.1 Additional Prior Lien Obligations.

(a) In addition to the right to issue bonds of inferior liens, the District shall hereafter have the right to issue Additional Prior Lien Obligations payable from and equally secured by a pledge of Net Revenues all to the same extent as pledged for and in all things on a parity with the lien of the Bonds; or the District may issue or revenue bonds payable solely from contracts with private corporations, municipalities, or political subdivisions issued particularly to finance facilities needed in performing any such contract and not payable from Net Revenues as defined herein.

(b) Each order under which Additional Prior Lien Obligations are issued shall provide and require that, in addition to the amounts required by the provisions of this Resolution and the provisions of any other order or orders authorizing Additional Prior Lien Obligations to be deposited to the credit of the Interest and Sinking Fund, the District shall deposit to the credit of the Interest and Sinking Fund at least such amounts as are required for the payment of all principal of and interest on said Additional Prior Lien Obligations then being issued, as the same come due; and that the aggregate amounts to be accumulated and maintained in the Reserve Fund shall be increased (if and to the extent required pursuant to the provisions of any order or other instrument authorizing the issuance of the Additional Prior Lien Obligations) to an amount not less than the average annual principal and interest requirement of all bonds and Additional Prior Lien Obligations which will be outstanding after the issuance and delivery of the then proposed Additional Prior Lien Obligations; and that the required additional amount shall be so accumulated by the deposit in the Reserve Fund of all or any part of said required additional amount in cash immediately after the delivery of the then proposed Additional Prior Lien Obligations, or, at the option of the District, by the deposit of said required additional amount (not deposited in cash as permitted above) in monthly installments, made on or before the 1st day of each month following the delivery of the then proposed Additional Prior Lien Obligations, of not less than 1/60th of said required additional amount (or 1/60th of the balance of said required additional amount not deposited in cash as permitted above.)

(c) All calculations of average annual principal and interest requirements made pursuant to this Section shall be made as of and from the date of the Additional Prior Lien Obligations then proposed to be issued.

(d) The principal of all Additional Prior Lien Obligations must be scheduled to be paid or mature on September 1 of the year in which such principal is scheduled to be paid or mature; and all interest thereon must be payable on March 1 and September 1.

(e) The Additional Prior Lien Obligations shall be issued only in accordance with this Resolution, but notwithstanding any provisions of this Resolution to the contrary, no installment, series or issue of Additional Prior Lien Obligations shall be issued or delivered unless:

(i) The General Manager of the District (or other officer of the District then having primary responsibility for the financial affairs of the District) shall have executed a certificate stating (1) that, to the best of his knowledge and belief, the District is not then in default as to any covenant, obligation, or agreement contained in any order or other proceeding relating to any obligations of the District payable from and secured by a lien on the Pledged Revenues that would materially affect the security or payment of such obligations and (2) either (A) payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on the Pledged Revenues have been made and that the amounts on deposit in such special funds or accounts are the amounts then required to be on deposit therein or (B) the application of the proceeds of sale of such obligations then being issued will cure any such deficiency.

(i) The Additional Prior Lien Obligations shall be scheduled to mature or be payable as to principal on March 1 or September 1 (or both) in each year the same are to be outstanding or during the term thereof.

(ii) The District has secured a certificate or opinion of a certified public accountant to the effect that, according to the books and records of the District, the Net Earnings for the last completed fiscal year of the District or any 12 consecutive months out of the 15 months immediately preceding the month the order or resolution authorizing the issuance of the Additional Prior Lien Obligations is adopted, are at least equal to 1.25 times the Average Annual Debt Service computed on a Fiscal Year basis) for all Outstanding Prior Lien Obligations after giving effect to the issuance of the Additional Prior Lien Obligations then being issued. In making a determination of the Net Earnings, the accountant may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior (i) to the last day of the period for which Net Earnings determined or (ii) the adoption of the order or resolution authorizing the Additional Prior Lien Obligations and, for purposes of satisfying the above Net Earnings test, make a pro forma determination of the Net Earnings of the System for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the accountant's certificate or opinion. Notwithstanding the foregoing, at such time as the Existing Obligations are no longer Outstanding, a designated financial officer of the District may execute the certificate in lieu of a certified public accountant.

Section 10.2 Refunding Bonds. The District reserves the right to issue refunding bonds to refund all or any part of the Prior Lien Obligations (pursuant to any law then available) upon such terms and conditions as the Board of Directors of the District may deem to be in the best interest of the District and its inhabitants, and if less than all such Prior Lien Obligations then outstanding are refunded, the conditions precedent prescribed (for the issuance of Additional Prior Lien Obligations) in Section 10.1 shall be satisfied and the accountant's certificate or opinion required in Section 10.1 shall give effect to the Debt Service of the proposed refunding bonds (and shall not give effect to the Debt Service of the Prior Lien Obligations being refunded following their cancellation or provision being made for their payment).

Section 10.3 Obligations of Inferior Lien and Pledge. The District hereby reserves the right to issue Subordinate Lien Obligations payable from and secured by a lien on and pledge of the System revenues, junior and subordinate in rank and dignity to the lien and pledge securing the payment of the Prior Lien Obligations, as may be authorized by the laws of the State of Texas.

Section 11.1 Pledge of Revenues.

(a) The Prior Lien Obligations, including the Bonds, and the interest thereon, and any and all other amounts payable thereunder, are and shall be secured by and payable from a first lien on and pledge of the Net Revenues of the System (with the exception of those in excess of the amounts required to establish and maintain the Interest and Sinking Fund hereinafter provided); and the revenues herein pledged are further pledged to the establishment and maintenance of the Interest and Sinking Fund hereinafter provided.

(b) The Bonds are special obligations of the District secured by and payable from a first lien on and pledge of the Net Revenues of the System, as provided in this Resolution, and is not a charge on the property of the District or on taxes levied by the District. No part of the obligation evidenced by the Bonds, whether principal, interest or other obligation, shall ever be paid from taxes levied or collected by the District.

(c) Chapter 1208, Texas Government Code applies to the issuance of the Bond and the pledge of the Net Revenues granted by the District under Section 11.1(a) of this Resolution, and such pledge, therefore, is valid, effective, and perfected. If Texas law is amended at any time while the Bonds are Outstanding and unpaid such that the pledge of the revenues granted by the District under Section 11.1(a) above is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the District agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business and Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

Section 11.2 Payment of Bonds and Performance of Obligations. The District covenants to pay promptly the principal of and interest on the Bonds as the same become due and payable, whether at maturity or by prior redemption, in accordance with the terms of the Bonds and this Resolution, and to keep and perform faithfully all of its covenants, undertakings and agreements contained in this Resolution, or in any Bond executed, authenticated and delivered hereunder.

Section 12.1 Pledge.

(i) The District hereby covenants and agrees that the Pledged Revenues, with the exception of those in excess of the amounts required for the payment and security of the Prior Lien Obligations, are hereby irrevocably pledged to the payment and security of the Prior Lien Obligations, including the establishment and maintenance of the special funds created and established by this Resolution, and it is hereby ordered that the Prior Lien Obligations and the interest thereon shall constitute a first lien on the Pledged Revenues and be valid and binding without any physical delivery thereof or further act by the District.

(ii) The Pledged Revenues of the System in excess of the amounts required for the payment and security of the Prior Lien Obligations and the other required deposits hereunder may be used by the District for any lawful purpose related to the System.

Section 12.2 Payment of Bonds. While any of the Bonds are Outstanding, the District's General Manager (or other designated financial officer of the District) shall cause to be transferred to the Paying Agent/Registrar from funds on deposit in the Interest and Sinking Fund amounts sufficient to fully pay and discharge promptly as each installment of interest and principal of the Bonds accrues or matures or comes due by reason of redemption prior to maturity; such transfer of funds to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds at the close of the business day next preceding the date of payment for the Bonds.

Section 12.3 Rates and Charges.

For the benefit of the Bondholders and in addition to all provisions and covenants in the laws of the State of Texas and in this Resolution, the District hereby expressly stipulates and agrees, while any of the Bonds are Outstanding, to establish, maintain and collect rates, charges and fees for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

- (i) To pay Maintenance and Operating Expenses, depreciation charges and replacement and betterment costs;
- (ii) To produce Net Earnings at least equal to the sum of 1.10 times the annual Debt Service requirements (computed on a Fiscal Year Basis) of all Prior Lien Obligations outstanding during each Fiscal Year;
- (iii) To pay the principal of and interest on the Prior Lien Obligations and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Obligations and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on the Pledged Revenues, and
- (iv) To pay all other indebtedness payable from the Pledged Revenues and/or secured by a lien on the properties or the revenues of the System.

Section 12.4 Maintenance and Operation Insurance. The District shall maintain the System in good condition and operate the System in an efficient manner and at reasonable cost. While any Bonds are Outstanding, the District agrees to maintain casualty and other insurance on the System of a kind and in an amount customarily carried by similar political subdivisions of the State of Texas owning and operating similar properties. Nothing in this Resolution shall be construed as requiring the District to expend any funds derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the District from so doing.

Section 12.5 Sale or Lease of Properties. The District, to the extent and in the manner authorized by law, may sell or exchange for consideration representing the fair value thereof as determined by the Board of Directors of the District, any property not necessary or required in the efficient operations of the System, or any equipment not necessary or useful in the operations thereof or which is obsolete, damaged, or worn out or otherwise unsuitable for use in the operation of the System. The proceeds of any sale of properties of the System shall be deposited in the Revenue Fund.

Section 12.6 Records and Accounts. The District hereby covenants and agrees that so long as any of the Bonds are Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the System in which complete and correct entries shall be made of all transactions relating thereto. The Purchaser shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the System and all properties comprising the same. The District further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of certified public accountants. Each such audit, in addition to whatever other matters may be thought proper by the accountant, shall particularly include the following:

- (i) A statement of the income and expenses of the System for such Fiscal Year.
- (ii) A balance sheet for the System as of the end of such Fiscal Year.
- (iii) A statement describing the sources and application of funds of the System for such Fiscal Year.
- (iv) The accountant's comments regarding the manner in which the District has carried out the requirements of this Resolution and any other order or resolution authorizing the issuance of Prior Lien Obligations and his recommendations for any changes or improvements in the operations, records and accounts of the System.
- (v) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the System, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

Expenses incurred in making an annual audit of the operations of the System are to be regarded as Maintenance and Operating Expenses. The audits herein required shall be made within 120 days following the close of each Fiscal Year insofar as is possible.

Section 12.7 Special Covenants. The District further covenants and agrees by and through this Resolution as follows:

- (i) It has the lawful power to pledge the Pledged Revenues to the payment of the Bonds to the extent provided herein and has lawfully exercised said power under the Constitution and laws of the State of Texas, and that the Bonds issued hereunder shall be ratably secured in such manner that no one bond shall have preference over any other bond of said issues.
- (ii) The Pledged Revenues of the System have not been in any manner pledged or encumbered to the payment of any debt or obligation of the District or the System, save and except for the Refunded Bonds and the Bonds.
- (iii) No free services of the System (except to the District's facilities) shall be allowed.

Section 12.8 Compliance. The District will comply with all of the terms and conditions of any and all franchises, permits and authorizations applicable to or necessary with respect to the System and which have been obtained from any governmental agency, and the District has or will obtain and keep in full force and effect all franchises, permits, authorizations and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the System.

Section 15.1 Events of Default. Each of the following occurrences or events for the purpose of this Resolution is hereby declared to be an Event of Default:

- (a) the failure to make payment of the principal of or interest on any of the Bonds when the same becomes due and payable;
- (b) default in the performance or observance of any other covenant, agreement, or obligation of the District and the continuation thereof for a period of 30 days after notice of such default is given by any Bondholder to the District; or
- (c) the District files for protection under the federal Bankruptcy Code or other similar state or federal statute.

Section 15.2 Remedies for Default.

- (a) Upon the happening of any Event of Default or the default in the performance or observance of any other covenant, agreement, or obligation of the District, then any Bondholder or an authorized representative thereof, including but not limited to, a trustee or trustees therefor, may proceed against the District for the purpose of protecting and enforcing the rights of the Bondholders under this Resolution, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Bondholders hereunder or any combination of such remedies.
- (b) All such proceedings shall be instituted and maintained for the equal benefit of all Bondholders.

Section 15.3 Remedies Not Exclusive.

- (a) No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Bonds or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Resolution, the right to accelerate the debt evidenced by the Bonds shall not be available as a remedy under this Resolution.
- (b) The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

Section 17.1 Defeasance.

- (a) If the District shall pay or cause to be paid, or there shall otherwise be paid to the Bondholders, the principal of and interest on the Bonds, at the times and in the manner stipulated in this Resolution, then the pledge of Pledged Revenues under this Resolution and all covenants, agreements, and other obligations of the District to the Bondholders shall thereupon cease, terminate, and become void and be discharged and satisfied, and the Paying Agent/Registrar shall pay over or deliver all money held by it under this Resolution to the District.

(b) Bonds or interest installments for the payment of which money shall have been set aside and shall be held in trust by the Paying Agent/Registrar or with any other bank or trust company which has agreed to hold the same for such purpose (through deposit by the District of funds for such payment or otherwise) at the Stated Maturity thereof shall be deemed to have been paid within the meaning and with the effect expressed above in this Section. All Prior Lien Obligations shall be deemed to have been paid, prior to their Stated Maturity, within the meaning and with the effect expressed above in this Section, if there shall have been deposited with the Paying Agent/Registrar either (a) money in an amount which shall be sufficient to make such payment, (b) Governmental Obligations certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (c) a combination of money and Governmental Obligations together so certified to be sufficient to make such payment, provided that all the expenses pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Paying Agent/ Registrar (and to such other bank or trust company).

Section 18.5 Amendments.

(a) This Resolution shall constitute a contract with the Bondholders entered into upon the initial purchase of the Bonds, shall be binding on the District and its successors and assigns whether or not so expressed, and shall not be amended or repealed by the District so long as any Bond remains outstanding except as permitted in this Section.

(b) The District may amend this Resolution without the consent of any Holders for the purpose of amending or supplementing this Resolution to (1) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the Holders, (2) grant additional rights or security for the benefit of the Holders, (3) add events of default as shall not be inconsistent with the provisions of the Resolution that do not materially adversely affect the interests of the Holders, (4) qualify the Resolution under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (5) make such other provisions in regard to matters or questions arising under the Resolution that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the District, do not materially adversely affect the interest of the Holders.

(c) The Holders of the Bonds aggregating in principal amount a majority of the Outstanding Bonds shall have the right from time to time to approve any amendment to this Resolution not described above if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the owners in original principal amount of the then Outstanding Bonds no amendment may be made of the purpose of: (1) making any change in the maturity of any of the Outstanding Bonds; (2) reducing the rate of interest borne by any of the Outstanding Bonds; (3) reducing the amount of the principal of, or redemption premium, if any, payable on any Outstanding Bonds; (4) modifying the terms of payment of principal or of interest or redemption premium on Outstanding Bonds, or imposing any condition with respect to such payment; or (5) changing the minimum percentage of principal amount of the Bonds necessary for consent to such amendment.

(d) Any consent to any amendment hereof by the Bondholder shall bind every future Holder of the same Bond and the Holder of every Bond issued upon transfer or in lieu thereof or in exchange therefor, in respect of anything done or suffered to be done by the District in reliance thereon, whether or not notation of such action is made upon such Bond.

(e) Any rating agency rating the Bonds must receive notice of each amendment and a copy thereof at least 15 days in advance of its execution or adoption.

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TAX MATTERS

OPINION . . . On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (1) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (2) the Bonds will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Special Tax Counsel to the District will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See “APPENDIX D — Form of Special Tax Counsel’s Opinion”.

In rendering its opinion, Special Tax Counsel to the District will rely upon the opinion of McLean & Howard, L.L.P., Bond Counsel, that the Bonds are valid and binding obligations of the District payable from proceeds of a generally applicable ad valorem tax, (b) the District’s federal tax certificate, and (c) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the District to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Special Tax Counsel to the District is conditioned on compliance by the District with the covenants and the requirements described in the preceding paragraph, and Special Tax Counsel to the District has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Special Tax Counsel’s opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Special Tax Counsel’s opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds. The opinion of Special Tax Counsel to the District is conditioned on compliance by the District with such requirements, and Special Tax Counsel to the District has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the project financed therewith. Special Tax Counsel’s opinion represents its legal judgment based upon its review of Existing Law and the representations of the District that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Special Tax Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . . The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the “Original Issue Discount Bonds”). In such event, the difference between (i) the “stated redemption price at maturity” of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The “stated redemption price at maturity” means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each such accrual period) and the accrued amount is added to an initial owner’s basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted

for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM RECENT TAX LEGISLATION OR THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a Bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

FUTURE AND PROPOSED LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

STATE, LOCAL AND FOREIGN TAXES . . . Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

INFORMATION REPORTING AND BACKUP WITHHOLDING . . . Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number (“TIN”), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or

any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District covenanted to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be "qualified tax-exempt obligations."**

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the District's continuing disclosure obligation, because the District does not currently have outstanding more than \$10,000,000 in aggregate amount of municipal securities (excluding securities offered in transactions that were exempt under Rule 15c2-12(d)(2)) and no person is committed by contract or other arrangement with respect to payment of the Bonds. Pursuant to the exemption, in the Resolution, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains an "obligated person" with respect to the Bonds, within the meaning of the Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB").

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District that is customarily prepared by the District and publicly available, which currently consists of an annual audited financial statement. The District will update and provide this information within twelve (12) months after the end of each fiscal year ending in and after 2018. The District will provide the updated information to the MSRB in electronic format, which will be available to the public free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Website or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by the Rule. The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and will provide audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District's current fiscal year end is December 31. Accordingly, the District must provide updated information included in the above-referenced tables by the last day of June in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by December 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

NOTICES OF CERTAIN EVENTS . . . The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the District

will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

AVAILABILITY OF INFORMATION FROM MSRB . . . The District has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The District has agreed to update information and to provide notices of certain events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above.

The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretation of the Rule since such offering as well as such changed circumstances and (2) either (a) the Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of the Resolution that authorizes such an amendment) of the Outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of the continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

LEGAL MATTERS

LEGAL OPINIONS . . . Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District payable, together with the District's outstanding Bonds that may be issued from time to time in accordance with the Resolution, both as to principal and interest, solely from and secured by a lien on and pledge of the Pledged Revenues of the System. Issuance of the Bonds is also subject to the legal opinion of McLean & Howard, L.L.P. ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described in the Resolution, except to the extent that the enforceability thereof may be affected by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Special Tax Counsel's legal opinion will address the matters described below under "TAX MATTERS." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In connection with the issuance of the Bonds, Bond Counsel and Special Tax Counsel have been engaged by, and only represents, the District. The legal fees to be paid Bond Counsel and Special Tax Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of Bonds actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the Purchaser to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District from that set forth or contemplated in the Official Statement.

OTHER INFORMATION

RATINGS . . . The Bonds have been rated “AA” (stable outlook) by S&P Global Ratings, a division of S&P Global Inc. (“S&P”) by virtue of a municipal bond insurance policy to be issued by Build America Mutual. The Bonds have an unenhanced underlying rating of “A” (stable outlook) by S&P. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

LITIGATION . . . It is the opinion of the District staff that there is no pending litigation against the District that would have a material adverse financial impact upon the District or its operations.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE . . . The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities, governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION - Ratings” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION . . . The financial data and other information contained herein have been obtained from District records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Specialized Public Finance Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the District has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

INITIAL PURCHASER . . . After requesting competitive bids for the Bonds, the District accepted the bid of SAMCO Capital Markets, Inc. (the “Initial Purchaser” or “Purchaser”) to purchase the Bonds at the interest rates shown on the inside cover page of the Official Statement at a price of 97.126% of par. The Initial Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the District to the Initial Purchaser. The District has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

FORWARD-LOOKING STATEMENTS DISCLAIMER . . . The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. The District's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

CERTIFICATION OF THE OFFICIAL STATEMENT AND NO-LITIGATION CERTIFICATE . . . At the time of payment for and delivery of the Bonds, the District will furnish a certificate, executed by a proper officer, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect, there has been no material adverse change in the financial condition of the District since the date of the last audited financial statements of the District; and (e) that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

APPROVAL OF OFFICIAL STATEMENT . . . The Resolution authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Purchaser.

William C. Reese
President
Cash Special Utility District

ATTEST:

James M. Fortenberry
Secretary/Treasurer
Cash Special Utility District

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

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THE DISTRICT

GENERAL

Cash Special Utility District (formerly Cash Water Supply Corporation) is a political subdivision of the State of Texas that comprises 154,240 acres in area. The majority of acreage is located in Hunt County and the remaining lands within the District are located in Hopkins, Rockwall, and Rains Counties. Originally, Cash Water Supply Corporation was a member owned, non-profit water supply corporation incorporated in July 1963 for the purpose of furnishing potable water utility service. The membership of the Corporation voted on April 8, 2002 to convert to a Special Utility District. The Texas Commission on Environmental Quality approved the conversion on March 11, 2003. The new Special Utility District became effective on July 1, 2003. At that time, the Cash Water Supply Corporation was dissolved and all assets and liabilities of the Corporation were transferred to the newly created Cash Special Utility District. The District currently supplies wholesale water to eleven entities.

HUNT COUNTY CHARACTERISTICS

Hunt County is a northeast Texas county, traversed by Interstate 30, U.S. Highways 67 and 69, State Highways 24, 34, 224, 380 and fifteen farm-to-market roads. Commercial and residential development along Lake Tawakoni contributes to the county's economy.

POPULATION

The Hunt County census population for 2010 was 86,129 and 2016 was 92,073.

Source: United States Census Bureau.

ECONOMIC BASE

Mineral: white rock, sand, oil and gas.

Industry: varied manufacturing, education and agribusiness.

Agricultural: wheat, top revenue sources, oats, horses, greenhouse nursery, grain sorghum, forage, cotton and cattle.

EMPLOYMENT STATISTICS

Employment figures for Hunt County are as follows:

	December	Average Annual			
	2017	2016	2015	2014	2013
Total Civilian Labor Force	41,418	40,082	38,780	38,513	38,221
Total Employment	40,011	38,369	36,950	36,235	35,393
Total Unemployment	1,407	1,713	1,830	2,278	2,828
% Unemployed	3.4%	4.3%	4.7%	5.9%	7.4%

Source: Texas Workforce Commission, Labor Market Information Department.

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APPENDIX B

EXCERPTS FROM THE
CASH SPECIAL UTILITY DISTRICT
ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2017

The information contained in this Appendix consists of excerpts from the Cash Special Utility District Annual Financial Report for the Year Ended December 31, 2017, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

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INDEPENDENT AUDITOR'S REPORT

Members of the Board:

We have audited the accompanying financial statements of the business type activities, which are the proprietary funds of the Cash Special Utility District (District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 account 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 respective financial position of the business type activities, which are the proprietary funds of the Cash Special Utility District as of December 31, 2017, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note L to the financial statements, the District adopted various accounting pronouncements issued by the Governmental Accounting Standards Board during the year. Our opinion is not modified with respect to this matter.

Independent Auditor's Report – Continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The schedules identified as Texas Supplementary Information are presented for the purpose of additional analysis, and are not a required part of the basic financial statements.

The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

March 8, 2018
Greenville, Texas

Rutherford, Taylor & Company, P.C.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities, which are the proprietary funds of the Cash Special Utility District (District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 8, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Report on Internal Control – Continued

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 8, 2018
Greenville, Texas

Rutherford, Taylor & Company, PC

**CASH SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

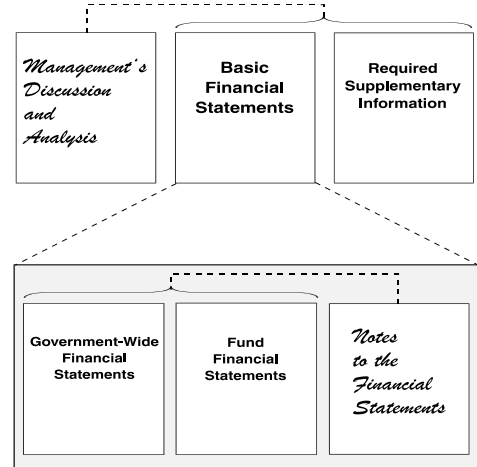
This section of Cash Special Utility District's annual financial report presents our discussion and analysis of the District's financial performance during the year ended December 31, 2017. Please read it in conjunction with the District's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position was \$ 14,141,078 at December 31, 2017.
- During the year, the District's expenses were \$ 657,360 less than the \$ 5,515,634 generated from charges for services and other revenues for business-type activities.
- The District entered into no new debt agreements during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – Managements Discussion and Analysis (this section), the basic financial statements and required supplementary information. Management's Discussion and Analysis provides an overview of the financial activities of the District. The basic financial statements include three statements that present a financial view of the District: The Statement of Fund Net Position presents financial information, including assets and liabilities, representing a one day snapshot; the Statement of Revenues, Expenses and Changes in Fund Net Position presents a review of operating and non-operating activities for the fiscal period; the Statement of Cash Flows reflects the inflows and outflows of cash resources.



- Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as water sales.

The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the basic financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's total net position was \$ 14,141,078 at year end.

District's Net Position			Table A-1
	2017	2016	Total Percentage Change 2016 - 2017
Assets:			
Cash and Cash Equivalents	\$ 702,529	\$ 700,387	0.31%
Other Assets	305,847	263,563	16.04%
Restricted Assets	4,941,276	4,840,570	2.08%
Capital Assets, net of depreciation	15,686,971	15,930,210	-1.53%
Total Assets	\$ 21,636,623	\$ 21,734,730	-0.45%
Deferred Outflows of Resources:	\$ 161,670	\$ 254,052	-36.36%
Liabilities:			
Current Liabilities	\$ 2,146,602	\$ 2,142,360	0.20%
Long-term Liabilities	5,430,000	6,270,000	-13.40%
Total Liabilities	\$ 7,576,602	\$ 8,412,360	-9.93%
Deferred Inflows of Resources:	\$ 80,612	\$ 92,704	-13.04%
Net Position:			
Net Investment in Capital Assets	\$ 9,416,971	\$ 8,835,210	6.58%
Unrestricted	4,724,107	4,648,508	1.63%
Total Net Position	\$ 14,141,078	\$ 13,483,718	4.88%

**CASH SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

Changes in the District's Net Position			Table A-2
	2017	2016	Total Percentage Change 2016 - 2017
Operating Revenues:			
Charges for Services	\$ 5,329,159	\$ 5,109,381	4.30%
Total Operating Revenues	\$ 5,329,159	\$ 5,109,381	4.30%
Operating Expenses:			
Water Utilities	\$ 4,723,833	\$ 4,224,146	11.83%
Total Operating Expenses	\$ 4,723,833	\$ 4,224,146	11.83%
Non-operating Revenues (Expenses):			
Interest Income	\$ 62,231	\$ 43,149	44.22%
Interest Expense	(133,174)	(150,534)	-11.53%
Gain (Loss) on Sale of Capital Assets	(1,267)	1,878	-167.47%
Customer/Developer Contributions	124,244	439,260	-71.72%
Total Non-operating Revenues (Expenses)	\$ 52,034	\$ 333,753	-84.41%
Increase (Decrease) in Net Position	\$ 657,360	\$ 1,218,988	-46.07%
Net Position - Beginning	13,483,718	12,264,730	9.94%
Net Position - Ending	\$ 14,141,078	\$ 13,483,718	4.88%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The net position of the District increased \$ 657,360 from the prior year.

Operating revenues totaled \$ 5,329,159. This represents an increase of \$ 219,778 from the prior year operating revenues of \$ 5,109,381.

Overall expenses totaled \$ 4,723,832. This represents an increase of \$ 499,686 from the prior year expenses of \$ 4,224,146. The change represents the general increase of costs related to the operations of the District.

Water sales increased 4.3% over the prior year.

**CASH SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year end the District had invested \$ 26,677,372 in a broad range of capital assets, including land, water distribution systems, buildings, equipment and vehicles (See Table A-3).

District's Capital Assets			Table A-3
	<u>2017</u>	<u>2016</u>	Total Percentage Change <u>2016 - 2017</u>
Land and Improvements	\$ 255,883	\$ 255,883	0.00%
Construction in Progress	705,318	446,013	58.14%
Buildings and Improvements	643,971	563,531	14.27%
Water Distribution System	24,088,999	23,798,936	1.22%
Vehicles and Equipment	914,600	901,094	1.50%
Office Equipment	68,601	68,601	0.00%
Totals at Historical Cost	<u>\$ 26,677,372</u>	<u>\$ 26,034,058</u>	2.47%
Total Accumulated Depreciation	<u>(10,990,401)</u>	<u>(10,103,848)</u>	8.77%
Net Capital Assets	<u><u>\$ 15,686,971</u></u>	<u><u>\$ 15,930,210</u></u>	-1.53%

Long Term Debt

At year end, the District had \$ 6,270,000 in debt outstanding as shown in Table A-4. More detailed information about the District's debt is presented in the notes to the basic financial statements.

District's Long Term Debt			Table A-4
	<u>2017</u>	<u>2016</u>	Total Percentage Change <u>2016 - 2017</u>
Bonds Payable	<u>\$ 6,270,000</u>	<u>\$ 7,095,000</u>	-11.63%
Total Debt Payable	<u><u>\$ 6,270,000</u></u>	<u><u>\$ 7,095,000</u></u>	-11.63%

BUDGET, ECONOMIC ENVIRONMENT AND RATES

At this time, Cash Special Utility District is not aware of any decisions or conditions that would impact the District's operations through 2017.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Clay Hodges, General Manager for the District.

BASIC FINANCIAL STATEMENTS

CASH SPECIAL UTILITY DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2017

		Enterprise Fund
		Water Utilities
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	702,529
Accounts Receivable		183,474
Prepaid Expenses - Supplies and Materials		122,373
Total Current Assets	\$	1,008,376
Restricted Assets:		
Debt Service	\$	362,072
Construction		3,464,276
Developer Capacity Fee		66,123
Customer Deposits		1,048,805
Total Restricted Assets	\$	4,941,276
Capital Assets, Net	\$	15,686,971
Total Assets	\$	21,636,623
DEFERRED OUTFLOW OF RESOURCES		
Refunding Penalty	\$	161,670
Total Deferred Outflow of Resources	\$	161,670

The accompanying notes are an integral part of this statement.

CASH SPECIAL UTILITY DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2017

	Enterprise Fund
	Water Utilities
LIABILITIES	
Current Liabilities:	
Accrued Wages Payable	\$ 43,811
Payroll Taxes Payable	1
Accounts Payable	134,613
TCEQ Assessment Payable	20,382
Total Current Liabilities	\$ 198,807
Current Liabilities (Payable from Restricted Assets):	
Accrued Interest Payable	\$ 44,517
Bonds Payable (Current Portion)	840,000
Customer Deposits	1,057,500
Developer Capacity Fees	5,778
Total Current Liabilities (Payable from Restricted Assets)	\$ 1,947,795
Non-Current Liabilities:	
Bonds Payable	\$ 5,430,000
Total Non-Current Liabilities	\$ 5,430,000
Total Liabilities	\$ 7,576,602
DEFERRED INFLOW OF RESOURCES	
Gain on Refunding	\$ 80,612
Total Deferred Inflow of Resources	\$ 80,612
NET POSITION	
Net Investment in Capital Assets	\$ 9,416,971
Unrestricted	4,724,107
Total Net Position	\$ 14,141,078

The accompanying notes are an integral part of this statement.

CASH SPECIAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017

		Enterprise Fund
		Water Utilities
OPERATING REVENUES		
Water/Sales	\$	4,582,672
Customer Charges/Fees		746,487
Total Operating Revenues	\$	5,329,159
OPERATING EXPENSES		
Payroll and Benefits	\$	1,227,457
Water Purchases		1,023,385
Repairs and Maintenance		309,154
Supplies		328,093
Professional and Legal Fees		128,044
Insurance		257,086
Other Operating Costs		444,881
Amortization and Depreciation		1,005,733
Total Operating Expenses	\$	4,723,833
Net Operating Revenue (Expenses)	\$	605,326
NON-OPERATING REVENUE (EXPENSES)		
Interest Income	\$	62,231
Interest Expense		(133,174)
Gain (Loss) on Sale of Fixed Assets		(1,267)
Customer/Developer Contributions		124,244
Net Non-Operating Revenue (Expenses)	\$	52,034
Change in Net Position	\$	657,360
Total Net Position - Beginning (January 1)		13,483,718
Total Net Position - Ending (December 31)	\$	14,141,078

The accompanying notes are an integral part of this statement.

**CASH SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017**

	Enterprise Fund
	Water Utilities
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 5,311,598
Cash Payments for Goods and Services	(2,619,484)
Cash Payments to Employees	(1,184,587)
	<u>1,507,527</u>
Net Cash Provided by (Used for) Operating Activities	\$ 1,507,527
Cash Flows from Capital and Other Related	
Financing Activities:	
Sale (Purchase) of Restricted Assets	\$ (100,708)
Principal Paid on Bonds	(825,000)
Interest Paid on Bonds	(151,123)
Sale of Fixed Assets	10,650
Acquisition and Construction of Capital Assets	(682,028)
	<u>(1,748,209)</u>
Net Cash Provided by (Used for) Capital and Other Related	
Financing Activities	\$ (1,748,209)
Net Cash Provided by (Used for) Noncapital Financing Activities	
Change in Customer Deposits	\$ 62,575
Developer Capacity Fee	(6,226)
Customer Contributions	124,244
	<u>180,593</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	\$ 180,593
Cash Flows from Investing Activities:	
Interest Received	\$ 62,231
	<u>62,231</u>
Net Cash Provided by (Used for) Investing Activities	\$ 62,231
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 2,142
Cash and Cash Equivalents - Beginning (January 1)	700,387
Cash and Cash Equivalents - Ending (December 31)	\$ 702,529
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Net Operating Revenue (Expenses)	\$ 605,327
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Amortization and Depreciation	1,005,733
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivables	(17,561)
(Increase) Decrease in Prepaid Expenses, Supplies and Materials	(24,723)
Increase (Decrease) in Accounts Payable	(97,367)
Increase (Decrease) in Accrued Wages Payable	42,941
Increase (Decrease) in Payroll Taxes Payable	(71)
Increase (Decrease) in TCEQ Assessment Payable	228
Increase (Decrease) in Retainage Payable	(6,980)
	<u>(6,980)</u>
Net Cash Provided by (Used for) Operating Activities	\$ 1,507,527

The accompanying notes are an integral part of this statement.

**CASH SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

A. Summary of Significant Accounting Policies

Cash Special Utility District was created under Chapter 49 and 65 of the Texas Water Code by order of the Texas Commission of Environmental Quality, (TCEQ) on March 11, 2003.

The general purpose financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

1. Reporting Entity

The Board of Directors (Board), a nine member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to providing water services within the jurisdiction of the Cash Special Utility District. Members of the Board are elected by the public, have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters. The District is not included in any other governmental "Reporting Entity" as defined by GASB in its Statement No. 14, "The Financial Reporting Entity." There are no component units presented.

2. Basis of Presentation

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenue and expenses. The fund type utilized by the District is described below:

a. Proprietary fund types include the following –

The *Enterprise Fund* is used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) the governing body has decided periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989 and continue to follow new FASB pronouncements unless they conflict with GASB guidance.

3. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the balance sheet. Fund equity is identified as net position.

4. Budget

The Board adopts an annual budget for the Enterprise Fund. The Budget for the Enterprise Fund is adopted under a basis consistent with GAAP. The Board approves amendments to the annual budget as prepared by the General Manager of the District.

**CASH SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

A. Summary of Significant Accounting Policies (Continued)

5. Capital Assets

Additions to the utility system are recorded at cost or, if contributed property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of capital assets is recovered by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Office Equipment	3-7 years
Equipment and Vehicles	5-10 years
Water Distribution System	20-40 years

6. Prepaid Expenses - Supplies and Materials

Prepaid expenses consist of items or services paid for in the current period to be utilized in following accounting periods. Prepaid supplies and materials consist of supplies and repair parts for the distribution system, valued at cost. The cost of supplies and materials is recorded as an expense when consumed rather than when purchased.

7. Cash and Cash Equivalents

Cash and Cash Equivalents are comprised of deposits in financial institutions, including time deposits. For the purpose of the statement of cash flows, a cash equivalent is considered any highly liquid investment with a maturity of ninety days or less. Restricted assets are not included.

8. Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Sick leave accumulates, but does not vest, and will only be expensed when used.

B. Capital Assets

The following is a summary of changes in capital assets for the year:

	Beginning Balances	Additions and Reclassifications	Disposals	Ending Balances
Land and Improvements	\$ 255,883	\$ -	\$ -	\$ 255,883
Construction in Progress	446,013	339,745	80,440	705,318
Water Distribution System	23,798,936	290,063	-	24,088,999
Buildings and Improvements	563,531	80,440	-	643,971
Vehicles and Equipment	901,094	52,220	38,714	914,600
Office Equipment	68,601	-	-	68,601
Totals at Historical Cost	\$ 26,034,058	\$ 762,468	\$ 119,154	\$ 26,677,372
Less Accumulated Depreciation for:				
Water Distribution System	\$ 9,343,871	\$ 810,887	\$ -	\$ 10,154,758
Buildings and Improvements	197,715	18,199	-	215,914
Vehicles and Equipment	502,674	80,754	26,797	556,631
Office Equipment	59,588	3,510	-	63,098
Total Accumulated Depreciation	\$ 10,103,848	\$ 913,350	\$ 26,797	\$ 10,990,401
Net Capital Assets	\$ 15,930,210	\$ (150,882)	\$ 92,357	\$ 15,686,971

**CASH SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

C. Deposits, Securities and Investments

The District's funds are deposited and invested under the terms of an agreement with the financial institution. The agreement requires the depository to pledge approved securities in an amount significant to protect the District's day-to-day balances. The pledge is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At December 31, 2017, all District cash deposits appear to be covered by FDIC insurance or by pledged collateral held by the depository in the District's name. The District's deposits appear to have been properly secured throughout the fiscal year.

The District's investment policies and types of investments are governed by the Public Funds Investment Act. The Act requires specific training, reporting and establishment of local policies. The District appears to be in compliance with the requirements of the Act.

State statutes and local policy authorize the District to invest in the following types of investment goods:

- a. obligations of the U.S. or its agencies or instrumentalities,
- b. obligations of the State of Texas or its agencies,
- c. obligations guaranteed by the U.S. or State of Texas or their agencies or instrumentalities,
- d. obligations of other states, agencies or political subdivisions having a national investment rating of "A" or greater,
- e. guaranteed or secured certificates of deposit issued by a bank domiciled in the State of Texas, or
- f. fully collateralized repurchase agreements.

District investments include deposits in TexSTAR, an external investment pool, and investments held with Edward Jones. These investments are reported at share price (fair value) and are presented as Restricted Assets.

Texas Short Term Asset Reserve Program (TexSTAR) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools (including TexSTAR) and authorize eligible governmental entities (Participants) to invest their public funds and funds under their control through the investment pools.

J. P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Asset Management, Inc. (FSAM) serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors (Board). JPMIM provides investment services, and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JPMorgan Chase Bank and/or its subsidiary J.P. Morgan Investor Services Co.

The Board may establish separate Funds within TexSTAR from time to time. Participants choose the Funds in which their deposits are invested. Participants' assets in the Funds are represented by units of beneficial interest (units). The Board may issue an unlimited number of units in each Fund.

TexSTAR is rated AAAM by Standard & Poor's rating agency. This rating and the fund's operational settings allow the fund to comply with the requirement of the Public Funds Investment Act.

**CASH SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

C. Deposits, Securities and Investments (Continued)

The following table categorizes the District's investments at year end:

	<u>Credit Rating</u>	<u>Fair Value</u>
TexSTAR	AAAm	\$ 3,875,735
Edward Jones	AAA	1,560,541
Total		<u>\$ 5,436,276</u>

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the Districts' name. At year end, the District does not appear to be exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District does not appear to be exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District does not appear to be exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District does not appear to be exposed to foreign currency risk.

**CASH SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

D. Long - Term Obligations

The following schedule presents changes in long-term debt for the year:

Bonds Payable	\$ 7,095,000	\$ -	\$ 825,000	\$ -	\$ 6,270,000	\$ 840,000
Unamortized Premium	-				-	

The following are outstanding debt at year end:

Description	Interest Rate	Original Amount	Outstanding Balance
Revenue Refunding and Improvement Bonds, Series 2014	2.13%	\$ 8,695,000	\$ 6,270,000

Debt service requirements to maturity on bonds at year end are as follows:

Year Ending December 31	Principal	Interest	Total Requirements
2018	\$ 840,000	\$ 133,551	\$ 973,551
2019	855,000	115,659	970,659
2020	880,000	97,448	977,448
2021	895,000	78,704	973,704
2022	910,000	59,640	969,640
2023-2024	1,890,000	60,599	1,950,599
Totals	\$ 6,270,000	\$ 545,601	\$ 6,815,601

E. Refunding Penalty

In 2004, the District issued Revenue Refunding and Improvement Bonds, Series 2004, in the amount of \$ 14,300,000, which they utilized, in part, to refund their notes payable to CoBank, ACB. As a condition of the original debt agreement with CoBank, the District was obligated to pay a refunding penalty in the amount of \$ 1,362,645, amortized over a fifteen-year period. Annual write off of the penalty is \$ 92,383 and is reflected as amortization expense. The remaining amount recorded as "Deferred Outflows – Refunding Penalty," in the basic financial statements totals \$ 161,670 at year end.

F. Customer Deposits

The District requires each new customer to pay \$ 200, which is held as a refundable deposit to secure payment of the customer's final water bill. At year end, the District's obligation for refundable deposits owed to water customers totaled \$ 1,057,500.

G. Litigation

The District does not appear to be involved in any litigation at year end.

H. Joint Agreements

The District has entered into equity agreements with North Texas Municipal Water District (NTMWD) and Sabine River Authority (SRA).

**CASH SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

I. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the District purchased commercial insurance to cover these liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance for each of the past three fiscal years.

J. Subsequent Events

The District's management has evaluated subsequent events through March 8, 2018, the date which the financial statements were available for issue.

K. Pension Plans

457(b) Deferred Compensation Plan

The District established a 457(b) deferred compensation plan for the employees of the District. The plan is a voluntary program where employees can elect to defer portions of their annual compensation. There is no responsibility of the District to match elective deferrals made by the employees.

Cash Special Utility District Profit Sharing Plan

The District contributes to the Cash Special Utility District Profit Sharing Plan (Plan), a defined contribution pension plan, for its full time employees. The Plan is administered by the District's Board with Edward Jones acting as the trustee. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the District's Board. The District is required to contribute 7% of employee's annual compensation to individual employee accounts for each participating employee. For the year ended December 31, 2017, the District contributed \$ 67,747 to the Plan.

Employees are eligible for contributions after attaining age 16, employed full time, and completing two years of service. The Plan has a vesting schedule in place as follows:

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 1	-0-
1	-0-
2	20%
3	40%
4	40%
5	80%
6 or more	100%

Nonvested contributions are forfeited upon termination of employment and such forfeitures are allowed to pay administrative expenses of the Plan. Any remaining forfeitures will be used to restore rehired participants balances and then to various other purposes allowed in the plan document.

There is no liability at year end to the Plan.

**CASH SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

L. Change in Accounting Principles

In fiscal year 2017, the District adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 72, *Fair Value Measurement and Application*
 - Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*
 - Statement No. 77, *Tax Abatement Disclosures*
- a) Statement No. 72 requires state and local governments to measure investments at fair value using a consistent definition and valuation techniques; also defines what assets and liabilities governments should measure at fair value and expands fair value disclosures in financial disclosure notes. While the Statement generally requires restatement of prior period balances in the year of implementation, the nature of the District's investments was such that their carrying amount was not affected.
- b) The GAAP hierarchy prioritizes guidance governments follow when preparing U.S. GAAP financial statements. Statement No. 76 reduces authoritative GAAP hierarchy from four categories to two and lists the order of priority for pronouncements to which a government should look for guidance.
- c) Statement No. 77 requires governments granting tax abatements to individuals and businesses to disclose program information in the notes to the financial statements through the agreement's duration and also requires disclosures about tax abatements entered into by other governments that reduce the reporting government's tax revenue. Prior year balances were not restated because there are no tax abatements associated with the District or any other government which affect the District's tax revenue.

TEXAS SUPPLEMENTARY INFORMATION (TSI)
(Other Supplementary Information)

**CASH SPECIAL UTILITY DISTRICT
SUPPLEMENTARY SCHEDULES INCLUDED WITHIN THIS REPORT
YEAR ENDED DECEMBER 31, 2017**

Exhibit ID	Exhibit Title	Page
	Independent Auditor's Report on Supplementary Schedules	29
	Budgetary Comparison – Enterprise Fund	30
TSI-1	Services and Rates	31
TSI-2	Enterprise Fund Expenditures	33
TSI-3	Temporary Investments	34
TSI-5	Long-Term Debt Service Requirements by Years	35
TSI-6	Changes in Long-Term Bonded Debt	36
TSI-7	Comparative Schedule of Revenues and Expenses Enterprise Fund - Five Years	37
TSI-8	Board Members, Key Personnel and Consultants	38

The following schedules are not applicable to this District.

TSI-4	Analysis of Taxes Levied and Receivable
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**RUTHERFORD,
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**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

Members of the Board:

In our opinion, the accompanying information is stated accurately in all material respects in relation to the basic financial statements, taken as a whole, of the Cash Special Utility District for the year ended December 31, 2017, which are covered by our opinion presented in the first section of this report.

The accompanying information is supplemental to the basic financial statements and is not essential for a fair presentation of financial position, results of its operations or cash flows.

Our audit, which was made for the purpose of forming an opinion on the basic financial statements taken as a whole, included such tests of the accounting records, from which the supplementary information was compiled, and such other auditing procedures as we considered necessary in the circumstances.

March 8, 2018
Greenville, Texas

Rutherford, Taylor & Company, P.C.

**CASH SPECIAL UTILITY DISTRICT
ENTERPRISE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
OPERATING REVENUES				
Water/Sales	\$ 4,535,000	\$ 4,532,000	\$ 4,582,672	\$ 50,672
Customer Charges/Fees	610,000	610,000	735,837	125,837
Total Operating Revenues	\$ 5,145,000	\$ 5,142,000	\$ 5,318,509	\$ 176,509
OPERATING EXPENSES				
Payroll and Benefits	\$ 1,244,000	\$ 1,259,000	\$ 1,227,457	\$ 31,543
Water Purchased	1,040,000	1,040,000	1,023,385	16,615
Repairs and Maintenance	350,000	425,000	309,154	115,846
Supplies	325,000	380,000	328,093	51,907
Other Operating Costs	488,000	493,000	444,881	48,119
Professional and Legal Fees	-	-	128,044	(128,044)
Insurance	261,000	288,000	257,085	30,915
Amortization and Depreciation	900,000	910,000	1,005,733	(95,733)
Total Operating Expenses	\$ 4,608,000	\$ 4,795,000	\$ 4,723,832	\$ 71,168
NONOPERATING REVENUES (EXPENSES):				
Interest Income	\$ 40,000	\$ 40,000	\$ 62,231	\$ 22,231
Interest Expense	(152,000)	(152,000)	(133,174)	18,826
Gain/Loss on Sale of Capital Asset	-	-	1,267	1,267
Customer Contributions	75,000	75,000	124,244	49,244
Net Nonoperating Revenues (Expenses)	\$ (37,000)	\$ (37,000)	\$ 54,568	\$ 91,568
Change in Net Position	\$ 500,000	\$ 310,000	\$ 649,245	\$ 339,245
Net Position - Beginning (January 1)	13,483,718	13,483,718	13,483,718	-
Net Position - Ending (December 31)	\$ 13,983,718	\$ 13,793,718	\$ 14,132,963	\$ 339,245

**CASH SPECIAL UTILITY DISTRICT
SERVICES AND RATES
YEAR ENDED DECEMBER 31, 2017**

1. Services provided by the District:

<u>X</u>	Retail Water	<u>X</u>	Wholesale Water	<u> </u>	Drainage
<u> </u>	Retail Wastewater	<u> </u>	Wholesale Wastewater	<u> </u>	Irrigation
<u> </u>	Parks/Recreation	<u> </u>	Fire Protection	<u> </u>	Security
<u> </u>	Solid Waste/Garbage	<u> </u>	Flood Control	<u> </u>	Roads
<u> </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> </u>	Other (specify):				

2. a. Retail Rates Based on 5/8" Meter:

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1000 Gallons Over Minimum		Usage Levels	
WATER:	\$ 28.70	0	N	\$ 3.95	0	to	5,000
				\$ 4.40	5,001	to	10,000
				\$ 4.95	10,001	to	15,000
				\$ 5.50	15,001	to	20,000
				\$ 5.75	20,001	to	25,000
				\$ 7.50	25,001	to	unlimited
WASTEWATER:	\$ n/a	0	N	\$ n/a	n/a	to	n/a
	\$ n/a	0	N	\$ n/a	n/a	to	n/a

District employs winter averaging for wastewater usage? Yes No X

Total charges per 10,000 gallons usage: Water \$ 70.45 Wastewater \$ n/a

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unbilled	0	0	x1.0	0
≤ 3/4"	0	1	x1.0	1
1"	35	35	x2.5	88
5/8"	7,146	6,488	x2.5	16,220
1 1/2"	2	2	x5.0	10
2"	11	11	x8.0	88
3"	0	0	x15.0	0
4"	0	0	x25.0	0
6"	0	0	x	0
Total Water	7,194	6,537		0
Total Wastewater	0	0	x1.0	0

**CASH SPECIAL UTILITY DISTRICT
SERVICES AND RATES
YEAR ENDED DECEMBER 31, 2017**

3. Total water consumption (rounded to the nearest 1,000) during the fiscal year:

Gallons pumped into system: 632,318,000

Gallons billed to customers: 544,317,000

Water Accountability %: 86.08
%

4. Standby Fees: District does not levy standby fees.

5. Location of District:

County(ies) in which district is located. Hunt, Hopkins, Rains and Rockwall

Is the District located entirely in one county? Yes ___ No X

Is the District located within a city? Entirely ___ Partly ___ Not at all X

City(ies) in which district is located. n/a

Is the District located within a city's extra territorial jurisdiction (ETJ)?
Entirely ___ Partly X Not at all _____

ETJ's in which district is located. Greenville

Is the general membership of the Board appointed by an office outside the district?
Yes ___ No X

If Yes, by whom? n/a

**CASH SPECIAL UTILITY DISTRICT
ENTERPRISE FUND EXPENSES
YEAR ENDED DECEMBER 31, 2017**

Payroll and Benefits	\$	1,227,457
Professional and Legal Fees		128,044
Water Purchased		1,023,385
Repairs and Maintenance		309,154
Supplies		328,093
Other Operating Costs		444,881
Insurance		257,086
Amortization and Depreciation		1,005,733
Interest Expense		133,174
Total Expenses	\$	4,857,007

Number of persons employed by the District:

Full Time	21
Part Time	0

**CASH SPECIAL UTILITY DISTRICT
TEMPORARY INVESTMENTS
YEAR ENDED DECEMBER 31, 2017**

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at Year End
<u>Enterprise Fund</u>					
TexSTAR Investments *	1160010400	0.2417%	Monthly	\$ 3,464,276	\$ -
TexSTAR Investments *	1160015660	0.2417%	Monthly	31,775	-
TexSTAR Investments *	1160022990	0.2417%	Monthly	17,612	-
TexSTAR Investments *	1160030000	0.2417%	Monthly	362,072	-
Edward Jones *	MMA	0.0100%	Monthly	25,875	-
Edward Jones *	MMA	0.0100%	Monthly	76,877	-
Edward Jones *	535705	6.5000%	2/1/2031	2,809	-
Edward Jones *	687399	6.0000%	12/1/2032	2,782	-
Edward Jones *	684199	6.0000%	1/1/2033	829	-
Edward Jones *	555667	5.5000%	7/1/2033	2,053	-
Edward Jones *	003094	6.0000%	6/20/2031	3,041	-
Edward Jones *	003052	6.0000%	3/20/2031	8,223	-
Edward Jones *	303826	6.0000%	3/1/2026	7,696	-
Edward Jones *	555000	6.0000%	10/1/2032	3,965	-
Edward Jones *	01491	6.0000%	2/1/2033	8,183	-
Edward Jones *	604245	5.5000%	4/15/2033	9,913	-
Edward Jones *	256552	5.5000%	1/1/2037	13,287	-
Edward Jones *	003865	6.0000%	6/20/2036	7,438	-
Edward Jones *	004559	5.0000%	10/20/2039	17,111	-
Edward Jones *	004680	5.5000%	4/20/2040	16,471	-
Edward Jones *	004802	5.0000%	9/20/2040	18,358	-
Edward Jones *	004924	5.0000%	1/20/2041	19,188	-
Edward Jones *	005234	4.5000%	11/20/2041	33,865	-
Edward Jones *	MA1224	3.5000%	8/20/2043	71,164	-
Edward Jones *	MA1223	3.0000%	8/20/2043	71,959	-
Edward Jones *	MA0154	3.5000%	6/20/2042	57,413	-
Edward Jones *	MA1676	3.0000%	2/20/1944	56,202	-
Edward Jones *	MA2446	4.0000%	12/20/2044	41,011	-
Edward Jones *	MA2892	3.5000%	6/20/2045	61,754	-
Edward Jones *	13596	4.0000%	7/1/2024	16,804	-
Edward Jones *	MA3037	5.0000%	8/20/2045	59,537	-
Edward Jones *	33583CVJ5	2.4000%	5/17/2022	105,000	-
Edward Jones *	9497485FO	1.0500%	5/18/2018	98,000	-
Edward Jones *	9497485G8	1.2500%	5/20/2019	98,000	-
Edward Jones *	140420ZB9	1.3500%	5/11/2020	98,000	-
Edward Jones *	140420ZC7	1.6000%	5/11/2021	98,000	-
Edward Jones *	AS4582	4.0000%	3/1/2045	122,307	-
Edward Jones *	MA4452	4.0000%	5/20/2030	120,156	-
Edward Jones *	MA1600	3.5000%	10/1/2043	109,271	-
Total				\$ 5,438,277	\$ -

* The District's interest-bearing investments do not accrue interest due to interest being paid monthly.

**CASH SPECIAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
SERIES 2014 - BY YEAR
YEAR ENDED DECEMBER 31, 2017**

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	\$ 840,000	\$ 133,551	\$ 973,551
2019	855,000	115,659	970,659
2020	880,000	97,448	977,448
2021	895,000	78,704	973,704
2022	910,000	59,640	969,640
2023	935,000	40,257	975,257
2024	955,000	20,342	975,342
Total	\$ 6,270,000	\$ 545,601	\$ 6,815,601

**CASH SPECIAL UTILITY DISTRICT
CHANGES IN LONG-TERM BONDED DEBT
YEAR ENDED DECEMBER 31, 2017**

	<u>Bond Issues</u>			
	Series			
	<u>2014</u>			
Interest Rate		2.13%		
Dates Interest Payable		3/1 - 9/1		
Maturity Date		9/1/2024		
Beginning Bonds Outstanding	\$	7,095,000		
Bonds Sold During the Fiscal Year		-		
Bonds Retired During the Fiscal Year		<u>825,000</u>		
Ending Bonds Outstanding	\$	<u>6,270,000</u>		
Interest Paid During the Fiscal Year	\$	139,032		
Paying Agent's Name and City	<u>The Bank of New York Trust Co, N.A., Dallas, Texas</u>			
Bond Authority:	Tax Bonds		Other Bonds	Refunding Bonds
Amount Issued	\$	-	\$	-
Remaining To Be Issued	\$	-	\$	-
Debt Service Fund cash and temporary investment balances as of December 31, 2017:		\$	362,072	
Average annual debt service payment (Principal and Interest) for remaining term of all debt:		\$	973,657	

**CASH SPECIAL UTILITY DISTRICT
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
ALL PROPRIETARY FUND TYPES
FIVE YEARS ENDED DECEMBER 31, 2017**

	AMOUNTS					PERCENT OF FUND TOTAL REVENUE				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
OPERATING REVENUE										
Water Sales	\$ 4,582,672	\$ 4,480,991	\$ 4,362,550	\$ 4,065,019	\$ 4,181,205	86.16%	87.70%	88.94%	90.38%	92.35%
Customer Charges/Fees	735,837	628,390	542,743	432,814	346,175	13.84%	12.30%	11.06%	9.62%	7.65%
TOTAL OPERATING REVENUE	\$ 5,318,509	\$ 5,109,381	\$ 4,905,293	\$ 4,497,833	\$ 4,527,380	100.00%	100.00%	100.00%	100.00%	100.00%
OPERATING EXPENSES										
Payroll and Benefits	\$ 1,227,457	\$ 1,134,477	\$ 1,063,287	\$ 1,089,708	\$ 998,123	23.08%	22.20%	21.68%	24.23%	22.05%
Water Purchased	1,023,385	952,913	881,847	782,571	729,886	19.24%	18.65%	17.98%	17.40%	16.12%
Repairs and Maintenance	309,154	196,603	232,826	332,555	319,283	5.81%	3.85%	4.75%	7.39%	7.05%
Supplies	328,093	288,725	310,071	240,017	147,058	6.17%	5.65%	6.32%	5.34%	3.25%
Professional Fees	128,044	29,319	33,837	36,866	16,732	2.41%	0.57%	0.69%	0.82%	0.37%
Insurance	257,085	205,101	195,366	146,252	186,509	4.83%	4.01%	3.98%	3.25%	4.12%
Other Operating Costs	444,881	431,168	447,735	464,907	445,008	8.36%	8.44%	9.13%	10.34%	9.83%
Amortization and Depreciation	1,005,733	985,840	954,472	911,533	1,091,489	18.91%	19.29%	19.46%	20.27%	24.11%
TOTAL OPERATING EXPENSES	\$ 4,723,832	\$ 4,224,146	\$ 4,119,441	\$ 4,004,409	\$ 3,934,088	88.82%	82.67%	83.98%	89.03%	86.90%
NET OPERATING REVENUE (EXPENSES)	\$ 594,677	\$ 885,235	\$ 785,852	\$ 493,424	\$ 593,292	11.18%	17.33%	16.02%	10.97%	13.10%
NONOPERATING REVENUE (EXPENSES)										
Gain (Loss) on Sale of Capital Assets	\$ 1,267	\$ 1,878	\$ -	\$ 15,891	\$ (3,350)	0.02%	0.04%	0.00%	0.35%	-0.07%
Interest Income	62,231	43,149	24,496	46,901	7,912	1.17%	0.84%	0.50%	1.04%	0.17%
Interest Expense	(133,174)	(150,534)	(166,988)	(344,373)	(447,134)	-2.50%	-2.95%	-3.40%	-7.66%	-9.88%
Grant Proceeds	-	-	19,671	3,000	-	0.00%	0.00%	0.40%	0.07%	0.00%
Debt Issuance Costs	-	-	-	(123,125)	-	0.00%	0.00%	0.00%	-2.74%	0.00%
Customer/Developer Contributions	124,244	439,260	129,270	214,288	65,085	2.34%	8.60%	2.64%	4.76%	1.44%
NET NONOPERATING REVENUE (EXPENSES)	\$ 54,568	\$ 333,753	\$ 6,449	\$ (187,418)	\$ (377,487)	1.03%	6.53%	0.13%	-4.17%	-8.34%
NET REVENUE (EXPENSES)	\$ 649,245	\$ 1,218,988	\$ 792,301	\$ 306,006	\$ 215,805	12.21%	23.86%	16.15%	6.80%	4.77%

**CASH SPECIAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
YEAR ENDED DECEMBER 31, 2017**

Complete District Mailing Address: P.O. Box 8129 Greenville, Texas 75404-8129
 District Business Telephone Number: 903-883-2695
 Submission Date of the most recent District Registration Form: January 2018

	<u>Term of Office (Elected or Appointed or Date Hired)</u>	<u>Fees of Office Paid 12/31/2017</u>	<u>Expense Reimbursements 12/31/2017</u>	<u>Title at Year End</u>
Board Members:				
William Reese	2014 - 2017	\$ 450	\$ 255	President
Vernon Pippin	2015 - 2018	\$ -	\$ -	Vice-Pres./Retired
James Fortenberry	2014 - 2017	\$ 450	\$ -	Sec/Tres
Bobby Don Ayers	2014 - 2017	\$ 500	\$ -	Director
Craig Driggers	2014 - 2016	\$ 250	\$ -	Director
Bryan Delgado	2013 - 2016	\$ 300	\$ -	Director
Norris Mayberry	2015 - 2018	\$ 300	\$ -	Director
Staley Cash	2015 - 2018	\$ 300	\$ -	Director
Kevin Chilcoat	2013 - 2016	\$ 450	\$ 270	Director/VP
Bill Watkins	2017 - 2020	\$ 100	\$ -	Director
Key Administrative Personnel:				
Clay Hodges		\$ 133,025	\$ 194	General Manager
Consultants:				
McLean & Howard, LLP		\$ 1,495	\$ -	Attorney
James D. Bradbury, PLLC		\$ 33,959	\$ -	Attorney
Rutherford, Taylor & Company, P.C.		\$ 10,500	\$ -	Auditor
Velvin & Weeks, P.C.		\$ 87,623	\$ -	Engineer

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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MCLEAN & HOWARD, L.L.P.

**BARTON OAKS PLAZA, BUILDING II
901 SOUTH MOPAC EXPY., SUITE 225
AUSTIN, TEXAS 78746
(512) 328-2008**

*[An opinion in substantially the following form will be delivered by
McLean & Howard, L.L.P, Bond Counsel, upon the delivery of the Bonds,
assuming no material changes in facts or law.]*

April 26, 2018

We have acted as Bond Counsel for Cash Special Utility District (the “District”) in connection with the issuance of bonds (the “Bonds”) by the District described as follows:

CASH SPECIAL UTILITY DISTRICT REVENUE BONDS, SERIES 2018, dated February 15, 2018, in the aggregate principal amount of \$2,560,000, bearing interest at the rate set forth in the resolution authorizing the issuance of the bonds (the “Bond Resolution”), with such interest payable on March 1 and September 1 of each year, commencing September 1, 2018 until maturity or prior redemption, and maturing serially on September 1 in each year from 2018 through 2029, 2031, 2033, 2035, 2037, 2039 and 2042.

The Bonds are redeemable, in whole or in part, maturing on or after September 1, 2029 are subject to optional redemption prior to stated maturity on September 1, 2028 or on any date thereafter, at a price of the par value thereof plus accrued interest to the date of redemption, in the manner provided in the Bond Resolution. Additionally, the Bonds maturing on September 1, 2031, 2033, 2035, 2037, 2039 and 2042 are subject to mandatory redemption prior to maturity at the times and in the amounts provided in the Bond Resolution. The Bonds are registered as to both principal and interest and are transferable, registrable, and payable in the manner provided in the Bond Resolution.

WE HAVE ACTED AS BOND COUNSEL for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon certificates executed by officers, directors, agents and representatives of the District. We have assumed no responsibility with respect to the financial condition of the District or the reporting or disclosure thereof in connection with the sale of the Bonds.

IN OUR CAPACITY AS BOND COUNSEL, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds which contains certified copies of certain proceedings of the Board of Directors of the District, customary certificates of officers, agents and representatives of the District and other certified showings related to the authorization and issuance of the Bonds. We have also examined the executed Initial Bond No. T-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the District has been validly created and organized and that the transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective; and that therefore the Bonds are valid and legally binding obligations of the District. The Bonds, together with the outstanding and unpaid Prior Lien Obligations (identified and defined in the Bond Resolution), are also secured by and payable from a pledge of and lien on certain net revenues of the District's water system (the "Pledged Revenues") as provided in the Bond Resolution.

The District has reserved the right in the Bond Resolution to issue additional bonds payable from the Pledged Revenues of the District's water system with any such pledge being on a parity with the pledge to pay the Bonds. The District has also reserved the right to issue subordinate lien bonds, special project bonds and refunding bonds. Reference is made to the Bond Resolution for a complete description of the District's right to issue additional bonds.

The Bonds are obligations solely of the District and are not the obligations of the State of Texas or any other political subdivision or agency. The District's obligations with respect to the Bonds are subject to limitation by applicable federal bankruptcy laws and other laws which may from time to time affect the rights of creditors of political subdivisions.

In providing such opinions, we have relied on representations of the District with respect to matters solely within the knowledge of the District which we have not independently verified, and have assumed continuing compliance with the covenants in the Bond Resolution.

We express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Bonds.

Our opinions are based on existing statutes, court decisions and other law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any statutes, case law or other law that may hereafter occur or become effective.

Respectfully yours,

APPENDIX D

SPECIAL TAX COUNSEL'S OPINION

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April 26, 2018

We have acted as Special Tax Counsel in connection with the issuance and sale by the Cash Special Utility District (the "Issuer") of \$2,560,000 aggregate principal amount of its Revenue Bonds, Series 2018 (the "Bonds").

In connection with the issuance of the Bonds, we have reviewed the following:

- (a) the Resolution of the Issuer authorizing the issuance and sale of the Bonds;
- (b) schedules prepared by, and representations of, Specialized Public Finance Inc. and the Purchaser with respect to the issue price and yield of the Bonds and the purchase price;
- (c) the Federal Tax Certificate of the Issuer dated as of the date of this opinion;
- (d) the opinion of McLean & Howard, L.L.P. as Bond Counsel dated as of the date of this opinion;
- (e) covenants of the Issuer regarding the use of the facilities financed with the proceeds of the Bonds and the use and investment of the proceeds of the Bonds and other funds of the Issuer; and
- (f) such other documents as we deem relevant and necessary in rendering this opinion.

IN OUR OPINION, except as discussed below, the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code").

IN RENDERING THIS OPINION, we have relied upon the opinion of McLean & Howard, L.L.P. referred to in subparagraph (d) above for authority that the Bonds are validly issued under applicable state and local laws and are payable from the proceeds of ad valorem taxes levied, without legal limit as to rate or amounts, on all taxable property located within the Issuer; and the representations, opinion, certificate and covenants referred to in subparagraphs (b), (c), (e), and (f) above.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds.

Respectfully yours,

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APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner’s rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. “Business Day” means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer’s Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. “Due for Payment” means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. “Nonpayment” means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. “Nonpayment” shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. “Owner” means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that “Owner” shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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SPECIALIZED PUBLIC FINANCE INC.
FINANCIAL ADVISORY SERVICES