

OFFICIAL STATEMENT

Date: February 21, 2018

Ratings:

S&P: "AA" (stable outlook) AGM Insured  
S&P: "A" (stable outlook) Underlying Rating  
(see "BOND INSURANCE" and "OTHER  
INFORMATION - Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

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

**\$3,940,000**  
**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT**  
**(Henderson County)**  
**UTILITY SYSTEM REVENUE BONDS, NEW SERIES 2018**

**Dated Date: February 1, 2018**

**Due: January 1, as shown on page 2**

Interest accrues from Delivery Date

**PAYMENT TERMS.** . . Interest on the \$3,940,000 East Cedar Creek Fresh Water Supply District Utility System Revenue Bonds, New Series 2018 (the "Bonds") will accrue from March 21, 2018 (the "Delivery Date") and will be payable January 1 and July 1 of each year commencing January 1, 2019, 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 within a maturity. **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"). The initial Paying Agent/Registrar is ZB, National Association dba Amegy Bank, Plano, Texas (see "The Bonds - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE.** . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including particularly Texas Water Code, Chapters 49 and 54, as amended, and Chapter 696, Acts of the 65th Legislature, Regular Session, 1977, and by the resolution (the "Resolution") adopted by the Board of Directors of the East Cedar Creek Fresh Water Supply District (the "District") on February 21, 2018. The Bonds are special obligations of the District payable, both as to principal and interest, solely from and secured by a lien on and pledge of the Net Revenues of the District's Utility System (the "System") on a parity with the Previously Issued Bonds (as defined in the Resolution), such lien and pledge, however, being junior and subordinate to the lien on and pledge of such Net Revenues to the payment and security of the Prior Lien Bonds (as defined in the Resolution). In the Resolution, the District covenants not to issue any additional obligations on a parity with the Prior Lien Bonds or create or issue evidences of indebtedness for any purpose possessing a lien on the Net Revenues of the System superior to that to be possessed by the Bonds Similarly Secured (as defined in the Resolution). **The District has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "The Bonds - Authority for Issuance").

**PURPOSE.** . . Proceeds from the sale of the Bonds will be used to finance the costs of purchasing, constructing, acquiring, owning, operating, repairing, improving or extending any District works, improvements, facilities, plants, equipment and appliances with respect to the System, including the acquisition of land and rights-of-way therefor and to pay the costs associated with the issuance of the Bonds.

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**CUSIP PREFIX: 271470**

**MATURITY SCHEDULE & 9 DIGIT CUSIP**

**See Schedule on Page 2**

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**INSURANCE.** . . The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. ("AGM").



**LEGALITY.** . . The Bonds are offered for delivery when, as and if issued and received by the Initial Purchaser and subject to the approving opinion of the Attorney General of Texas and the opinion of Norton Rose Fulbright US LLP, Bond Counsel, Dallas, Texas (see Appendix B, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Disclosure Counsel to the District.

**DELIVERY.** . . It is expected that the Bonds will be available for delivery through DTC on March 21, 2018.

**SAMCO CAPITAL MARKETS**

**MATURITY SCHEDULE**

**CUSIP Prefix: 271470<sup>(1)</sup>**

<u>Amount</u>	<u>Maturity 1-Jan</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix <sup>(1)</sup></u>
\$15,000	2020	5.000%	2.000%	LH7
30,000	2021	5.000%	2.100%	LJ3
30,000	2022	5.000%	2.250%	LK0
185,000	2023	5.000%	2.400%	LL8
195,000	2024	5.000%	2.550%	LM6
200,000	2025	2.500%	2.700%	LN4
210,000	2026	2.500%	2.800%	LP9
215,000	2027	2.500%	2.900%	LQ7
220,000	2028	2.750%	3.000%	LR5
230,000	2029	3.000%	3.100%	LS3
235,000	2030	3.000%	3.200%	LT1
240,000	2031	3.000%	3.300%	LU8
250,000	2032	3.125%	3.350%	LV6
260,000	2033	3.125%	3.400%	LW4
265,000	2034	3.250%	3.458%	LX2
275,000	2035	3.250%	3.500%	LY0
285,000	2036	3.375%	3.550%	LZ7
295,000	2037	3.375%	3.600%	MA1
305,000	2038	3.500%	3.650%	MB9

**(Interest to accrue from Delivery Date.)**

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data set forth herein 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 CUSIP services. Neither the District, the Financial Advisor nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

**OPTIONAL REDEMPTION.** . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after January 1, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on January 1, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “The Bonds - Optional Redemption”).

**(THE REMAINDER OF THIS PAGE LEFT BLANK INTENTIONALLY)**

*This Official Statement, which includes the cover page, and the 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 as having been authorized by the District. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.*

*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 Bonds are exempt from registration with the United States Securities and Exchange Commission and consequently have not been registered therewith. The registration, qualification, or exemption of the Bonds in accordance with applicable securities law provisions of the jurisdiction in which the Bonds have been registered, qualified, or exempted should not be regarded as a recommendation thereof.*

*Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM supplied by AGM and presented under the heading "Bond Insurance" and "Appendix C - Specimen Municipal Bond Insurance Policy".*

*Neither the District nor its financial advisor make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its book-entry-only system or AGM or its municipal bond insurance policy described herein under the caption "BOND INSURANCE", as such information has been provided by The Depository Trust Company and AGM, respectively.*

*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 herein. See "Continuing Disclosure of Information" for a description of the District's undertaking to provide certain information on a continuing basis.*

*The cover page contains certain information for general reference only and are not intended as a summary of this offering. Investors should read the entire Official Statement, including all Appendices attached hereto, to obtain information essential to making an informed investment decision.*

*This Official Statement contains "Forward-Looking" Statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from future results, performance, and achievements expressed or implied by such Forward-Looking Statements. Investors are cautioned that the actual results could differ materially from those set forth in the Forward-Looking Statements*

**TABLE OF CONTENTS**

**OFFICIAL STATEMENT SUMMARY.....4**

**DISTRICT OFFICIALS, STAFF AND CONSULTANTS**

    ELECTED OFFICIALS.....6

    SELECTED ADMINISTRATIVE STAFF.....6

    CONSULTANTS AND ADVISORS.....6

**INTRODUCTION.....7**

**PLAN OF FINANCING.....7**

**THE BONDS.....8**

**BOND INSURANCE.....14**

**BOND INSURANCE RISK FACTORS.....15**

**THE SYSTEM.....16**

    TABLE 1 - HISTORICAL WATER CONSUMPTION.....17

    TABLE 2 - TEN LARGEST WATER CUSTOMERS.....17

    TABLE 3 - MONTHLY WATER RATES.....18

    WASTEWATER SYSTEM.....18

    TABLE 4 - WASTEWATER USAGE.....19

    TABLE 5 - TEN LARGEST WASTEWATER CUSTOMERS.....20

    TABLE 6 - MONTHLY SEWER RATES.....21

**DEBT INFORMATION.....22**

    TABLE 7 - PRO-FORMA UTILITY SYSTEM REVENUE DEBT SERVICE REQUIREMENTS.....22

**FINANCIAL INFORMATION.....23**

    TABLE 8 – PROPRIETARY FUND REVENUE AND EXPENSE HISTORY.....23

    TABLE 9 – UTILITY SYSTEM CONDENSED STATEMENT OF OPERATIONS.....24

    TABLE 10 - COVERAGE AND FUND BALANCES.....24

    TABLE 11 - CURRENT INVESTMENTS.....26

**SELECTED PROVISIONS OF THE RESOLUTION.....27**

**TAX MATTERS.....33**

**CONTINUING DISCLOSURE OF INFORMATION.....35**

**OTHER INFORMATION.....36**

    RATINGS.....36

    LITIGATION.....36

**REGISTRATION AND QUALIFICATION**

    OF BONDS FOR SALE..... 36

**LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS..... 37**

**LEGAL OPINIONS..... 37**

**FINANCIAL ADVISOR..... 37**

**INITIAL PURCHASER..... 37**

**CERTIFICATE OF THE OFFICIAL STATEMENT..... 37**

**FORWARD-LOOKING STATEMENTS DISCLAIMER..... 38**

**MISCELLANEOUS..... 38**

**APPENDICES**

EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT..... A

FORM OF BOND COUNSEL'S OPINION..... B

SPECIMEN MUNICIPAL BOND INSURANCE POLICY.....C

The cover page hereof, this page, 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.

<b>THE DISTRICT</b> .....	The East Cedar Creek Fresh Water Supply District (the “District”) is located in Henderson County, Texas. The District covers approximately 20 square miles (see “Introduction - Description of the District”).
<b>THE BONDS</b> .....	The Bonds are issued as \$3,940,000 Utility System Revenue Bonds, New Series 2018. The Bonds are issued as serial bonds maturing January 1 in each of the years 2020 through 2038 (see “The Bonds - Description of the Bonds”).
<b>PAYMENT OF INTEREST</b> .....	Interest on the Bonds accrues from the Delivery Date, and is payable January 1, 2019, and each July 1 and January 1 thereafter until maturity or prior redemption (see “The Bonds - Description of the Bonds” and “The Bonds - Optional Redemption”).
<b>AUTHORITY FOR ISSUANCE</b> .....	The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Texas Water Code, Chapters 49 and 54, as amended, and Chapter 696, Acts of the 65th Legislature, Regular Session, 1977, and by the resolution adopted by the Board of Directors of the District (the “Resolution”) (see “The Bonds - Authority for Issuance”).
<b>SECURITY FOR THE BONDS</b> .....	The Bonds constitute special obligations of the District, payable, both as to principal and interest, solely from and, together with the Previously Issued Bonds, secured by a lien on and pledge of the Net Revenues of the District’s Utility System (the “System”), such lien and pledge being junior and subordinate to the lien on and pledge of the Net Revenues securing the payment of Prior Lien Bonds now outstanding. In the Resolution, the District covenants not to issue any additional obligations on a parity with the Prior Lien Bonds or create or issue evidences of indebtedness for any purpose possessing a lien on the Net Revenues of the System superior to that to be possessed by the Bonds Similarly Secured (as defined in the Resolution) (see “The Bonds - Security and Source of Payment”).
<b>QUALIFIED TAX-EXEMPT OBLIGATIONS</b> .....	The District will designate the Bonds as “Qualified Tax-Exempt Obligations” for financial institutions (see “Tax Matters - Qualified Tax-Exempt Obligations for Financial Institutions”).
<b>REDEMPTION</b> .....	The District reserves the right, at its option, to redeem Bonds having stated maturities on and after January 1, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on January 1, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “The Bonds - Optional Redemption”).
<b>TAX EXEMPTION</b> .....	In the opinion of Bond 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, including the alternative minimum tax on corporations.
<b>USE OF PROCEEDS</b> .....	Proceeds from the sale of the Bonds will be used to finance the costs of purchasing, constructing, acquiring, owning, operating, repairing, improving or extending any District works, improvements, facilities, plants, equipment and appliances with respect to the System, including the acquisition of land and rights-of-way therefor, and to pay the costs associated with the issuance of the Bonds.
<b>RATINGS</b> .....	The Bonds are rated “AA” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) by virtue of a municipal bond insurance policy to be issued by AGM upon delivery of the Bonds to the Initial Purchaser. In addition, the underlying rating on the Bonds is “A” by S&P. (See “BOND INSURANCE” and “OTHER INFORMATION – Ratings”).
<b>BOND INSURANCE</b> .....	The Bonds are additionally secured by a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by AGM (see “BOND INSURANCE”). The purchase of such insurance and the payment of all associated costs will be at the expense of the District.
<b>BOOK-ENTRY-ONLY SYSTEM</b> .....	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 within a maturity. 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”).
<b>PAYMENT RECORD</b> .....	The District has never defaulted in payment of its bonds.

**SELECTED FINANCIAL INFORMATION**

	Fiscal Year Ended March 31,				
	2017	2016	2015	2014	2013
Total Operating Revenue	\$5,704,337	\$5,536,592	\$5,172,621	\$ 5,337,276	\$ 5,306,340
Total Operating Expense	3,554,344	3,417,633	3,350,719	3,257,985	3,350,768
Net Income Available for Debt Service <sup>(1)</sup>	\$2,149,993	\$2,118,959	\$1,821,902	\$ 2,079,291	\$ 1,955,572
Annual Bond Payment	\$1,627,944	\$1,542,256	\$1,521,570	\$ 1,514,879	\$ 1,484,950
Coverage (Times)	1.32	1.37	1.20	1.37	1.32

(1) Depreciation, amortization and interest expenses not included in calculation of net income available for debt service.

For additional information regarding the District, please contact:

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 Fresh Water Supply District  
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**DISTRICT OFFICIALS, STAFF AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>Board Members</u>	<u>Term Expires</u>	<u>Total Length of Service</u>	<u>Occupation</u>
Harry McCune President	11/2020	10 Years	Retired Engineer
W. Richard Watkins Vice President	11/2018	10 Years	Retired Engineer
Joe Lomonaco Secretary	11/2018	7 Years	Retired
Jim Willi Director	11/2020	1 Year	Termex
Larry Bratton Director	11/2018	3 Years	Retired
Allen Brier Director	11/2018	3 Years	Retired
Ted H. Bayless Treasurer	11/2020	6 Years	Retired Banker

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service to District</u>	<u>Total Governmental Service</u>
Bill Goheen	General Manager	13 Years	34 Years
Angela Crowsey	Office Manager	17 Years	17 Years
David Hollaway	Field Service Supervisor	4 Years	15 Years
Anthony McLaughlin	Water Operator	5 Year	5 years
James Blodgett	Operations Manager	13 Years	17 Years

**CONSULTANTS AND ADVISORS**

Auditors .....Conway Company CPAs, P.C.  
Greenville, Texas

Bond Counsel..... Norton Rose Fulbright US LLP  
Dallas, Texas

Financial Advisor ..... Hilltop Securities Inc.  
Dallas, Texas

**OFFICIAL STATEMENT**

**RELATING TO**

**\$3,940,000  
EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
UTILITY SYSTEM REVENUE BONDS, NEW SERIES 2018**

**INTRODUCTION**

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$3,940,000 East Cedar Creek Fresh Water Supply District Utility System Revenue Bonds, New Series 2018 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution (defined herein), 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 District 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, Hilltop Securities Inc., Dallas, Texas.

**DESCRIPTION OF THE DISTRICT . . .** The East Cedar Creek Fresh Water Supply District was created on June 25, 1977 by House Bill No. 2165 passed by the 65<sup>th</sup> Legislature, in 1977, as a conservation and reclamation district under Article XVI, Section 59, Texas Constitution, and has the powers of a municipal utility district under Chapter 54 of the Texas Water Code, as amended. As a municipal utility district, the District has the authority to levy ad valorem taxes to pay maintenance and operation expenses and payments under contracts, and to pay unlimited tax bonds, all subject to voter approval. The District does not have voted authority to levy ad valorem taxes or issue bonds payable from ad valorem taxes. The Board of Directors, a seven member body elected by the qualified voters of the District, is the governing body responsible for the activities of the District. The Directors serve four year staggered terms that expire in even number years. The District receives funding from various local, state and federal sources and must comply with the requirements of these funding entities. The District and its operations are subject to regulatory control by the Texas Commission on Environmental Quality ("TCEQ") pursuant to various provisions of the Texas Water Code. The District covers approximately 20 square miles.

**PLAN OF FINANCING**

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used to finance the costs of purchasing, constructing, acquiring, owning, operating, repairing, improving or extending any District works, improvements, facilities, plants, equipment and appliances with respect to the District's Utility System (the "System"), including the acquisition of land and rights-of-way therefor and to pay the costs associated with the issuance of the Bonds.

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

**Sources of Funds**

Par Amount of Bonds	\$ 3,940,000.00
Net Original Issue Discount	<u>(30,863.60)</u>
Total Sources of Funds	<u>\$3,909,136.40</u>

**Uses of Funds**

Project Fund	\$ 3,697,017.26
Costs of Issuance	145,000.00
Underwriter's Discount	47,920.64
Bond Insurance	11,964.28
Surety Policy	<u>7,234.22</u>
Total Uses of Funds	<u>\$3,909,136.40</u>

## THE BONDS

**DESCRIPTION OF THE BONDS** . . . The Bonds are dated February 1, 2018, and mature January 1 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from date of delivery and will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on January 1 and July 1 of each year, commencing January 1, 2019, 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 “Book-Entry-Only System” herein.

**AUTHORITY FOR ISSUANCE** . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including particularly Texas Water Code, Chapters 49 and 54, as amended, and Chapter 696, Acts of the 65th Legislature, Regular Session, 1977, and by the resolution adopted by the Board of Directors of the District (the “Resolution”).

**SECURITY AND SOURCE OF PAYMENT** . . . The Bonds constitute special obligations of the District payable, both as to principal and interest, solely from and, together with the Previously Issued Bonds (defined below), secured by a lien on and pledge of the Net Revenues of the System (defined below), such lien and pledge being junior and subordinate to the lien on and pledge of the Net Revenues securing the payment of Prior Lien Bonds (defined below) now outstanding. In the Resolution, the District covenants not to issue any additional obligations on a parity with the Prior Lien Bonds or create or issue evidences of indebtedness for any purpose possessing a lien on the Net Revenues of the System superior to that to be possessed by the Bonds Similarly Secured (defined below) (See “SELECTED PROVISIONS OF THE RESOLUTION” herein.)

**PRIOR LIEN BONDS AND PREVIOUSLY ISSUED BONDS** . . . The District has outstanding bonds secured by and payable from a lien on the Net Revenues of the System that is superior to the lien securing the Bonds (the “Prior Lien Bonds”), as follows:

<u>Dated Date</u>	Principal Amount <u>Outstanding</u>	<u>Issue Description</u>
11/15/2001	\$ 105,000	Utility System Revenue Refunding Bonds, Series 2001
6/15/2004	1,315,000	Utility System Revenue Refunding Bonds, Series 2004
10/15/2004	645,000	Utility System Revenue Bonds, Series 2004
1/1/2007	430,000	Utility System Revenue Bonds, Series 2007

In addition, the District, currently has outstanding bonds secured by and payable from a lien on the Net Revenues of the System that is on a parity with the lien securing the Bonds but subordinate to the lien securing the Prior Lien Bonds (the “Previously Issued Bonds” and, together with the Bonds and any Additional Bonds hereafter issued, the “Bonds Similarly Secured”), as follows:

<u>Dated Date</u>	Principal Amount <u>Outstanding</u>	<u>Issue Description</u>
1/15/2011	\$2,785,000	Utility System Revenue Refunding Bonds, New Series 2011A
10/1/2011	1,550,000	Utility System Revenue Bonds, New Series 2011B
2/15/2013	1,425,000	Utility System Revenue Bonds, New Series 2013
11/1/2015	3,095,000	Utility System Revenue Bonds, New Series 2015

Neither the Prior Lien Bonds, the Previously Issued Bonds nor the Bonds are a charge upon any other income or revenues of the District and shall never constitute an indebtedness or pledge of the general credit or taxing powers of the District. The Resolution does not create a lien or mortgage on the System, except the Net Revenues, and no judgment against the District may be enforced for payment of the Bonds by levy and execution against any property owned by the District.

As used in this Official Statement and the Resolution, the term "Net Revenues" means Revenues of the System for a stated period of time after deduction of Maintenance and Operating Expenses for such same stated period of time. The term “Revenues” means all revenues and income to result from the ownership or operation of the System (including investment income therefrom). Charges made for connection to the System, to the extent the same exceed actual cost, shall be considered as contributions in aid of construction (not Revenues); penalties for late payment shall be considered as Revenues. The term “Maintenance and Operating Expenses” means the expenses required to pay the normal expenses of operation and maintenance of the System and the District, including all salaries, labor, materials, repairs and replacements necessary for the operation and upkeep of such System. The term does not include proceeds from the levy of ad valorem taxes, depreciation, or expenditures which under standard accounting practices should be charged as capital expenditures.

**FLOW OF FUNDS** . . . In the Resolution, the District covenants and agrees with the Holders of the Bonds that all revenues derived from the operation of the System shall be kept separate and apart from other funds of the District. To that end and in accordance with the resolutions authorizing the issuance of the Prior Lien Bonds and the Previously Issued Bonds, the District further covenants and agrees that all revenues and income of every nature derived from the operation of the System shall be deposited from day to day as collected into the “System



Revenue Fund” (heretofore created and established and hereinafter called the “System Fund”) and all moneys deposited therein shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the System, as defined in Section 1 of the Resolution, or required by statute to be a first charge on and claim against the income and revenues of the System;

SECOND: To the payment of the amounts required to be deposited in the special funds or accounts created and established for the payment and security of the Prior Lien Bonds, in accordance with the resolutions authorizing the issuance thereof;

THIRD: To the payment, equally and ratably, of the amounts required to be deposited in the Interest and Sinking Fund created and established for the payment of principal of and interest on the Bonds Similarly Secured as the same becomes due and payable;

FOURTH: To the payment, equally and ratably, of the amounts required to be deposited in the Reserve Fund created and to be maintained for the benefit and security of the Bonds in accordance with the provisions of the Resolution, the reserve fund created and maintained for the benefit and security of the Previously Issued Bonds in accordance with the provisions of the resolutions authorizing the issuance thereof, and any reserve fund created and to be maintained for the benefit and security of any Additional Bonds in accordance with the provisions of any resolution relating to the issuance of Additional Bonds; and

FIFTH: Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other purpose now or hereafter permitted by law.

See “SELECTED PROVISIONS OF THE RESOLUTION - System Fund”.

**RATES AND CHARGES...** The District covenants and agrees with the holders of the Bonds:

- (a) It will at all times charge and collect for services rendered by the System rates sufficient (1) to pay all Maintenance and Operation Expenses, replacement and betterment expenses, and other costs, (2) to pay the interest on and principal of the Prior Lien Bonds and the amounts required to be deposited into the special funds created and established for the payment and security of the Prior Lien Bonds, and (3) to pay the interest on and principal of the Bonds Similarly Secured and the amounts required to be deposited into the special funds created and established for the payment and security of the Bonds Similarly Secured.
- (b) If Additional Bonds are issued, or if the System should become legally liable for any other indebtedness, the District will fix and maintain rates and collect charges for the services of the System sufficient to discharge such indebtedness.

See “SELECTED PROVISIONS OF THE RESOLUTION - Rates and Charges”

**RESERVE FUND...** In accordance with the Resolution, the District will establish and maintain a Reserve Fund for the benefit and security of the Bonds and covenants to accumulate and maintain therein an amount equal to the average annual principal and interest requirements (calculated on a Fiscal Year basis) on all Bonds then Outstanding (the “Required Reserve”). Such Reserve Fund is solely for the benefit and security of the Bonds, and no holder of Prior Lien Bonds or Previously Issued Bonds have any claim whatsoever on such Reserve Fund. The District is authorized to fund the Reserve Fund with Net Revenues of the System or other lawfully available funds of the District, the proceeds of sale of Bonds or by depositing to the credit of the Reserve Fund, to the extent permitted by law, one or more surety bonds or insurance policies issued by a company or institution having a rating of at least “AA” or its equivalent by at least one nationally recognized rating agency or service. The District will fully fund the Required Reserve on the date of the delivery of the Bonds with surety bond coverage provided by a surety bond issued by Assured Guaranty Municipal Corp. (“AGM”).

The District established a reserve fund in connection with the issuance of the Previously Issued Bonds solely for the benefit and security of the Previously Issued Bonds and fully funded the required reserve for the Previously Issued Bonds with a reserve fund surety policy issued by Assured Guaranty Municipal Corp., a New York stock insurance company, on the date of the delivery of the Previously Issued Bonds (with the exception of the District’s Utility System Revenue Bonds, New Series 2013, which fully funded its reserve fund with a reserve fund policy issued by Build America Mutual Assurance Company). The Reserve Fund is in all respects on a parity with the reserve fund for the Previously Issued Bonds (see “THE BONDS - Flow of Funds” herein). See “SELECTED PROVISIONS OF THE RESOLUTION - Reserve Fund” for more detail on the Reserve Fund and the District’s covenants relating thereto.

**DISTRICT’S RIGHT TO ISSUE ADDITIONAL BONDS...** In the Resolution, the District has retained the right to issue Additional Bonds under the following conditions:

- (1) The officer of the District then having the primary responsibility for the financial affairs of the District shall have executed a certificate stating (a) that, to the best of such officer’s knowledge and belief, the District is not then in default as to any covenant, obligation or agreement contained in any resolution or other proceeding relating to any obligations of the District payable from and secured by a lien on and pledge of the Net Revenues of the System that would materially affect the security or payment of such obligations and (b) either (i) 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 and pledge of the Net Revenues of the System 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 (ii) the application of the proceeds of sale of such obligations then being issued will cure any such deficiency.

- (2) The Additional Bonds shall be scheduled to mature or be payable as to principal on January 1 or July 1 (or both) in each year the same are to be outstanding or during the term thereof.
- (3) The District has secured a certificate or opinion of a Certified Public Accountant (the "Accountant") to the effect that the Net Earnings for the last completed Fiscal Year are at least equal to (i) 1.25 times the average annual debt service requirements for all obligations payable from and secured by a lien on and pledge of such Net Revenues of the System to be outstanding after giving effect to the issuance of the Additional Bonds then being issued, and (ii) 1.10 times the maximum annual debt service requirements for all obligations payable from and secured by a lien on and pledge of such Net Revenues of the System to be outstanding after giving effect to the issuance of the Additional Bonds then being issued. The term "Net Earnings" as used above shall mean the Revenues after deduction of Maintenance and Operating Expenses. Depreciation or expenditures which, under standard accounting practice, should be charged to capital expenditures shall not be classed as maintenance and operating expenses.

In making a determination of the Net Earnings under this Section, the Accountant may take into consideration a change in the monthly rates and charges for services and facilities afforded by the System that (i) became effective during or subsequent to the period noted above for calculating Net Earnings and (ii) has been effective for at least the last sixty (60) days prior to the last day of the month immediately preceding the month the resolution authorizing the issuance of the Additional Bonds is adopted 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 the Accountant's certification or opinion based on such a change in monthly rates and charges being in effect for the entire period covered by the Accountant's certification of opinion.

See "SELECTED PROVISIONS OF THE RESOLUTION - Issuance of Additional Bonds" for more detail on the District's authority to issue Additional Bonds.

**NO ADDITIONAL OBLIGATIONS TO BE ISSUED ON A PARITY WITH THE PRIOR LIEN BONDS; OBLIGATIONS OF INFERIOR LIEN AND PLEDGE...** In the Resolution, the District covenants not to issue any additional obligations on a parity with the Prior Lien Bonds or create or issue evidences of indebtedness for any purpose possessing a lien on the Net Revenues of the System superior to that to be possessed by the Bonds Similarly Secured. The District, however, has retained the right to create and issue evidences of indebtedness whose lien on the Net Revenues of the System shall be subordinate to that possessed by the Bonds Similarly Secured. See "SELECTED PROVISIONS OF THE RESOLUTION - No Additional Obligations to be Issued on a Parity with the Prior Lien Bonds - Obligations of Inferior Lien and Pledge".

**OPTIONAL REDEMPTION** . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after January 1, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on January 1, 2026, 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 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. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**NOTICE OF REDEMPTION** . . . Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ALL OTHER CONDITIONS TO REDEMPTION SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

**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 the Paying Agent/Registrar or authorized escrow agent in trust (1) money sufficient to make such payment or (2) Government Securities certified by an independent public accounting firm of national reputation to 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. The Resolution provides that "Government Securities" means (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, (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, and (d) any other then authorized securities or obligations that may be used to defease obligations such as the Bonds under applicable laws of the State of Texas. The District has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government 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 Government Securities or that for any other Government Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded as outstanding or unpaid. Furthermore, 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.

**AMENDMENTS...**The District may amend the Resolution without the consent of or notice to any registered owner in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Resolution; except that, without consent of the registered owners of all of the Bonds outstanding, no such amendment, addition or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by holders for consent to any such amendment, addition or rescission.

**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 The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee 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 certificate 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](http://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 Bonds 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. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is 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, Bond 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 the District takes no 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 or the Initial Purchaser.

**Effect of Termination of Book-Entry Only System** . . . In the event that the Book-Entry Only System is discontinued by DTC or the use of the Book-Entry Only System is discontinued by the District, printed bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Resolution and summarized under “The Bonds - Transfer, Exchange and Registration” below.

**PAYING AGENT/REGISTRAR.** . . The initial Paying Agent/Registrar is ZB, National Association dba Amegy Bank, Plano, 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.

Interest on the Bonds shall 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 shall be paid (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 their stated maturity or earlier redemption upon their 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 will be made as described under “THE BONDS - Book-Entry-Only System” herein. If the date for any payment on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

**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 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 “Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

**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.** . . . In the Resolution, the District covenants and agrees that in the event of default in the payment of principal or interest on any Bonds when due, or the Net Revenues of the System are not adequate to make the required transfers into the Funds established and maintained pursuant to the Resolution, or of default in the observance or performance of any other of the covenants, conditions or obligations set forth in the Resolution, the holder or holders of any of such Bonds shall be entitled to a writ of mandamus or other appropriate order issued by a court of proper jurisdiction compelling and requiring the District and the officials thereof to observe and perform any covenant, obligation or condition prescribed in the Resolution. The issuance of a writ of mandamus is controlled by equitable principles and 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 holders of the Bonds 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. On June 30, 2006, the Texas Supreme

Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the District’s sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the District for breach of the Bonds or the covenants in the Resolution. 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. 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 Net Revenues, such provision is 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 holders of the Bonds 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 Resolution and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

**INSURER'S RIGHTS UNDER THE RESOLUTION . . .** Notwithstanding the discussion of bondholder rights under the subcaption "THE BONDS - Bondholders' Remedies", so long as the bond insurance policy of AGM that secures the Bonds is in force, and AGM is not in default under the bond insurance policy, AGM shall be deemed to be the sole holder of the Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Bonds insured by it are entitled to take pursuant to the Resolution pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Paying Agent/Registrar. In addition, no modification or amendment to the Resolution may become effective except upon the District obtaining the prior written consent of AGM. See "SELECTED PROVISIONS OF THE RESOLUTION" for further description of the rights and duties of AGM, including procedures for payments under the bond insurance policy.

## **BOND INSURANCE**

### **BOND INSURANCE POLICY**

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") 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 Appendix C 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.

### **ASSURED GUARANTY MUNICIPAL CORP.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM 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 relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

### *Current Financial Strength Ratings*

On January 23, 2018, KBRA issued a financial guaranty surveillance report in which it affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On June 26, 2017, S&P issued a research update report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On August 8, 2016, Moody's published a credit opinion affirming its existing insurance financial strength rating of "A2" (stable outlook) on AGM. AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

### *Capitalization of AGM*

At December 31, 2017:

- The policyholders' surplus of AGM was approximately \$2,254 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,108 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves of AGM and its subsidiaries (as described below) were approximately \$1,657 million. Such amount includes (i) 100% of the net unearned premium reserves of AGM and AGM's wholly owned subsidiaries Assured Guaranty (Europe) plc, Assured Guaranty (UK) plc, CIFG Europe S.A. and Assured Guaranty (London) plc (together, the "AGM European Subsidiaries") and (ii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves and net unearned premium reserves of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves of the AGM European Subsidiaries were determined in accordance with accounting principles generally accepted in the United States of America.

### *Incorporation of Certain Documents by Reference*

Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

## *Miscellaneous Matters*

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM supplied by AGM and presented under the heading “BOND INSURANCE”.

### **BOND INSURANCE RISK FACTORS**

**INTRODUCTION** . . . The District has obtained a commitment from AGM to provide the Policy. The following risk factors related to municipal bond insurance policies generally apply.

**GENERAL** . . . In the event of default of the payment of principal and interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. 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 Policy, however, such payments will be made by AGM at such time and in such amounts as would have been due absent such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

Payment of principal of and interest on the Bonds is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see “The Bonds – Bondholders’ Remedies”). AGM may reserve the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the Bondholders.

In the event AGM is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds will be payable solely from the moneys received by the Paying Agent/Registrar pursuant to the Resolution. In the event AGM becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long term ratings on the Bonds will dependent in part on the financial strength of AGM and its claims-paying ability. AGM’s financial strength and claims-paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of AGM and of the ratings on the Bonds insured by AGM will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds (see “Other Information – Ratings” herein).

The obligations of AGM under the Policy would be general obligations of AGM and in an event of default by AGM, the remedies available to the Bondholders may be limited by applicable bankruptcy law or other similar laws related to insolvency. The District has not made an independent investigation into the claims-paying ability of AGM and no assurance nor representation regarding the financial strength or projected financial strength of AGM is given.

**CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS** . . . Moody’s Investor Services, Inc., S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, and Fitch Ratings (the “Rating Agencies”) have, since 2007, downgraded and/or placed on negative credit watch, the claims-paying ability and financial strength of most providers of municipal bond insurance, including AGM. Additional downgrades or negative changes in the rating outlook for all bond insurers, including AGM 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 bond insurers, including AGM. 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 AGM, particularly over the life of the Bonds.



## THE SYSTEM

The District's utility system is comprised of two water treatment plants, water storage facilities and distribution lines and two wastewater treatment plants and related collection facilities. The District serves water and sewer customers within its boundaries and outside its boundaries in the areas designated in separate certificates of convenience and necessity issued by the TCEQ.

### WATERWORKS SYSTEM

The District's source of raw water is Cedar Creek Reservoir pursuant to separate contracts with Tarrant Regional Water District ("TRWD") and the City of Trinidad, Texas ("Trinidad"). The contract with TRWD does not limit the amount of water the District may buy. The contract with Trinidad is limited to 750 acre/feet per year, but at a lesser cost. Raw water is pumped from Cedar Creek Reservoir directly to the plants with screening in place to prevent debris from entering the plants.

The District operates two conventional water treatment plants. The McKay Water Treatment Plant (WTP) provides water to customers in the southern portion of the District and the Brookshire WTP services customers in the northern sector.

The McKay WTP, located off Hwy 198 just prior to entering the Town of Enchanted Oaks, has been in operation for approximately 18 years. The McKay plant has a water treatment capacity of 1.73 million gallons per day; the highest peak capacity day recorded to date is 883,000 gallons. Two ground storage tanks and one elevated water tower provide a treated water storage capacity of 637,000 gallons.

The Brookshire WTP, located off Welch Lane in Gun Barrel City, is more than 20 years old. In 2009, the final phase of projects (funded with proceeds of previously issued bonds) to double the treatment capacity of the plant from 2.0 million gallons per day (MGD) to 4.0 MGD was completed. Upgrades to the older treatment segments of the plant, funded by District operating reserves, was completed in 2011. The highest peak capacity day on record to date is for fiscal year 2011-2012 for the Brookshire Water Treatment Plant. Once the final upgrades are completed the facility will be at full capacity of 4.0 MGD. Two ground storage tanks and one elevated water tower provide a treated water storage capacity of 1,570,000 gallons.

TCEQ has established standards for water quality and monitors performance and periodically inspects for compliance. Water quality measurement for primary measurement such as turbidity, pH and chloramines disinfection residuals are recorded continuously while other TCEQ required water quality measurements are collected, analyzed and recorded as required by TCEQ at the Brookshire and McKay plants. Both plants have met treatment compliance standards with water quality measurements meeting all major maximum contaminant level standards.

The District/Mabank sale-transfer-merger project was completed in August of 2012. The scope of this project included the sale of the City of Mabank's infrastructure which was within the city limits of Gun Barrel City, Texas, the transfer of the City of Mabank's CCN to the District and all active and un-active water customer accounts. The completion of this project added 700 active residential and commercial accounts to the District's customer base. The District is of the opinion that it has sufficient capacity at the Brookshire WTP for the additional service. The District currently provides sewer service within Gun Barrel City.

**TABLE 1 - HISTORICAL WATER CONSUMPTION (GALLONS IN THOUSANDS) <sup>(1)</sup>**

Fiscal Year Ended					Total Gallons	
	<u>Daily Average</u>	<u>Peak Day</u>	<u>Peak Month</u>	<u>Pumped</u>	<u>Water Revenue</u>	
2013	1,193	1,268	48,872	427,200	\$ 2,592,417	
2014	1,222	1,333	53,615	429,133	2,588,607	
2015	1,162	1,105	46,541	422,374	2,479,989	
2016	1,241	1,329	53,716	435,860	2,724,045	
2017	1,290	1,207	56,281	411,065	2,758,183	

(1)Source: District Staff

**TABLE 2 - TEN LARGEST WATER CUSTOMERS <sup>(1)</sup>**

<u>Customer</u>	<u>Type of Industry</u>	<u>Water Usage (Gallons)</u>	<u>% of Total Water Usage</u>	<u>Water Revenue</u>	<u>% of Total Water Revenue</u>
Express Car Wash	Carwash	3,277,200	1.02%	\$ 13,809	0.56%
Silverleaf Irrigation	Healthcare	2,865,600	0.90%	12,261	0.49%
Wal-Mart Stores	Retail	2,575,500	0.81%	12,619	0.51%
LaQuinta Inn & Suites	Hospitality	1,593,700	0.50%	7,479	0.30%
Hootin Holler	Retail	1,322,700	0.41%	6,460	0.26%
Jalapeno Tree Mexican	Restaurant	1,160,600	0.36%	5,215	0.21%
Dakai Ye China Café Restaurant	Restaurant	967,000	0.30%	4,390	0.18%
Harbour Light Marina	Retail	928,100	0.29%	4,140	0.17%
Denny's	Restaurant	862,500	0.27%	4,131	0.17%
Jack in the Box	Restaurant	850,800	0.27%	3,688	0.15%
		<u>16,403,700</u>	<u>5.13%</u>	<u>\$ 74,192</u>	<u>3.00%</u>

Source: The District.  
 (1) Fiscal Year 2017

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**TABLE 3 - MONTHLY WATER RATES**

New Rates (Effective 4/1/17)							
Meter Size	Base Charge		Cost per 1,000 gallons for 0 to 3,000 gallons		Cost per 1,000 gallons for 3,001 to 10,000 gallons		Cost per 1,000 gallons for over 10,000 gallons
5/8"	\$ 19.26		\$ 3.86		\$ 4.11		\$ 4.36
5/8"	20.03	(1)	4.01	(1)	4.27	(1)	4.53
5/8"	19.65	(2)	3.94	(2)	4.19	(2)	4.45
5/8"	19.65	(3)	3.94	(3)	4.19	(3)	4.45
Residential							
3/4"	\$ 26.82		\$ 3.86		\$ 4.11		\$ 4.36
3/4"	27.89	(1)	4.01	(1)	4.27	(1)	4.53
3/4"	27.36	(2)	3.94	(2)	4.19	(2)	4.45
3/4"	27.36	(3)	3.94	(3)	4.19	(3)	4.45
Commercial							
3/4"	\$ 26.82		\$ 3.86		\$ 3.86		\$ 3.86
3/4"	27.89	(1)	4.01	(1)	4.01	(1)	4.01
3/4"	27.36	(2)	3.94	(2)	3.94	(2)	3.94
3/4"	27.36	(3)	3.94	(3)	3.94	(3)	3.94
1"	\$ 41.89		\$ 3.86		\$ 3.86		\$ 3.86
1 1/2"	79.63		3.86		3.86		3.86
2"	124.90		3.86		3.86		3.86
3"	245.62		3.86		3.86		3.86
4"	341.41		3.86		3.86		3.86

Old Rates (Effective 4/1/16)							
Meter Size	Base Charge		Cost per 1,000 gallons for 0 to 3,000 gallons		Cost per 1,000 gallons for 3,001 to 10,000 gallons		Cost per 1,000 gallons for over 10,000 gallons
5/8"	\$ 18.26		\$ 3.76		\$ 4.01		\$ 4.26
5/8"	18.99	(1)	3.91	(1)	4.17	(1)	4.43
5/8"	18.63	(2)	3.84	(2)	4.09	(2)	4.35
5/8"	18.63	(3)	3.84	(3)	4.09	(3)	4.35
Residential							
3/4"	\$ 25.82		\$ 3.76		\$ 4.01		\$ 4.26
3/4"	26.85	(1)	3.91	(1)	4.17	(1)	4.43
3/4"	26.34	(2)	3.84	(2)	4.09	(2)	4.35
3/4"	26.34	(3)	3.84	(3)	4.09	(3)	4.35
Commercial							
3/4"	\$ 25.82		\$ 3.76		\$ 3.76		\$ 3.76
3/4"	26.85	(1)	3.91	(1)	3.91	(1)	3.91
3/4"	26.34	(2)	3.84	(2)	3.84	(2)	3.84
3/4"	26.34	(3)	3.84	(3)	3.84	(3)	3.84
1"	\$ 40.89		\$ 3.76		\$ 3.76		\$ 3.76
1 1/2"	78.63		3.76		3.76		3.76
2"	123.90		3.76		3.76		3.76
3"	244.62		3.76		3.76		3.76
4"	340.41		3.76		3.76		3.76

Source: The District.

- (1) Payne Springs residential and commercial customer use rate code includes a 4% fee assessed by the City of Payne Springs.
- (2) Enchanted Oaks residential and commercial customer use rate code includes a 2% fee assessed by the Town of Enchanted Oaks.
- (3) Gun Barrel City residential and commercial customer use rate code includes a 2% fee assessed by the City of Gun Barrel City.

## Wastewater System

The District operates two wastewater treatment plants (WWTP). The South WWTP is located along the east side of Hwy 198 just north of the entrance to the Town of Enchanted Oaks, and serves the southern area of the District. The North WWTP is located in an unincorporated area on Hammer Road, just off Welch Lane in Gun Barrel City and serves the District's northern sector.

The South WWTP is approximately twenty years old, with a permitted capacity of 197,000 gallons per day or 0.197 million gallons per day (MGD) as stated within the permit. Less than one-third of the plant's capacity is used daily.

The South WWTP sits on a 178-acre tract with 138 acres dedicated toward water irrigation from the plant. Treated water effluent from the plant is processed to a large holding pond and then utilized as irrigation source water. The residual sludge is processed for disposal to a sanitary landfill.

The District has contracted out cutting, baling, and selling of hay for the plant's irrigated acreage. The District expects to clear about \$15,000 in revenue from hay sales for the current growing season. These funds are deposited in the District's general fund account and used to cover other operating expenses of the District.

The North WWTP was built in 1979 with a treatment capacity of 0.626 MGD with a surge capacity of 1.3 MGD for a period not to exceed two hours. Since 1979, the plant has undergone a series of upgrades with an aggregate cost exceeding \$1.5 million. With these upgrades, the District is now permitted for a treatment capacity of 0.750 MGD which will satisfy District needs for at least another 10 years. The new permit imposes more challenges to the treatment process due new and more stringent water quality discharge limits. The major portion of the upgrade cost was due to the need to construct a 1-MGD tertiary clarifier to treat and reduce phosphorous limits to a 1 part per million or less prior to discharging effluent from the treatment facility directly to Cedar Creek Lake.

**TABLE 4 – WASTEWATER USAGE (GALLONS IN THOUSANDS)**

Calendar Year End	Daily Average	Monthly Average	Total Usage	Total Revenue
2013	403	11,576	138,906	\$ 2,273,562
2014	371	11,226	134,721	2,297,334
2015	430	13,073	158,877	2,285,134
2016	497	16,139	193,684	2,413,305
2017	517	15,754	189,050	2,424,848

Source: The District.

**TABLE 5 - TEN LARGEST WASTEWATER CUSTOMERS <sup>(1)</sup>**

Customer	Type of Industry	Wastewater Usage (Gallons)	% of Total Wastewater Usage	Wastewater Revenue	% of Total Wastewater Revenue
Express Car Wash	Carwash	3,277,200	1.36%	\$ 15,868	0.69%
Wal-Mart	Department Store	2,575,500	1.07%	15,198	0.61%
LaQuinta Inn	Hospitality	1,593,700	0.55%	8,881	0.39%
Hootin Holler	Retail	1,322,700	0.66%	7,757	0.34%
Jalapeno Tree Mexican	Restaurant	1,160,600	0.48%	5,262	0.23%
China Café	Restaurant	967,000	0.40%	4,459	0.20%
Denny's	Restaurant	862,500	0.36%	4,130	0.18%
Waxahachie Express Wash	Retail	845,300	0.35%	5,775	0.25%
Chili's	Restaurant	821,200	0.34%	5,675	0.25%
Eagle Inn	Hospitality	813,900	0.34%	4,474	0.20%
		<u>14,239,600</u>	<u>5.90%</u>	<u>\$ 77,479.74</u>	<u>3.34%</u>

Source: The District.

(1) Fiscal Year 2017.

**TABLE 6 - MONTHLY SEWER RATES**

New Rates (Effective 4/1/17)			
Meter Size	Base Charge		Cost per 1,000 gallons
5/8"	\$26.44	\$	4.15
5/8"	27.50		4.32 <sup>(1)</sup>
5/8"	26.97		4.23 <sup>(2)</sup>
5/8"	27.23		4.27 <sup>(3)</sup>
3/4"	\$38.12	\$	4.15
3/4"	39.64		4.32 <sup>(1)</sup>
3/4"	38.88		4.23 <sup>(2)</sup>
3/4"	39.26		4.27 <sup>(3)</sup>
1"	\$61.48	\$	4.15
1 1/2"	\$119.87		4.15
2"	\$189.95		4.15
3"	\$376.81		4.15
4"	\$587.04		4.15

Old Rates (Effective 4/1/16)			
Meter Size	Base Charge		Cost per 1,000 gallons
5/8"	\$25.44	\$	4.15
5/8"	26.46		4.32 <sup>(1)</sup>
5/8"	25.95		4.23 <sup>(2)</sup>
5/8"	26.20		4.27 <sup>(3)</sup>
3/4"	\$37.12	\$	4.15
3/4"	38.60		4.32 <sup>(1)</sup>
3/4"	37.86		4.23 <sup>(2)</sup>
3/4"	38.23		4.27 <sup>(3)</sup>
1"	\$60.48	\$	4.15
1 1/2"	\$118.87		4.15
2"	\$188.95		4.15
3"	\$375.81		4.15
4"	\$586.04		4.15

Source: The District.

- (1) Payne Springs residential customer use rate code includes a 4% fee assessed by the City of Payne Springs.
- (2) Enchanted Oaks residential customer use rate code includes a 2% fee assessed by the Town of Enchanted Oaks.
- (3) Gun Barrel City residential customer use rate code includes a 3% fee assessed by the City of Gun Barrel City.

**DEBT INFORMATION**

**TABLE 7 - UTILITY SYSTEM REVENUE DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending 31-Mar	Outstanding Prior Lien Debt Service <sup>(1)</sup>			Outstanding New Series Debt Service			The New Series 2018 Bonds			Total Utility System Debt Service	% of Principal Retired
	Principal	Interest	Total D/S	Principal	Interest	Total D/S	Principal	Interest	Total D/S		
	2018	\$ 520,000	\$ 116,370	\$ 636,370	\$ 665,000	\$ 334,756	\$ 999,756	\$ -	\$ -		
2019	455,000	96,156	551,156	775,000	309,531	1,084,531	-	100,576	100,576	1,736,264	
2020	415,000	78,406	493,406	720,000	278,681	998,681	15,000	129,313	144,313	1,636,400	
2021	470,000	62,366	532,366	690,000	252,131	942,131	30,000	128,563	158,563	1,633,060	
2022	475,000	44,006	519,006	730,000	226,463	956,463	30,000	127,063	157,063	1,632,531	36.36%
2023	135,000	25,379	160,379	785,000	198,263	983,263	185,000	125,563	310,563	1,454,204	
2024	145,000	20,340	165,340	815,000	169,863	984,863	195,000	116,313	311,313	1,461,515	
2025	150,000	14,918	164,918	465,000	138,781	603,781	200,000	106,563	306,563	1,075,261	
2026	150,000	9,229	159,229	400,000	124,406	524,406	210,000	101,563	311,563	995,198	
2027	50,000	2,363	52,363	415,000	112,681	527,681	215,000	96,313	311,313	891,356	63.76%
2028	50,000	788	50,788	435,000	99,581	534,581	220,000	90,938	310,938	896,306	
2029	-	-	-	450,000	85,519	535,519	230,000	84,888	314,888	850,406	
2030	-	-	-	470,000	70,969	540,969	235,000	77,988	312,988	853,956	
2031	-	-	-	490,000	55,131	545,131	240,000	70,938	310,938	856,069	
2032	-	-	-	350,000	38,631	388,631	250,000	63,738	313,738	702,369	84.52%
2033	-	-	-	365,000	27,819	392,819	260,000	55,925	315,925	708,744	
2034	-	-	-	245,000	16,250	261,250	265,000	47,800	312,800	574,050	
2035	-	-	-	255,000	8,288	263,288	275,000	39,188	314,188	577,475	
2036	-	-	-	-	-	-	285,000	30,250	315,250	315,250	
2037	-	-	-	-	-	-	295,000	20,631	315,631	315,631	98.15%
2038	-	-	-	-	-	-	305,000	10,675	315,675	315,675	100.00%
	<u>\$ 3,015,000</u>	<u>\$ 470,320</u>	<u>\$ 3,485,320</u>	<u>\$ 9,520,000</u>	<u>\$ 2,547,744</u>	<u>\$ 12,067,744</u>	<u>\$ 3,940,000</u>	<u>\$ 1,624,783</u>	<u>\$ 5,564,783</u>	<u>\$ 21,117,847</u>	

(1) The District has covenanted not to issue additional bonds on a parity with the existing Prior Lien Bonds.

**ANTICIPATED ISSUANCE OF ADDITIONAL REVENUE BONDS...**The District does not anticipate the issuance of additional System revenue debt within the next 24 months.

**EMPLOYEE BENEFITS.** . . The District does not participate in a public retirement system. The District provides a deferred compensation plan and a health insurance plan for its employees. See notes I and J in Appendix A - East Cedar Creek Fresh Water Supply District Annual Financial Report. The District has no Other Post Retirement Benefit liability within the meaning of Governmental Accounting Standards Board Statement 45.

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**FINANCIAL INFORMATION**

**TABLE 8 – PROPRIETARY FUND REVENUE AND EXPENSE HISTORY**

	Fiscal Year Ended March 31,				
	2017	2016	2015	2014	2013
<b>Revenues</b>					
Water & Sewer Service	\$ 5,184,106	\$ 5,110,083	\$ 4,754,402	\$ 4,932,766	\$ 4,851,319
Other Service Related Fees	230,725	136,071	181,056	192,809	259,710
Charges for Services	130,947	140,193	126,611	128,985	130,152
Miscellaneous	141,998	140,416	102,564	51,202	56,869
<b>Total Revenues</b>	<b>\$ 5,687,776</b>	<b>\$ 5,526,763</b>	<b>\$ 5,164,633</b>	<b>\$ 5,305,762</b>	<b>\$ 5,298,050</b>
<b>Expenses</b>					
Bulk Water Purchases	\$ 436,084	\$ 439,056	\$ 451,688	\$ 401,430	\$ 464,749
Payroll Costs	1,596,546	1,467,521	1,419,109	1,373,296	1,251,681
Professional Fees	10,455	24,409	15,986	13,751	41,140
Printing, Postage and Office Supplies	67,586	56,298	61,811	57,654	55,408
Vehicle Expense	56,483	48,963	48,818	40,546	29,438
Chemicals	201,772	190,479	197,310	103,504	131,128
Machinery & Equipment Expenses	37,789	30,677	27,114	34,072	35,558
Operating Materials & Supplies	642,671	674,351	503,537	478,078	584,210
Sludge Control	34,575	38,220	58,676	152,191	150,580
Utilities	295,054	280,792	384,251	421,313	417,337
Insurance and Bond	16,761	15,615	15,389	17,827	14,953
Travel	-	-	35	-	87
Uncollectible Accounts	-	-	-	-	-
Other Operating Expenses	119,790	113,001	133,786	164,323	137,904
Engineering Fees	1,853	6,911	3,614	-	10,255
Testing	36,925	31,340	29,595	-	26,340
<b>Total Expenses</b>	<b>\$ 3,554,344</b>	<b>\$ 3,417,633</b>	<b>\$ 3,350,719</b>	<b>\$ 3,257,985</b>	<b>\$ 3,350,768</b>
Operating Income Before Depreciation	\$ 2,133,432	\$ 2,109,130	\$ 1,813,914	\$ 2,047,777	\$ 1,947,282
Depreciation	(1,096,238)	(1,026,349)	(978,250)	(949,697)	(924,439)
Amortization	-	-	-	-	-
<b>Operating Income</b>	<b>\$ 1,037,194</b>	<b>\$ 1,082,781</b>	<b>\$ 835,664</b>	<b>\$ 1,098,080</b>	<b>\$ 1,022,843</b>
<b>Non-Operating Revenue (Expenses)</b>					
Interest Revenue	16,561	9,829	7,988	31,514	8,290
Gain on sale of asset	7,426	1,670	-	-	-
Loss on disposal of asset	-	-	(2,842)	(40,945)	(1,683)
Insurance Refund	-	-	-	-	33,204
Bond Issuance Cost	-	(120,000)	-	-	(104,900)
Insurance Proceeds	-	-	-	62,760	-
Extraordinary Income	394,666	-	-	-	-
Bond Interest Expense	(490,659)	(441,038)	(446,377)	(477,732)	(499,260)
<b>Total Non-Operating Expenses</b>	<b>\$ (72,005)</b>	<b>\$ (549,539)</b>	<b>\$ (441,231)</b>	<b>\$ (424,403)</b>	<b>\$ (564,349)</b>
Net Income (Loss)	\$ 965,189	\$ 533,242	\$ 394,433	\$ 673,677	\$ 458,494
Retained Earnings, April 1	12,258,176	11,724,934	11,330,501	10,656,824	10,863,311
Prior Period Adjustment	-	-	-	-	(664,981) <sup>(1)</sup>
<b>Retained Earnings, March 31</b>	<b>\$13,223,365</b>	<b>\$12,258,176</b>	<b>\$11,724,934</b>	<b>\$11,330,501</b>	<b>\$10,656,824</b>
Water Customers	6,416	6,398	6,367	6,340	6,293
Sewer Customers	4,916	4,862	4,820	4,797	4,753

(1) The adoption of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", which changed the accounting principles to expense bond issuance costs instead of amortizing over the life of the related bonds, resulted in a prior period adjustment of \$574,172. In addition, a second prior period adjustment in the amount of \$90,809 was recorded to reconcile inventory.

**TABLE 9 – UTILITY SYSTEM CONDENSED STATEMENT OF OPERATIONS**

	Fiscal Year Ended March 31,				
	2017	2016	2015	2014	2013
Total Operating Revenue	\$5,704,337	\$5,536,592	\$5,172,621	\$ 5,337,276	\$ 5,306,340
Total Operating Expense	3,554,344	3,417,633	3,350,719	3,257,985	3,350,768
Net Income Available for Debt Service <sup>(1)</sup>	\$2,149,993	\$2,118,959	\$1,821,902	\$ 2,079,291	\$ 1,955,572
Annual Bond Payment	\$1,627,944	\$1,542,256	\$1,521,570	\$ 1,514,879	\$ 1,484,950
Coverage (Times)	1.32	1.37	1.20	1.37	1.32

(1) Depreciation, amortization and interest expenses not included in calculation of net available for debt service.

**TABLE 10 - COVERAGE AND FUND BALANCES<sup>(1)</sup>**

Average Annual Principal and Interest Requirements (2019 to 2038)	\$	974,086
Coverage Average Annual Requirements by 3/31/2017 Net Income		2.21x
Maximum Annual Principal and Interest Requirements (2019)	\$	1,736,264
Coverage Maximum Annual Requirements by 3/31/2017 Net Income		1.24x
Average Annual Principal and Interest Requirements (2019 to 2038)	\$	974,086
Coverage Average Annual Requirements by <i>projected</i> 3/31/2018 Net Income <sup>(1)</sup>		2.60x
Maximum Annual Principal and Interest Requirements (2019)	\$	1,736,264
Coverage Maximum Annual Requirements by <i>projected</i> 3/31/2018 Net Income <sup>(1)</sup>		1.46x
Prior Lien Utility System Revenue Bonds Outstanding (2/1/2018)	\$	2,495,000
New Series Utility System Revenue Bonds Outstanding (2/1/2018)		8,855,000
The Bonds		3,940,000
Total Utility System Revenue Bonds Outstanding	\$	<u>15,290,000</u>
Interest and Sinking Fund (2/1/2018) <sup>(2)</sup>	\$	833,801
Debt Service Reserve Fund (2/1/2018) <sup>(3)</sup>	\$	32,782

(1) Fiscal Year 2018 Budgeted Net Income estimated by the District is \$2,533,080.

(2) Unaudited.

(3) The reserve fund for the Prior Lien Bonds is fully funded with a surety bond provided by Assured Guaranty Municipal Corporation ("AGM") together with cash in the amount shown above. Each respective series of Previously Issued Bonds is fully funded by surety bonds provided by AGM for the Utility System Revenue Refunding Bonds, New Series 2011A; Utility System Revenue Bonds, New Series 2011B; and Utility System Revenue Bonds, New Series 2015 and Build America Mutual for the Utility System Revenue Bonds, New Series 2013. The Reserve Fund for the Bonds will be funded by a surety bond provided by AGM as further described herein under "THE BONDS - Reserve Fund."



## FINANCIAL POLICIES

*Basis of Accounting* . . .The District's financial statements contained are prepared using the economic resources measurement focus and full accrual basis of accounting. The Proprietary Fund is used to account for operations 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.

*Budgetary Procedures* . . .Prior to the fiscal year, the governing board of the District shall adopt an operating budget for the upcoming fiscal year. The adopted budget and any subsequent amendments shall be passed and approved by a resolution of the governing board and shall be made a part of the governing board minutes. Budget amendments are required by the board only if events occur which prevent meaningful comparison of the budget to the actual results of operations. The adopted budget is not a spending limitation imposed by the board. However, the governing board may adopt rules to limit the spending authority of the district officers in relation to the budget. A comparison of the actual operating results to the adopted budget, as amended, is presented in the Supplemental section of the annual financial report.

The budget is adopted under a basis consistent with generally accepted accounting principles, except that depreciation, amortization and interest expense are not considered.

## INVESTMENTS

The District invests its investable funds in investments authorized by State 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 State 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 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 are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State 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) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, (8) certificates of deposit and share certificates (i) issued by or through an institution that either has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Insurance Fund, or are secured as to principal by obligations described in the 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; (b) 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; (c) 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 (d) the District appoints the depository institution selected under (a) above, a custodian 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; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are 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; (10) 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 (12) through (14) below, 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; and (iv) the agreement to lend securities has a term of one year or less, (11) 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, (12) 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, (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that comply with federal Securities and Exchange Commission Rule 2a-7, and (14) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. 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 in the next succeeding paragraph.

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 pay no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bear 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.

**INVESTMENT POLICIES.**...Under State 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 includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund group, 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 Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' 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 State law, District 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 investment officers of the District shall submit an investment report 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 strategy statements and (b) state law. No person may invest District funds without express written authority from the Board of Directors.

**ADDITIONAL PROVISIONS.**...Under State law the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt 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 and 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 District's designated Investment Officer; (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 11 - CURRENT INVESTMENTS**

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

Description	Market Value	Book Value
Certificate of Deposit	\$ 1,099,636	\$ 1,099,636
Checking Accounts	482,610	482,610
Money Market	1,288,378	1,288,378
Total	<u>\$ 2,870,623</u>	<u>\$ 2,870,623</u>

## SELECTED PROVISIONS OF THE RESOLUTION

Section 1: Definitions. For the purpose of the Resolution, the following definitions are provided for the Bonds authorized to be issued therein:

(a) The term “Act” means Chapters 49 and 54 of the Texas Water Code except as the same has been modified by the provisions of Chapter 696, Acts of the 65th Legislature, Regular Session, 1977.

(b) The term “Additional Bonds” means the additional revenue bonds or obligations which the District reserves the right to issue on a parity with the Bonds pursuant to the provisions of Section 19 of the Resolution, as well as any obligations issued to refund Bonds Similarly Secured.

(c) The term “Bond Counsel” means the firm of Norton Rose Fulbright US LLP, Dallas, Texas.

(d) The term “Bonds Similarly Secured” shall mean the Bonds, the Previously Issued Bonds and Additional Bonds.

(e) The term “District” means the East Cedar Creek Fresh Water Supply District.

(f) The term “Fiscal Year” means the 12-month period ending March 31 of each year, provided such Fiscal Year may be changed one time in each three-calendar-year period.

(g) The term “Government Securities” shall mean (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 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 (iv) any other then authorized securities or obligations that may be used to defease obligations such as the Bonds under applicable laws of the State of Texas.

(h) The term “Maintenance and Operating Expenses” means the expenses required to pay the normal expenses of operation and maintenance of the System and the District, including all salaries, labor, materials, repairs and replacements necessary for the operation and upkeep of such System. The term does not include proceeds from the levy of ad valorem taxes, depreciation, or expenditures which under standard accounting practices should be charged as capital expenditures.

(i) The term “Net Revenues” means Revenues of the System for a stated period of time after deduction of Maintenance and Operating Expenses for such same stated period of time.

(j) The term “Outstanding” shall mean when used in the Resolution with respect to Bonds or Bonds Similarly Secured, as of the date of determination, all Bonds theretofore issued and delivered, except:

(1) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

(2) those Bonds paid or deemed to be paid in accordance with the provisions of Section 30 of the Resolution;

and

(3) those Bonds which have been replaced pursuant to Section 29 of the Resolution.

(k) The term “Previously Issued Bonds” means the outstanding (i) “East Cedar Creek Fresh Water Supply District Utility System Revenue Refunding Bonds, New Series 2011A”, dated January 15, 2011, originally issued in the principal amount of \$6,740,000, (ii) “East Cedar Creek Fresh Water Supply District Utility System Revenue Refunding Bonds, New Series 2011B”, dated October 1, 2011, originally issued in the principal amount of \$1,760,000, (iii) “East Cedar Creek Fresh Water Supply District Utility System Revenue Bonds, New Series 2013”, dated February 15, 2013, originally issued in the principal amount of \$1,435,000, and (iv) “East Cedar Creek Fresh Water Supply District Utility System Revenue Bonds, New Series 2015”, dated November 1, 2015, originally issued in the principal amount of \$3,095,000.

(l) The term “Prior Lien Bonds” means the outstanding (i) “East Cedar Creek Fresh Water Supply District Utility System Revenue Refunding Bonds, Series 2001”, dated November 15, 2001, originally issued in the aggregate principal amount of \$5,970,000, (ii) “East Cedar Creek Fresh Water Supply District Utility System Revenue Refunding Bonds, Series 2004”, dated June 15, 2004, originally issued in the aggregate principal amount of \$5,175,000, (iii) “East Cedar Creek Fresh Water Supply District Utility System Revenue Bonds, Series 2004”, dated October 15, 2004, originally issued in the aggregate principal amount of \$1,500,000, and (iv) “East Cedar Creek Fresh

Water Supply District Utility System Revenue Bonds, Series 2007", dated January 1, 2007, originally issued in the aggregate principal amount of \$730,000.

(m) The term "Revenues" means all revenues and income to result from the ownership or operation of the System (including investment income therefrom). Charges made for connection to the System, to the extent the same exceed actual cost, shall be considered as contributions in aid of construction (not Revenues); penalties for late payment shall be considered as Revenues.

(n) The terms "Systems" or "System" means (1) all of the property and facilities owned or used by the District in connection with the storage, sale, distribution, and use of water and (2) all property and facilities owned or used by the District for the collection and treatment of sewage. Such term includes all present and future additions, extensions, improvements, replacements and enlargements.

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**SECTION 11: Pledge.** The District covenants and agrees that, subject only to the prior lien on and pledge of the Net Revenues of the System to the payment and security of the Prior Lien Bonds (including the establishment and maintenance of the special funds created for the payment and security thereof) under the terms and conditions of the resolutions and proceedings pertaining to their authorization, the Net Revenues of the System, with the exception of those in excess of the amounts required for the payment and security of the Bonds Similarly Secured, are irrevocably pledged, equally and ratably, to the payment and security of the Bonds, the Previously Issued Bonds and Additional Bonds, if issued, including the establishment and maintenance of the special funds created and established for the payment and security thereof, all as provided in the Resolution, and it is ordained that the Bonds Similarly Secured, and the interest thereon, shall constitute a lien on the Net Revenues of the System and be valid and binding without any filing or recording except for the filing of the Resolution in the records of the District.

Chapter 1208 of the Texas Government Code, as amended, applies to the issuance of the Bonds and the pledge of the revenues granted by the District under this Section of the Resolution, and such pledge is therefore 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 this Section of the Resolution is to be subject to the filing requirements of Texas Business and Commerce Code, Chapter 9, as amended, then in order to preserve to the Holders of the Bonds the perfection of the security interest in such 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 Texas Business and Commerce Code, Chapter 9, as amended, and enable a filing to perfect the security interest in such pledge to occur.

**SECTION 12: Rates and Charges.** The District covenants and agrees with the holders of the Bonds:

(a) It will at all times charge and collect for services rendered by the System rates sufficient (1) to pay all Maintenance and Operation Expenses, replacement and betterment expenses, and other costs, (2) to pay the interest on and principal of the Prior Lien Bonds and the amounts required to be deposited into the special funds created and established for the payment and security of the Prior Lien Bonds, and (3) and to pay the interest on and principal of the Bonds Similarly Secured and the amounts required to be deposited into the special funds created and established for the payment and security of the Bonds Similarly Secured.

(b) If Additional Bonds are issued, or if the System should become legally liable for any other indebtedness, the District will fix and maintain rates and collect charges for the services of the System sufficient to discharge such indebtedness.

**SECTION 13: System Fund.** The District hereby covenants and agrees with the Holders of the Bonds that all revenues derived from the operation of the System shall be kept separate and apart from other funds of the District. To that end and in accordance with the resolutions authorizing the issuance of the Prior Lien Bonds and the Previously Issued Bonds, the District further covenants and agrees that all revenues and income of every nature derived from the operation of the System shall be deposited from day to day as collected into the "System Revenue Fund" (heretofore created and established and hereinafter called the "System Fund") and all moneys deposited therein shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the System, as defined in Section 1 of the Resolution or required by statute to be a first charge on and claim against the income and revenues of the System;

SECOND: To the payment of the amounts required to be deposited in the special funds or accounts created and established for the payment and security of the Prior Lien Bonds in accordance with the resolutions authorizing the issuance thereof;

THIRD: To the payment, equally and ratably, of the amounts required to be deposited in the Interest and Sinking Fund created and established for the payment of principal of and interest on the Bonds Similarly Secured as the same becomes due and payable;

FOURTH: To the payment, equally and ratably, of the amounts required to be deposited in the Reserve Fund created and to be maintained for the benefit and security of the Bonds in accordance with the provisions of the Resolution, the reserve fund created and maintained for the benefit and security of the Previously Issued Bonds in accordance with the provisions of the resolutions authorizing their issuance, and any reserve funds created and to be maintained for the benefit and security of any Additional Bonds in accordance with the provisions of any resolution relating to the issuance of Additional Bonds; and

FIFTH: Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other purpose now or hereafter permitted by law.

SECTION 14: Interest and Sinking Fund. The following provisions shall govern the establishment, maintenance and use of the “East Cedar Creek Fresh Water Supply District New Series System Revenue Bond Interest and Sinking Fund” (the “Interest and Sinking Fund”). The District covenants that from the funds in the System Fund, the District shall pay into the Interest and Sinking Fund during each year in which any of the Bonds Similarly Secured are outstanding, an amount equal to one hundred percent (100%) of the amount required to meet the principal and interest payments falling due on or before the next interest payment, maturity or redemption date of the Bonds Similarly Secured, such payments to be made in substantially equal monthly installments. If the Net Revenues of the System in any month are then insufficient to make the required payments into the Interest and Sinking Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Interest and Sinking Fund in the next month. All moneys paid into the Interest and Sinking Fund shall be deposited in a depository bank of the District. It shall be the duty of such depository to cause money in the Interest and Sinking Fund to be transmitted to the Paying Agent/Registrar, so as to be received on or before each interest payment date, an amount which is sufficient to pay the principal of and interest on the Bonds as the same become due. In the event the amount on hand in the Interest and Sinking Fund is not sufficient for such purpose, the depository, without further order of the District, shall withdraw from the Reserve Fund an amount which is sufficient to make up the deficiency so that the full amount of principal and interest then to become due will be on hand with the Paying Agent/ Registrar. Nothing herein shall be construed as requiring the depository to use its own funds for the purpose of paying the principal of or interest on the Bonds.

SECTION 15: Reserve Fund.

The Reserve Fund shall be maintained for the benefit and security of the Bonds. All funds deposited in the Reserve Fund (excluding earnings and income derived or received from deposits or investments which may be transferred to the System Fund referenced in Section 13 of the Resolution during such periods as there is on deposit in the Reserve Fund the “Required Reserve” identified in the Resolution) shall be used solely (i) for the payment of the principal of and interest on the Bonds (whether at maturity, upon a mandatory redemption date or any interest payment date) when other funds available for such purposes are insufficient, (ii) to pay principal of and interest on the Bonds held by an insurance company, or evidenced by an instrument of assignment entitling an insurance company to payment of principal of and interest on the Bonds, as a result of payments or draws made on a surety bond or insurance policy held for the account of the Reserve Fund and such payments will result in (x) the principal of and/or interest on such Bonds to be paid and (y) the restoration and replenishment of the surety bond or insurance policy coverage representing all or a portion of the Required Reserve, and (iii) to pay, or provide for the payment of, the final principal amount of the Bonds so that the Bonds are no longer deemed to be “Outstanding” as such term is defined herein.

The amount to be accumulated in the Reserve Fund shall be equal to the average annual principal and interest requirements (calculated on a Fiscal Year basis) on all Outstanding Bonds (the “Required Reserve”). The Required Reserve shall be established and maintained with Net Revenues of the System or other lawfully available funds of the District, the proceeds of sale of Bonds or by depositing to the credit of the Reserve Fund, to the extent permitted by law, one or more surety bonds or insurance policies issued by a company or institution having a rating of at least “AA” or its equivalent by at least one nationally recognized rating agency or service. The Required Reserve is hereby found to be \$278,239.13, and such amount has been fully funded through the acquisition of surety policies, including a reserve policy issued in connection with the Bonds (the “Reserve Policy”) issued by Assured Guaranty Municipal Corp. (the “Insurer” or “AGM”).

While cash and investments in the Reserve Fund and/or coverage afforded by a surety bond or insurance policy held for the account of the Reserve Fund total not less than 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, the District covenants and agrees to cause monthly deposits to be made to the Reserve Fund on or before the 15th day of each month (beginning the month next following the month the deficiency in the Required Reserve occurred by reason of a draw on the Reserve Fund or as a result of a reduction in the market value of investments held for the account of the Reserve Fund) from Net Revenues of the System in an amount equal to either (i) 1/60th of the Required Reserve until such Required Reserve has been fully restored or (ii) the amounts to pay principal of and interest on the Bonds held by an insurance company, or evidenced by an instrument of assignment entitling an insurance company to payment of principal of and interest on the Bonds, as a result of payments or draws made on a surety bond or insurance policy held for the account of the Reserve Fund and such payments will result in (x) the principal of and/or interest on such Bonds to be paid and (y) the restoration and replenishment of the surety bond or insurance policy coverage representing all or a portion of the Required Reserve. During such time as the Reserve Fund contains the Required Reserve, the District may, at its option, withdraw all surplus cash in the Reserve Fund and deposit such surplus to the credit of the System Fund.

The District may, at its option, on any interest payment date for the Bonds, recalculate the average annual principal and interest requirements for the Bonds as of the date of such calculation and determine a new Required Reserve as of such date.

SECTION 16: Investment of Interest and Sinking Fund and Reserve Fund. Money in the Interest and Sinking Fund and Reserve Fund deposited therein pursuant to the provisions of the Resolution may be, at the option of the District, invested or reinvested from time to time in such securities or investments as provided by the Public Funds Investment Act, as amended (or such statute as may hereafter be adopted which covers the subject matter). Any obligations in which money is so invested shall be kept in escrow and shall be promptly sold and the proceeds from sale applied to the making of payments required to be made from such Funds whenever such payments are necessary to be made.

In the event the depository of such Funds shall fail to make investments as permitted by this Section or should such depository establish fees or charges for making investments which the Board consider to be unreasonable, then and in either event such money may be deposited in a trust fund account with a depository bank and arrangements made for the transfer to the bank of payment of the amount required to pay the principal of and interest on the Bonds Similarly Secured as the same become due, such transfers to be made not less than five (5) business days prior to an interest payment date.

Investment income of the Interest and Sinking Fund shall remain a part of such Fund, but the investment income of the Reserve Fund shall be transferred to the System Fund.

**SECTION 17: Deficiency or Surplus in Funds.** If in any month the District shall for any reason fail to pay into the Interest and Sinking Fund or the Reserve Fund the full amount above stipulated, an amount equivalent to such deficiency shall be set apart and paid into such Funds from the first available and unallocated revenues of the following month or months, and such payment shall be in addition to the amount hereinabove provided to be otherwise paid into such Funds during such month or months.

Any revenues in excess of those required to fully establish and maintain the funds herein referenced may be used for the redemption of Bonds Similarly Secured or may be transferred to the other funds of the District heretofore or hereafter created or retained in the System Fund used for general or special purposes permitted by law.

**SECTION 18: Security of Funds.** All special funds for which the Resolution makes provision (except any portions thereof as may be at any time properly invested) shall be secured in the manner and to the fullest extent required by the laws of Texas for the security of public funds, and such funds shall be used only for the purposes permitted by the Resolution.

**SECTION 19: Issuance of Additional Bonds.** Subject to the provisions hereinafter appearing as to conditions precedent which must be satisfied, the District reserves the right to issue, from time to time as needed, Additional Bonds payable from the Net Revenues of the System on a parity with the Bonds and the Previously Issued Bonds. Such Additional Bonds, together with the Bonds and the Previously Issued Bonds, shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System. Additional Bonds may be issued in such form and manner as now or hereafter authorized by the laws of the State of Texas for the issuance of evidences of indebtedness or other instruments, and should new methods or financing techniques be developed that differ from those now available and in normal use, the District reserves the right to employ the same in its financing arrangements provided only that the following conditions precedent for the authorization and issuance of the same are satisfied, to wit:

(1) The officer of the District then having the primary responsibility for the financial affairs of the District shall have executed a certificate stating (a) that, to the best of such officer's knowledge and belief, the District is not then in default as to any covenant, obligation or agreement contained in any resolution or other proceeding relating to any obligations of the District payable from and secured by a lien on and pledge of the Net Revenues of the System that would materially affect the security or payment of such obligations and (b) either (i) 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 and pledge of the Net Revenues of the System 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 (ii) the application of the proceeds of sale of such obligations then being issued will cure any such deficiency.

(2) The Additional Bonds shall be scheduled to mature or be payable as to principal on January 1 or July 1 (or both) in each year the same are to be outstanding or during the term thereof.

(3) The District has secured a certificate or opinion of a Certified Public Accountant (the "Accountant") to the effect that the Net Earnings for the last completed Fiscal Year are at least equal to (i) 1.25 times the average annual debt service requirements for all obligations payable from and secured by a lien on and pledge of such Net Revenues of the System to be outstanding after giving effect to the issuance of the Additional Bonds then being issued, and (ii) 1.10 times the maximum annual debt service requirements for all obligations payable from and secured by a lien on and pledge of such Net Revenues of the System to be outstanding after giving effect to the issuance of the Additional Bonds then being issued. The term "Net Earnings", as used in this Section, shall mean the Revenues after deduction of Maintenance and Operating Expenses. Depreciation or expenditures which, under standard accounting practice, should be charged to capital expenditures shall not be classed as maintenance and operating expenses.

In making a determination of the Net Earnings under this Section, the Accountant may take into consideration a change in the monthly rates and charges for services and facilities afforded by the System that (i) became effective during or subsequent to the period noted above for calculating Net Earnings and (ii) has been effective for at least sixty (60) days prior to the last day of the month immediately preceding the month the resolution authorizing the issuance of the Additional Bonds is adopted 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 the Accountant's certification or opinion based on such change in monthly rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion.

SECTION 20: Refunding Bonds. The District reserves the right to issue refunding bonds to refund all or any part of the Bonds Similarly Secured (pursuant to any law then available) upon such terms and conditions as the Board may deem to be in the best interest of the District and its inhabitants, and if less than all such Bonds Similarly Secured then outstanding are refunded, the conditions precedent prescribed (for the issuance of Additional Bonds) set forth in subparagraph (3) of Section 19 of the Resolution shall be satisfied and the Accountant's certificate or opinion, if required by subparagraph (3) of Section 19 shall give effect to the debt service of the proposed refunding bonds (and shall not give effect to the debt service of the Bonds Similarly Secured being refunded following their cancellation or provision being made for their payment).

SECTION 21: No Additional Obligations to be Issued on a Parity with the Prior Lien Bonds - Obligations of Inferior Lien and Pledge. The District will not hereafter issue any additional obligations on a parity with the Prior Lien Bonds or create or issue evidences of indebtedness for any purpose possessing a lien on the Net Revenues of the System superior to that to be possessed by the Bonds Similarly Secured. The District, however, retains the right to create and issue evidences of indebtedness whose lien on the Net Revenues of the System shall be subordinate to that possessed by the Bonds Similarly Secured.

SECTION 22: Maintenance and Operation - Insurance. The District shall maintain the System in good condition and operate the same in an efficient manner and at a reasonable cost. While any of the Bonds are outstanding, the District agrees to maintain insurance on the System for the benefit of the holder or holders of the Bonds, of a kind and in an amount which usually would be carried by private companies engaged in similar type of business. Nothing in the Resolution shall be construed as requiring the District to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as to prevent the District from doing so.

SECTION 23: Records - Accounts - Accounting Reports. The District shall keep proper books and records and accounts (separate from all other records and accounts of the District) in which complete and correct entries shall be made of all transactions relating to the System, and shall have such books audited once each year by an independent Public Accountant or Certified Public Accountant.

As soon as conveniently possible but no later than 120 days after the close of each fiscal year, the District shall have prepared a report by an independent Public Accountant or Certified Public Accountant covering the following information:

- (a) Income and Expense Statement;
- (b) Balance Sheet as of the end of the Fiscal Year;
- (c) Accountant's comment regarding the manner in which the District has complied with the requirements of the Resolution and his recommendation, if any, for any changes or improvements in the operation of the System; and
- (d) List of insurance policies in force at the end of the year, showing, as to each policy, the risk covered, the name of the insurer, and the expiration date.

SECTION 24: Special Covenants. The District further covenants as follows:

- (a) It has the lawful power to pledge the revenues supporting the Bonds and has lawfully exercised such power under the Constitution and laws of the State of Texas, and the Bonds issued under the Resolution shall be ratably secured in such manner that no one Bond shall have preference over any other Bonds or any other Bonds Similarly Secured.
- (b) Other than for the payment of the Prior Lien Bonds, the Previously Issued Bonds and the Bonds, the Net Revenues of the System have not in any manner been pledged to the payment of any debt or obligation of the System.
- (c) Except as provided in the following paragraph, while any Bonds remain Outstanding, the District will not sell or encumber the System or any substantial part thereof, and the revenues thereof will not be encumbered (except as permitted in Sections 19 and 20) unless such encumbrance is made junior and subordinate to the lien of the Bonds.

The District specifically reserves the right to sell or otherwise dispose of all or part of the Community Water System which is outside the boundaries of the District and the net amount of money received upon such sale shall be deposited in the Interest and Sinking Fund and be used to retire Prior Lien Bonds without reducing the amounts required to be deposited in such fund under Section 14 of the Resolution unless an opinion of a nationally recognized bond counsel advises the same would cause the interest on the Prior Lien Bonds to become subject to federal income taxes in which event the money shall be deposited in the reserve fund for the Prior Lien Bonds. When the Prior Lien Bonds have been fully paid and are no longer outstanding, the District shall be authorized to use such amounts to retire Bonds Similarly Secured subject to the same conditions provided herein.

- (d) No free service of the System shall be allowed except to the offices of the District.

SECTION 25: Remedies in Event of Default. In addition to all the rights and remedies provided by law, the District further covenants and agrees that in the event of default in the payment of principal or interest on any Bonds when due, or the Net Revenues of the

System are not adequate to make the required transfers into the Funds affirmed by the Resolution, or of default in the observance or performance of any other of the covenants, conditions, or obligations set forth in the Resolution, the holder or holders of any of such Bonds shall be entitled to a writ of mandamus or other appropriate order issued by a court of proper jurisdiction compelling and requiring the District and the officials thereof to observe and perform any covenant, obligation or condition prescribed in the Resolution. No delay or omission to exercise any right or power accruing upon any default shall impair the exercise of any such right or power or be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedy herein provided shall be cumulative of all other existing remedies and the specifications of such remedy shall not be deemed to be exclusive.

**SECTION 26:** Bonds are Special Obligations. The Bonds are special obligations of the District, payable from the pledged Net Revenues of the System, and the Holders shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

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**SECTION 29:** Mutilated - Destroyed - Lost and Stolen Bonds. In case any Bond shall be mutilated, or destroyed, lost or stolen, the Paying Agent/Registrar may execute and deliver a replacement Bond of like form and tenor, and in the same denomination and bearing a number not contemporaneously outstanding, in exchange and substitution for such mutilated Bond, or in lieu of and in substitution for such destroyed, lost or stolen Bond, only upon the approval of the District and after (i) the filing by the Holder thereof with the Paying Agent/Registrar of evidence satisfactory to the Paying Agent/Registrar of the destruction, loss or theft of such Bond, and of the authenticity of the ownership thereof and (ii) the furnishing to the Paying Agent/Registrar of indemnification in an amount satisfactory to hold the District and the Paying Agent/Registrar harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond shall be borne by the Holder of the Bond mutilated, or destroyed, lost or stolen.

Every replacement Bond issued pursuant to this Section shall be a valid and binding obligation, and shall be entitled to all the benefits of the Resolution equally and ratably with all other Outstanding Bonds; notwithstanding the enforceability of payment by anyone of the destroyed, lost, or stolen Bonds.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds.

**SECTION 30:** Satisfaction of Obligation of District. If the District shall pay or cause to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner stipulated in the Resolution, then the pledge of Net Revenues under the Resolution and all covenants, agreements, and other obligations of the District to the Holders shall thereupon cease, terminate, and be discharged and satisfied.

Bonds or any principal amount(s) thereof shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such Bonds or the principal amount(s) thereof at maturity or to the redemption date therefor, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities have been certified by an independent accounting firm to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any moneys deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof and proper fees, compensation and expenses of the paying agent of the Bonds, on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. The District covenants that no deposit of moneys or Government Securities will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or regulations adopted pursuant thereto.

Upon such deposit as described above, such Bonds shall no longer be regarded as Outstanding or unpaid. Furthermore, 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.

Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, and all income from Government Securities held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such moneys have been so deposited shall be remitted to the District or deposited as directed by the District. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of and interest on the Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity or applicable redemption date of the Bonds (for which such moneys were deposited and are held in trust to pay) shall upon the request of the District be remitted to the District against a written receipt therefor. Notwithstanding the above and foregoing, any remittance of funds from the Paying Agent/Registrar to the District shall be subject to any applicable unclaimed property laws of the State of Texas.



SECTION 31: Resolution a Contract - Amendments. The Resolution shall constitute a contract with the Holders from time to time, be binding on the District, and shall not be amended or repealed by the District so long as any Bond remains Outstanding except as permitted in this Section and in Section 43 of the Resolution. The District may, without the consent of or notice to any Holders, from time to time and at any time, amend the Resolution in any manner not detrimental to the interests of the Holders or the Insurer, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, subject to Section 47 of the Resolution, the District may, with the consent of Holders holding a majority in aggregate principal amount of the Bonds then Outstanding, amend, add to, or rescind any of the provisions of the Resolution; provided that, without the consent of all Holders of Outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by Holders for consent to any such amendment, addition, or rescission.

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SECTION 32: Provisions Relating to Reserve Policy. Terms used in this Section and not otherwise defined shall have the meanings given in the Reserve Policy. The following provisions shall apply to the Reserve Policy:

(a) The District shall repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by AGM\_ and shall pay interest thereon from the date of payment by AGM at the Late Payment Rate. "Late Payment Rate" means the lesser of (x) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Bonds and (y) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as AGM shall specify. If the interest provisions of this subparagraph (a) shall result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created herein, then all sums in excess of those lawfully collectible as interest for the period in question shall, without further agreement or notice between or by any party hereto, be applied as additional interest for any later periods of time when amounts are outstanding hereunder to the extent that interest otherwise due hereunder for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess shall be applied upon principal immediately upon receipt of such moneys by AGM, with the same force and effect as if the District had specifically designated such extra sums to be so applied and AGM had agreed to accept such extra payment(s) as additional interest for such later periods. In no event shall any agreed-to or actual exaction as consideration for the indebtedness created herein exceed the limits imposed or provided by the law applicable to this transaction for the use or detention of money or for forbearance in seeking its collection.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to AGM shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to AGM on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy. The obligation to pay Policy Costs shall be secured by a valid lien on all revenues and other collateral pledged as security for the Bonds (subject only to the priority of payment provisions set forth under the Authorizing Document).

All cash and investments in the debt service reserve fund established for the Bonds (the "Reserve Fund") shall be transferred to the debt service fund for payment of debt service on Bonds before any drawing may be made on the Reserve Policy or any other credit facility credited to the Reserve Fund in lieu of cash ("Credit Facility"). Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

If the District shall fail to pay any Policy Costs in accordance with the requirements of subparagraph (a) hereof, AGM shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Authorizing Document other than (i) acceleration of the maturity of the Bonds or (ii) remedies which would adversely affect owners of the Bonds.

The Resolution shall not be discharged until all Policy Costs owing to AGM shall have been paid in full. The District's obligation to pay such amounts shall expressly survive payment in full of the Bonds.

The District shall include any Policy Costs then due and owing AGM in the calculation of the additional bonds test and the rate covenant in the Authorizing Document.

The Paying Agent/Registrar shall ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions of subparagraph (a) hereof and provide notice to AGM in accordance with the terms of the Reserve Policy at least five business days prior to each date upon which interest or principal is due on the Bonds. Where deposits are required to be made by the District to the debt service fund for the Bonds more often than semi-annually, the Paying Agent shall give notice to AGM of any failure of the District to make timely payment in full of such deposits within two business days of the date due.

**SECTION 33: Provisions Relating to Bond Insurance Policy.** The Bonds will be insured by AGM. The following provisions shall apply to the Insurance Policy (defined below), but only for so long as the Insurance Policy is in effect with respect to the Bonds:

(a) "Insurance Policy" shall be defined as follows: "the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due". The term "Insurer" or "AGM" shall include any successor thereto or assignee thereof. The term "Insured Bonds" shall mean any Bonds covered by the Insurance Policy.

(b) Subject to the provisions of Section 46 of the Resolution, the prior written consent of the Insurer shall be a condition precedent to the deposit of any credit instrument provided in lieu of a cash deposit into the Reserve Fund. Notwithstanding anything herein to the contrary and in accordance with Section 15 of the Resolution, amounts on deposit in the Reserve Fund shall be applied solely to the payment of debt service due on the Bonds; provided, however, that in the event the amount on deposit in the Reserve Fund is in excess of the Required Reserve, the District may, at its option, withdraw any excess cash in the Reserve Fund and deposit such surplus to the credit of the System Fund.

(c) So long as AGM is not in default under the Insurance Policy, the Insurer shall be deemed to be the sole holder of the Insured Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Bonds insured by it are entitled to take pursuant to the Resolution pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Paying Agent/Registrar. Remedies granted to the Holders shall expressly include mandamus. In furtherance thereof, as a term of the Resolution and each Bond and to the extent permitted by applicable law and as long as the Insurer is not in default under the Insurance Policy, the Paying Agent and each Bondholder appoint the Insurer as their agent and attorney-in-fact and agree that the Insurer may at any time during the continuation of any proceeding by or against the District under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a "Claim"), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedes or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment. In addition, the Paying Agent and each Bondholder delegate and assign to the Insurer, to the fullest extent permitted by applicable law, the rights of the Paying Agent and each Bondholder in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. Remedies granted to the Bondholders shall expressly include mandamus

(d) No grace period for a covenant default shall exceed thirty (30) days or be extended for more than sixty (60) days, without the prior written consent of the Insurer. No grace period shall be permitted for payment defaults.

(e) The Insurer is deemed to be a third party beneficiary of the Resolution.

(f) Upon the occurrence of an optional or mandatory redemption in part, the Paying Agent/Registrar shall select the Bonds to be redeemed, or principal amount thereof, to be redeemed within such Stated Maturity by lot in accordance with Section 5 of the Resolution or in a manner otherwise approved by the Insurer and on a basis consistent with the DTC rules, if applicable. The exercise of any provision of the Resolution which permits the purchase of Bonds in lieu of redemption shall require the prior written approval of the Insurer if any Bond so purchased is not cancelled upon purchase.

(g) Any amendment, supplement, modification to, or waiver of, the Resolution or any other transaction document, including any underlying security agreement (each a "Related Document"), that requires the consent of the Holders or adversely affects the rights and interests of the Insurer shall be subject to the prior written consent of the Insurer.

(h) Unless the Insurer otherwise directs, upon the occurrence and continuation of an event of default or an event with notice of lapse of time would constitute an event of default, amounts on deposit in the construction fund shall not be disbursed but shall instead be applied to the payment of debt service or redemption price of the Bonds.

(i) The rights granted to the Insurer under the Resolution or any other Related Document to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Bondholders and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Holders or any other person is required in addition to the consent of the Insurer.

(j) Only (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 and (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 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, shall be used to effect defeasance of the Bonds unless the Insurer otherwise approves.

To accomplish defeasance of the Bonds, the District shall cause to be delivered in the case of an advance refunding, (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Insurer (“Accountant”) verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date (“Verification”), (ii) an escrow deposit agreement (which shall be acceptable in form and substance to the Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer “Outstanding” under the Resolution and in the case of a current refunding and defeasance, (iv) a certificate of discharge of the Paying Agent/Registrar with respect to the Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the District, the Paying Agent/Registrar and the Insurer. The Insurer shall be provided with final drafts of the above referenced documentation not less than five Business Days prior to the funding of the escrow.

Bonds shall be deemed “Outstanding” under the Resolution unless and until they are in fact paid and retired or the above criteria are met.

(k) Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of the Resolution and the Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the District in accordance with the Resolution. The Resolution shall not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for.

(l) The District covenants and agrees to take such action, or to cause the Paying Agent/Registrar to take such action (including, as applicable, filing of UCC financing statements and continuations thereof), as is necessary from time to time to preserve the priority of the pledge of the Net Revenues of the System under applicable law.

(m) Claims Upon the Insurance Policy and payments by and to the Insurer.

If, on the third Business Day prior to the related scheduled interest payment date or principal payment date (“Payment Date”) there is not on deposit with the Paying Agent/Registrar, after making all transfers and deposits required under the Resolution, moneys sufficient to pay the principal of and interest on the Bonds due on such Payment Date, the Paying Agent/Registrar shall give notice to the Insurer and to its designated agent (if any) (the “Insurer’s Fiscal Agent”) by telephone or teletype of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Bonds due on such Payment Date, the Paying Agent/Registrar shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer’s Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Bonds and the amount required to pay principal of the Bonds, confirmed in writing to the Insurer and the Insurer’s Fiscal Agent (if any) by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

The Paying Agent/Registrar shall designate any portion of payment of principal on Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Insurer, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Paying Agent/Registrar’s failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the District on any Bond or the subrogation rights of the Insurer.

The Paying Agent/Registrar shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Paying Agent/Registrar.

Upon payment of a claim under the Insurance Policy, the Paying Agent/Registrar shall establish a separate special purpose trust account for the benefit of Bondholders referred to herein as the “Policy Payments Account” and over which the Paying Agent/Registrar shall have exclusive control and sole right of withdrawal. The Paying

Agent/Registrar shall receive any amount paid under the Insurance Policy in trust on behalf of Bondholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Paying Agent/Registrar to Bondholders in the same manner as principal and interest payments are to be made with respect to the Bonds under the sections hereof regarding payment of Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything herein to the contrary, the District agrees to pay to the Insurer, solely from Net Revenues, (i) a sum equal to the total of all amounts paid by the Insurer under the Insurance Policy (the "Insurer Advances"); and (ii) to the extent permitted by applicable law, interest on such Insurer Advances from the date paid by the Insurer until payment thereof in full, payable to the Insurer at the Late Payment Rate per annum (collectively, the "Insurer Reimbursement Amounts"). "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus \_\_%, and (ii) the then applicable highest rate of interest on the Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. The District hereby covenants and agrees that the Insurer Reimbursement Amounts are secured by a lien on and pledge of the Net Revenues and payable from such Net Revenues on a parity with debt service due on the Bonds.

Funds held in the Policy Payments Account shall not be invested by the Paying Agent/Registrar and may not be applied to satisfy any costs, expenses or liabilities of the Paying Agent/Registrar. Any funds remaining in the Policy Payments Account following a Bond payment date shall promptly be remitted to the Insurer.

(n) The Insurer shall, to the extent it makes any payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy. Each obligation of the District to the Insurer under the Related Documents shall survive discharge or termination of such Related Documents.

(o) To the extent permitted by law, the District shall pay or reimburse the Insurer solely from Net Revenues any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document; (ii) the pursuit of any remedies under the Resolution or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Resolution or any other Related Document whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Resolution or any other Related Document or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Resolution or any other Related Document.

(p) After payment of reasonable expenses of the Paying Agent/Registrar, the application of funds realized upon default shall be applied to the payment of expenses of the District or rebate only after the payment of past due and current debt service on the Bonds and amounts required to restore the Reserve Fund to the Required Reserve.

(q) The Insurer shall be entitled to pay principal or interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the District (as such terms are defined in the Insurance Policy), whether or not the Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.

(r) The notice address of the Insurer is: Assured Guaranty Municipal Corp., 31 West 52nd Street, New York, New York 10019, Attention: Managing Director - Surveillance, Re: Policy No. 218754-N, Telephone: (212) 826-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an event of default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

(s) The Insurer shall be provided with the following information by the District or Paying Agent/Registrar, as the case may be:

(1) Annual audited financial statements within one hundred eighty (180) days after the end of the District's fiscal year (together with a certification of the District that it is not aware of any default or event of default under the Resolution), and the District's annual budget within thirty (30) days after the approval thereof together with such other information, data or reports as the Insurer shall reasonably request from time to time;

(2) Notice of any draw upon the Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Required Reserve and (ii) withdrawals in connection with a refunding of Bonds;

(3) Notice of any default known to the Paying Agent/Registrar or District within five Business Days after knowledge thereof;

(4) Prior notice of the advance refunding or redemption of any of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(5) Notice of the resignation or removal of the Paying Agent/Registrar and the appointment of, and acceptance of duties by, any successor thereto;

(6) Notice of the commencement of any proceeding by or against the District commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(7) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Bonds;

(8) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Related Documents; and

(9) All reports, notices and correspondence to be delivered to Bondholders under the terms of the Related Documents; and

(10) All information furnished pursuant to any continuing disclosure agreement, covenant, or undertaking with respect to the Bonds, shall also be provided to the Insurer, simultaneously with the furnishing of such information.

(t) The Insurer shall have the right to receive such additional information as it may reasonably request.

(u) The District will permit the Insurer to discuss the affairs, finances and accounts of the District or any information the Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the District and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the District on any business day upon reasonable prior notice.

(v) The District shall notify the Insurer of any failure of the District to provide notices, certificates and other information under the transaction documents.

(w) Notwithstanding satisfaction of the other conditions to the issuance of Additional Bonds set forth in the Resolution, no such issuance may occur (1) if an event of default (or any event which, once all notice or grace periods have passed, would constitute an event of default) exists unless such default shall be cured upon such issuance and (2) unless the Reserve Fund is fully funded at the Required Reserve (including the proposed issue) upon the issuance of such Additional Bonds, in either case unless otherwise permitted by the Insurer.

(x) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Resolution would adversely affect the security for the Bonds or the rights of the Bondholders, the Paying Agent/Registrar shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.

(y) No contract shall be entered into or any action taken by which the rights of the Insurer or security for or sources of payment of the Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Insurer.

(z) Any interest rate exchange agreement ("Swap Agreement") entered into by the Issuer, secured by and payable from Net Revenues of the System, shall meet the following conditions: (i) the Swap Agreement must be entered into to manage interest costs related to, or a hedge against (a) assets then held, or (b) debt then outstanding, or (c) debt reasonably expected to be issued within the next twelve (12) months, and (ii) the Swap Agreement shall not contain any leverage element or multiplier component greater than 1.0x unless there is a matching hedge arrangement which effectively off-sets the exposure from any such element or component. Unless otherwise consented to in writing by the Insurer, any uninsured net settlement, breakage, or other termination amount then in effect shall be subordinate to debt service on the Bonds and on any debt on parity with the Bonds. The Issuer shall not terminate a Swap Agreement unless it demonstrates to the satisfaction of the Insurer prior to the payment of any such termination amount that such payment will not cause the Issuer to be in default under the Related Documents, including but not limited to, any monetary obligations thereunder. All counterparties or guarantors to any Swap Agreement must have a rating of at least "A-" and "A3" by Standard & Poor's ("S&P") and Moody's Investor Services ("Moody's"). If the counterparty or guarantor's rating falls below "A-" or "A3" by either S&P or Moody's, the counterparty or guarantor shall execute a credit support annex to the Swap Agreement, which credit support annex shall be acceptable to the Insurer. If the counterparty or the guarantor's long term unsecured rating falls below "Baa1" or "BBB+" by either Moody's or S&P, a replacement counterparty or guarantor, acceptable to the Insurer, shall be required.

## TAX MATTERS

**TAX EXEMPTION...** The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Bond Counsel's opinion is reproduced as Appendix B. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

For taxable years that began before January 1, 2018, interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Resolution subsequent to the issuance of the Bonds. The Resolution contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

**TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN BONDS...** The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum tax on corporations for taxable years that began before January 1, 2018, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and

casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

**QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS.** . . . Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code completely disallows any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are designated by an issuer, such as the District, as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The District will designate the Bonds as "qualified tax-exempt obligations" and will certify its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the one-hundred percent (100%) disallowance of interest expense allocable to interest on the Bonds under Section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Bonds will be reduced by twenty percent (20%) pursuant to section 291 of the Code.

## CONTINUING DISCLOSURE OF INFORMATION

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 obligated to advance funds to pay the Bonds. 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") through its Electronic Municipal Market Access ("EMMA") system.

**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 of the general type included in this Official Statement under Tables numbered 1 through 11 and in Appendix A hereto. The District will update and provide this information within six months after the end of each fiscal year ending in or after 2018.

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 Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (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 of the type described in the preceding paragraph by the required time, and 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 A 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 March 31. Accordingly, it must provide updated information by September 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

**NOTICE 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 (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.** . . The District has agreed to provide the foregoing financial and operating information only as described above. Investors may access continuing disclosure information filed with the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

**LIMITATIONS AND AMENDMENTS.** . . The District has agreed to update information and to provide notices of certain specified 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 the registered and beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement 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, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the registered and beneficial owners of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this 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 so amends the continuing disclosure agreement, it has agreed to 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 financial information and operating data so 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 the Rule.

## OTHER INFORMATION

### RATINGS

The Bonds are rated "AA", by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") by virtue of a municipal bond insurance policy to be issued by AGM concurrently with the delivery of the Bonds to the Initial Purchaser with an underlying rating of "A" by S&P. An explanation of the significance of each rating may be obtained from the company furnishing the rating. Each 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 any 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 any rating may have an adverse effect on the market price of the Bonds.

#### **LITIGATION**

In the opinion of certain District officials, the District is not a party to any litigation or other proceeding pending or to their knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition or operations of the District.

At the time of the initial delivery of the Bonds, the District will provide the Purchaser with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

#### **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 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.

#### **LEGAL OPINIONS**

The District will furnish the Purchaser a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding special obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The customary closing papers, including a certificate of the District as described under "OTHER INFORMATION - Certification of the Official Statement" will also be furnished to the Purchaser. Though it represents the Financial Advisor and investment banking firms such as the Purchaser from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Resolution. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Disclosure Counsel to the District, whose legal fees are contingent on the delivery of the Bonds.

The 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 expressly 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 from the transaction.

#### **FINANCIAL ADVISOR**

Hilltop Securities Inc. is employed as Financial Advisor (the "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. The 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 “Purchaser” or “Initial Purchaser”) to purchase the Bonds at the interest rates shown on the inside cover of this Official Statement at a price of 98.000400% of par. The Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the District to the Purchaser. The District has no control over the prices at which the Bonds are subsequently sold and the initial yields at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

**CERTIFICATION OF THE OFFICIAL STATEMENT**

At the time of payment for and delivery of the Bonds, the District will furnish the Purchaser a certificate, executed by an authorized representative of the District, acting in such person’s representative capacity, to the effect that to the best of such person’s knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in the Official Statement, and any addenda, supplement or amendment thereto, on the date of the Official Statement, on the date of sale of the 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, the 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 the 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; and (d) 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.

**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.

**MISCELLANEOUS**

The financial data and other information contained herein have been obtained from the District's 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 resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. 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.

The Resolution authorizing the issuance of the Bonds has approved the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorizes its further use in the reoffering of the Bonds by the Purchaser.

\_\_\_\_\_  
/s/ Harry McCune  
President, Board of Directors  
East Cedar Creek Fresh Water  
Supply District

ATTEST:

\_\_\_\_\_  
/s/ Joe Lomonaco  
Secretary, Board of Directors  
East Cedar Creek Fresh Water  
Supply District

**APPENDIX A**

EXCERPTS FROM THE  
EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
ANNUAL FINANCIAL REPORT  
For the Year Ended March 31, 2017

The information contained in this Appendix consists of excerpts from the East Cedar Creek Fresh Water Supply District, Annual Financial Report for the Year Ended March 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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Michael Conway, CPA  
Neil Conway, CPA

Toll Free (800) 594-7951  
Metro (903) 450-1200

**CONWAY COMPANY CPAs PC**  
**ACCOUNTANTS & ADVISORS**

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PO Box 8234  
Greenville, Texas 75404-8234

*Member*  
American Institute of CPAs  
Texas Society of CPAs

July 11, 2017

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
East Cedar Creek Fresh Water Supply District  
P.O. Box 309  
Mabank, TX 75147-0309

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities for East Cedar Creek Fresh Water Supply District ("District") as of and for the year ended March 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 opinions 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 from material misstatement.

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

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

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## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the East Cedar Creek Fresh Water Supply District as of March 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion on pages 5 - 11 to 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 opinions on the financial statements that collectively comprise the East Cedar Creek Fresh Water Supply District's financial statements. The introductory section, supplemental schedules required by the Texas Commission on Environmental Quality and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section, supplementary information required by the Texas Commission on Environmental Quality and statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2016, 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.

Respectfully submitted,

**CONWAY COMPANY CPAs, P.C.**

*Conway Company CPAs, P.C.*

July 11, 2017

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## **EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

**MARCH 31, 2017**

Within this section of the East Cedar Creek Fresh Water Supply District's ("District") annual financial report, management provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended March 31, 2017. Financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following the section.

#### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the fiscal year by \$13,223,365 (net position). The portion of net position that can be used to meet the District's on-going obligations to citizens and creditors, unrestricted net position, is \$1,622,292, or 12% of total net position.
- The District's total net position increased by \$965,189. This increase is due, in large part, to the increase in charge for services of \$159,431, or 3%, compared to the prior year.
- Net investments in capital assets totaled \$10,230,453. This amount includes property, equipment and infrastructure less related accumulated depreciation, less outstanding debt used to purchase the capital assets, plus unspent bond proceeds.
- The District's total debt decreased by (\$1,144,354), or (8%), during the current fiscal year.

#### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of two components; 1) fund financial statements, and 2) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS (continued)  
MARCH 31, 2017**

The financial statements are designed to provide readers with an overview of the District's finances, in a manner similar to a typical, private-sector business.

The District operates as a proprietary fund type and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting. The District's basic financial statements include:

- Proprietary Fund Type – Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows
- Notes to the Basic Financial Statements

The Statement of Net Position includes all of the District's assets and liabilities, with the difference between the two reported as net position. Net position is displayed in three categories:

- Net investment in capital assets
- Restricted
- Unrestricted

**Overview of the Financial Statements**

The District operates as a proprietary fund type. All proprietary fund types are accounted for on a flow of economic resources measurement focus. Under the measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statement of Net Position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

All proprietary fund types utilize the accrual basis of accounting. Under this method, revenues are recognized when earned, regardless of when received, and expenses are recognized at the time the related liabilities are incurred, regardless of when paid.

Notes to the Financial Statements – The accompanying notes to the financial statements provide information that is essential to a complete understanding of the data provided in the basic financial statements. The notes to the financial statements begin immediately following the basic financial statements.



**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS (continued)  
MARCH 31, 2017**

**Schedule of Net Position**

	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 6,994,964	\$ 7,126,733
Capital assets	20,004,163	20,404,840
Total assets	<u>26,999,127</u>	<u>27,531,573</u>
Other liabilities	1,167,043	1,520,324
Long-term liabilities	12,608,720	13,753,073
Total liabilities	<u>13,775,763</u>	<u>15,273,397</u>
Net position:		
Net investment in capital assets	10,230,454	9,771,372
Restricted	1,370,620	1,566,290
Unrestricted	1,622,292	920,514
Total net position	<u>\$ 13,223,365</u>	<u>\$ 12,258,176</u>

As noted earlier, net position may serve over time as one useful indicator of the District's financial condition. The net position of the District exceeded liabilities by \$13,223,365 as of March 31, 2017. The District's net position increased by \$965,189 or 8%.

*Net investment in capital assets*

The largest portion, \$10,230,454 or 77%, reflects the District's investment in capital assets (e.g. land, buildings, machinery and equipment, and infrastructure) less any related debt still outstanding that was issued to acquire those items. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these

*Restricted net position*

The restricted net position of \$1,370,620 or 10%, of total net position represents resources that are subject to external restriction on their use, or by enabling legislation. Restricted net position of the District is for debt obligations.

*Unrestricted net position*

Unrestricted net position of \$1,622,292 or 12%, of total net position is available to fund the District's programs to its customers and creditors.

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS (continued)  
MARCH 31, 2017**

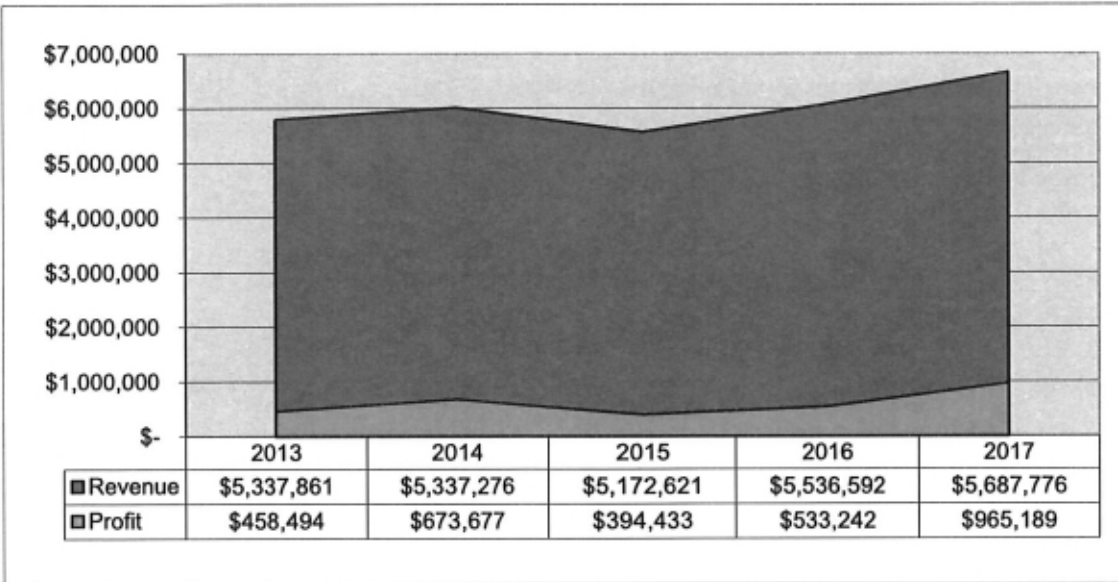
**Changes in Net Position**

	Business-type Activities		Total % Change
	2017	2016	
Revenues:			
Program Revenues:			
Charges for Services	\$ 5,545,778	\$ 5,386,347	2.96%
General Revenues:			
Miscellaneous	141,998	140,416	1.13%
<b>Total Revenues</b>	<u>5,687,776</u>	<u>5,526,763</u>	<u>2.91%</u>
Expenses:			
Program Expenses:			
Bulk Water Purchases	436,084	439,056	-0.68%
Personnel Costs	1,598,403	1,467,521	8.92%
Professional Fees	8,602	17,498	-50.84%
Printing and Office Supplies	11,964	16,238	-26.32%
Vehicle Expense	56,483	48,963	15.36%
Chemicals	201,772	190,479	5.93%
Machinery & Equipment Expense	37,789	30,677	23.18%
Operating Material & Supplies	605,746	643,011	-5.80%
Sludge Control	34,575	38,220	-9.54%
Postage	55,621	40,060	38.84%
Utilities	295,054	280,792	5.08%
Insurance & Bond	16,761	15,615	7.34%
Other Operating Expenses	156,711	151,252	3.61%
Engineering Fees	1,853	6,911	-73.19%
Testing	36,925	31,340	17.82%
Depreciation & Amortization	1,096,239	1,026,349	6.81%
<b>Total Expenses</b>	<u>4,650,581</u>	<u>4,443,982</u>	<u>4.65%</u>
Excess of Revenues over Expenses	<u>1,037,195</u>	<u>1,082,781</u>	<u>-4.21%</u>
Interest on Long-Term Debt	(490,660)	(441,038)	11.25%
Investment Income	16,561	9,829	68.49%
Gain(loss) on disposal of assets	7,426	1,670	-344.67%
Bond Issuance Costs	-	(120,000)	-100.00%
Extraordinary Income	394,666	-	-100.00%
Increase in Net Position	<u>965,189</u>	<u>533,242</u>	<u>81.00%</u>
<b>Net Position, April 1</b>	<u>12,258,176</u>	<u>11,724,934</u>	<u>4.55%</u>
<b>Net Position, March 31</b>	<u>\$ 13,223,365</u>	<u>\$ 12,258,176</u>	<u>7.87%</u>

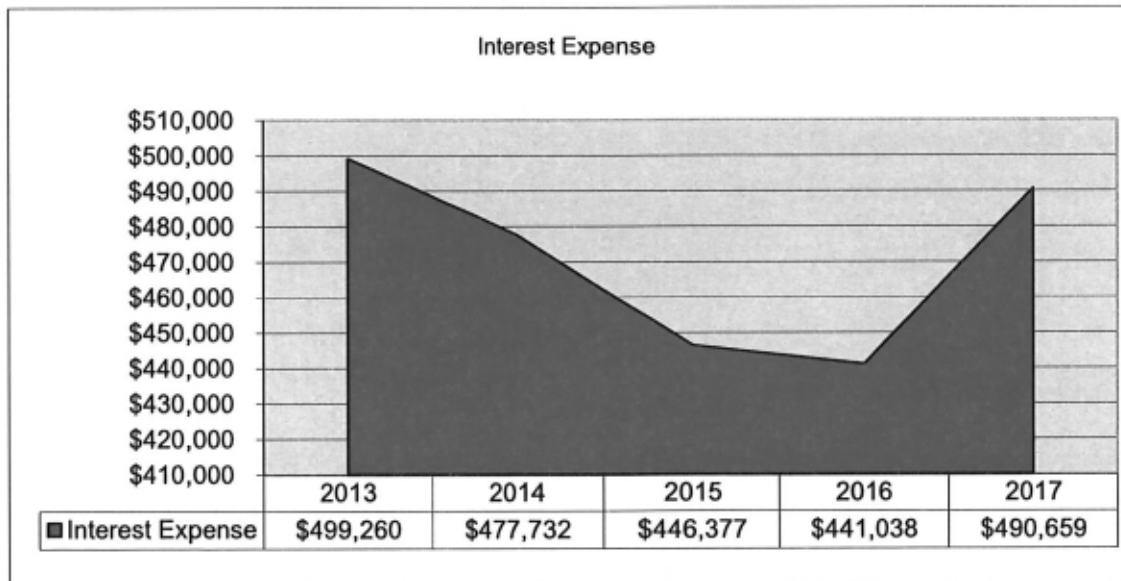
The District as a whole is primarily reliant on charges for services. Activities were 97% supported by charges for service and 3% of revenues were derived from other sources.

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
 MANAGEMENT DISCUSSION AND ANALYSIS (continued)  
 FOR THE YEARS ENDED MARCH 31, 2013 - 2017**

**REVENUES AND CHANGES IN NET POSITION**



**CHANGE IN INTEREST EXPENSE**



**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS (continued)  
MARCH 31, 2017**

**Capital assets** - The District's investment in capital assets for its business-type activities as of March 31, 2017 totals \$20,004,162, net of accumulated depreciation. This investment in capital assets includes buildings, system infrastructure, land, machinery and equipment. The total increase in investment in capital assets for the current fiscal year was 2%.

Major capital improvements on-going during the fiscal year:

- Completion of improvements to Lift Station #3, #29, and #61
- Brookshire sludge transfer piping improvement completed
- Trailer mounted generator project completed

**Capital Assets  
(net of accumulated depreciation)**

	<b>Business-type Activities</b>	
	<b>2017</b>	<b>2016</b>
	<hr/>	<hr/>
Land & Improvements	\$ 482,051	\$ 482,051
Machinery & Equipment	425,636	423,769
Buildings	752,348	212,722
Infrastructure	17,642,006	18,913,045
Construction in Progress	702,121	373,253
<b>Total</b>	<b><u>\$ 20,004,162</u></b>	<b><u>\$ 20,404,840</u></b>

More detailed information about the District's capital assets is presented in Note E to the financial statements.

**Long-term Debt** - As of March 31, 2017, the District had long-term debt outstanding of \$12,535,000. During the fiscal year, total debt decreased (\$1,144,354), or (8%).

**Outstanding Debt  
as of March 31**

	<b>Business-type Activities</b>	
	<b>2017</b>	<b>2016</b>
	<hr/>	<hr/>
Utility System Revenue Bonds	<b><u>\$ 12,535,000</u></b>	<b><u>\$ 13,679,354</u></b>

More detailed information about the District's long-term liabilities is presented in Note G to the financial statements.

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS (continued)  
MARCH 31, 2017**

**Economic Factors and Next Year's Budgets and Rates**

Although the economy is the primary factor, the District's elected officials considered many factors when setting the fiscal year 2017 budget and fees that will be charged for the business-type activities. The budgeted expenditures increased by 5%. The budgeted revenues were increased by 4%.

At the close of the 2017 fiscal year, unrestricted fund balance decreased to \$1,649,049. The District has budgeted \$5,889,100 of forecasted revenues for spending in the fiscal year 2018 budget.

**Requests for Information**

This report is designed to provide an overview of the District's finances for those with an interest in the District's finances. Questions concerning the information found in this report or requests for additional financial information should be addressed to East Cedar Creek Fresh Water Supply District, P.O. Box 309, Mabank, TX 75147-0309.



## BASIC FINANCIAL STATEMENTS





**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
STATEMENT OF NET POSITION  
MARCH 31, 2017**

	<u>Proprietary Fund</u>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 1,455,072
Restricted cash and cash equivalents	4,804,620
Receivables (net of allowance for uncollectibles)	345,555
Inventory	381,721
Prepaid expenses	80
Total Current Assets	<u>6,987,048</u>
Noncurrent Assets:	
Organization costs, net of amortization	7,916
Capital Assets (net of accumulated depreciation):	
Land	482,051
Buildings & improvements	453,343
Infrastructure	34,304,369
Machinery & equipment	971,117
Construction In progress	702,121
Less accumulated depreciation	<u>(16,908,839)</u>
Total Noncurrent Assets	<u>20,012,079</u>
<b>Total Assets</b>	<u><u>26,999,127</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	277,947
Payroll liabilities	25,706
Customer deposits-restricted assets	672,710
Accrued interest payable	116,992
Other liabilities	73,686
Total Current Liabilities	<u>1,167,042</u>
Noncurrent Liabilities:	
Due within one year:	
Compensated absences	3,149
Revenue bonds payable	1,185,000
Due in more than one year:	
Compensated absences	70,570
Revenue bonds payable	<u>11,350,000</u>
Total Noncurrent Liabilities	<u>12,608,720</u>
<b>Total Liabilities</b>	<u><u>13,775,762</u></u>
<b>NET POSITION</b>	
Net investment in capital assets	10,230,453
Restricted for:	
Debt	1,370,620
Unrestricted	<u>1,622,293</u>
<b>Total Net Position</b>	<u><u>\$ 13,223,365</u></u>

The notes to the financial statements are an integral part of this financial statement.

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET POSITION  
FOR THE YEAR ENDED MARCH 31, 2017**

	<u>Proprietary Fund</u>
<b>OPERATING REVENUES:</b>	
Charges for sales and services:	
Customer service fees	\$ 5,184,106
Other services related fees	230,725
Service charges & penalties	130,947
Other revenues	141,998
<b>Total Operating Revenues</b>	<u>5,687,776</u>
<b>OPERATING EXPENSES:</b>	
Bulk water purchases	436,085
Personnel costs	1,598,403
Professional fees	10,455
Printing and office supplies	11,964
Vehicle expenses	56,483
Chemicals	201,772
Machinery & equipment expense	37,789
Operating material & supplies	642,671
Sludge control	34,575
Postage	55,621
Utilities	295,054
Insurance	16,761
Other operating expenses	156,711
Depreciation and Amortization	1,096,238
<b>Total Operating Expenses</b>	<u>4,650,581</u>
<b>Operating Income (Loss)</b>	<u>1,037,195</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
Investment income	16,561
Gain on disposal of asset	7,426
Interest expense	(490,659)
Extraordinary income	394,666
<b>Total Non-operating Revenues (Expenses)</b>	<u>(72,005)</u>
<b>Change in Net Position</b>	965,189
<b>Net position - Beginning, April 1</b>	<u>12,258,176</u>
<b>Net position - Ending, March 31</b>	<u>\$ 13,223,365</u>

The notes to the financial statements are an integral part of this financial statement.

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED MARCH 31, 2017**

	<b>Proprietary Fund</b>
<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 5,602,876
Cash received from other sources	141,998
Cash paid to employees	(1,598,668)
Cash paid to suppliers	(2,405,219)
<b>Net Cash Provided by Operating Activities</b>	<u>1,740,986</u>
<b>Cash Flows from Non-capital Financing Activities</b>	
Amortization - organizational costs	(2,262)
<b>Net Cash Provided by Non-capital Financing Activities</b>	<u>(2,262)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Interest paid on capital debt	(490,659)
Principal payments of capital debt	(1,141,681)
Discount and premium on bonds	(2,673)
Gain(loss) on sale of assets	7,426
Acquisition and construction of capital assets	(693,287)
<b>Net Cash (Used) for Capital &amp; Related Financing Activities</b>	<u>(1,926,208)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest income	16,561
<b>Net Cash Provided by Investing Activities</b>	<u>16,561</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(170,922)
<b>Cash and Cash Equivalents at Beginning of Year</b>	6,430,615
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 6,259,692</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operation Activities:</b>	
Operating Income (Loss)	\$ 1,037,195
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and amortization	1,096,238
Changes in Assets and Liabilities:	
(Increase) Decrease in Assets:	
Receivables	55,464
Inventories	(96,880)
Increase (Decrease) in Liabilities:	
Accounts payable	(361,952)
Accrued liabilities	(266)
Customer deposits	1,634
Other liabilities	9,553
Total Adjustments	<u>703,792</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,740,986</u>

The notes to the financial statements are an integral part of this financial statement.

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Board of Directors, a seven-member body elected by qualified voters of the District, is the governing body responsible over all activities of the East Cedar Creek Fresh Water Supply District ("District") located in Henderson County. The Directors serve four years, staggered terms, that expire in even number years. The District was created on June 25, 1977 by House Bill No. 2165 passed by the 65th Legislature, in 1977, as a conservation and reclamation district under Article XVI, Section 59, Texas Constitution, and has the powers of a municipal utility district under Chapter 54 of the Texas Water Code, as amended. As a municipal utility district, the District has the authority to levy ad valorem taxes to pay maintenance and operation expenses and payments under contracts, and to pay unlimited tax bonds, all subject to voter approval. The District has not voted to levy ad valorem taxes or issue bonds payable from ad valorem taxes. The District receives funding from various local, state, and federal sources and must comply with the requirements of these funding entities. The District and its operations are subject to regulatory control by the Texas Commission on Environmental Quality pursuant to various provisions of the Texas Water Code. The District covers approximately 20 square miles.

The accounting and reporting policies of the District relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments - Auditing and Accounting Guide* and the Financial Accounting Standards Board when applicable. The more significant accounting policies of the District are described below:

**1. Reporting Entity**

The District has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by GASB in its Statement No. 14, "The Financial Reporting Entity", as amended by GASB 39, "Determining Whether Certain Organizations are Component Units" under GASB 14, component units are organizations for which the District is financially accountable and all other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. As of March 31, 2017, the District does not have any component units.

In addition, GASB Statement No. 61 considers an organization that does not meet the financial accountability criteria may be included as a component unit if management's professional judgment determines it to be necessary and misleading if omitted. This evaluation includes consideration of whether a financial benefit or burden exists in the relationship between the entities. Management has not identified any additional organizations that fit this criteria.

**2. Basis of Presentation, Basis of Accounting**

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, net position, revenue and expenses. The fund type utilized by the District is described below:

The *Proprietary Fund* is used to account for the operations of supplying water which is a self-supporting activity rendering services on a user-charge basis.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the proprietary fund include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2. Basis of Presentation, Basis of Accounting (continued)**

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Proprietary Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Proprietary fund financial statements follow the accounting set forth by GASB.

Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net position.

The proprietary funds are financed and operated in a manner similar to private business enterprise. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The District presents their financial statement utilizing only the business-type fund. The District uses the accrual basis of accounting to prepare its financial statement. Revenues are recognized in the accounting period in which they are earned and expenses are recognized when incurred to generate those revenues. The District's only operating activity is the sale of water and to provide wastewater services to its residential and commercial customers who are all located in a limited geographical region. The statements, exhibits, and supporting schedules contained in the report were prepared on the accrual basis of accounting except for the statement of cash flows which is a cash basis statement.

**3. Financial Statement Amounts**

**a. Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**b. Receivables, Inventory, and Amortization**

Trade receivables are shown net of an allowance for uncollectible.

Inventory is valued at cost using the first-in-first-out method. Inventory consists of expendable supplies held for consumption.

The costs incurred upon the creation of the District in 1977 are being amortized on a straight-line method over 40 years.

**c. Restricted Assets**

Certain proceeds of the proprietary fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

Customer deposits received for water and wastewater service are, by law, considered restricted assets.

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED MARCH 31, 2017**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

3. Financial Statement Amounts (continued)

d. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items using the consumption method.

e. Capital Assets

Capital assets, which include land, buildings, equipment, and improvements, purchased or acquired, are reported at cost. The District defines capital assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets constructed when found to be material. During the current fiscal year no interest expense was capitalized.

Management elected not to retroactively report infrastructure assets within the scope of GASB 34.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	40 years
Buildings	40 years
Vehicles and Machinery	5-15 years
Office Equipment	5-10 years
Computer Equipment	5-10 years

f. Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Regular full-time employees can accrue vacation as follows: 40 hours after one year of service, 80 hours after 2-4 years of service, 120 hours after 5-10 years and 160 hours after 10 or more years of service. Sick leave can be accumulated and carried over from year-to-year and 50% of a maximum 60 days is paid upon leaving the employment of the District.

g. Long-Term Obligations

Long-term debt consisting of bonds to be repaid from revenues of the system are included in these accounts. In all proprietary fund financial statements, outstanding debt is reported as a liability. Bond premiums and discounts are deferred and amortized over the life of the bonds on a straight-line basis. Management has compared this method to the effective interest method and found the difference between the two methods to be immaterial. Bond issuance costs are expensed during the year they are incurred.

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

3. Financial Statement Amounts (continued)

h. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, less accumulated depreciation, less the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, and plus any unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. Unrestricted net position for the proprietary fund represent the net position available for future operations or distributions. The District has net position restricted by resolution for bond reserve and interest and sinking fund accumulations.

i. Budget

Prior to the start of the fiscal year, the governing board of the District adopts an operating budget for the upcoming fiscal year. The adopted budget and any subsequent amendments are approved by a resolution of the governing board and made a part of the governing board minutes. Budget amendments are required by the board only if events occur which prevent meaningful comparison of the budget to the actual results of operations. The adopted budget is not a spending limitation imposed by the Board. However, the governing board may adopt rules to limit the spending authority of the District's officers in relation to the budget. A comparison of the actual budget, as amended, is presented in the Required Supplemental Section of this financial report. The budget is adopted under a modified accrual basis which differs from with generally accepted accounting principals.

j. Comparative Data

Comparative total data for the current year to budget have been presented in the required supplementary section of the financial statement in order to provide an understanding of budget to actual. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

k. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

l. Program Revenues

Certain revenues such as charges for services are included in program revenues.

m. Program Expenses

Certain indirect costs such as administrative costs are included in the program expense reported for individual functional activities.

**B. COMPLIANCE AND ACCOUNTABILITY**

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action taken</u>
None reported	Not applicable

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED MARCH 31, 2017**

**B. COMPLIANCE AND ACCOUNTABILITY (continued)**

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None reported	Not applicable

**C. DEPOSITS AND INVESTMENTS**

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Statutes of the Texas Water Code. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect the District's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC").

*Cash Deposits*

At March 31, 2017, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments, petty cash) was \$6,259,692 and the bank balance was \$6,073,626. The District's cash deposits at the fiscal year end and during the fiscal year, were entirely covered by FDIC or by pledged securities.

<b>Restricted Cash</b>	
Debt	\$ 4,131,910
Customer Deposits	<u>672,710</u>
	<u>\$ 4,804,620</u>

Statutes authorize the District to invest in obligations of the United States, the State of Texas, certain state agencies, certificates of deposit of state or national banks or savings and loan associations within the State. The District had a total \$1,248,335 in certificates of deposit and \$189,339 in money market accounts.

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

*Interest Rate Risk*

In order to limit interest and market rate risk from changes in interest rates, the District's adopted Investment Policy sets a weighted average days to maturity to be less than 180 days and the maximum allowable maturity shall be one year.

*Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. All of the District's cash deposits were either fully insured with FDIC or pledged security at year end.

The District recognizes over-concentration of assets by market sector or maturity as a risk to the portfolio. The District's Investment Policy establishes diversification as a major objective of the investment program and sets diversification limits for all authorized investment types which are monitored on at least a monthly basis. In the opinion of management, the District was not exposed to a significant amount of credit risk at March 31, 2017.



**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017**

**D. RECEIVABLES**

Receivables as of year end for the Proprietary fund, including the applicable allowances for uncollectible accounts, are as follows:

Receivables:	
Fees & Services	\$ 365,376
Allowance for uncollectibles	(19,821)
Net Receivables	<u>\$ 345,555</u>

**E. CAPITAL ASSETS**

Capital asset activity for the period ended March 31, 2017 was as follows:

	Beginning Balances	Additions	Decreases	Ending Balances
<b>Business-type Activities</b>				
Capital assets, not being depreciated				
Land	\$ 482,051	\$ -	\$ -	\$ 482,051
Construction in progress	373,253	328,868	-	702,121
Total capital assets, not being depreciated	<u>855,304</u>	<u>328,868</u>	<u>-</u>	<u>1,184,172</u>
Capital assets, being depreciated				
Infrastructure	33,997,062	307,307	-	34,304,369
Buildings & Improvements	446,834	6,509	-	453,343
Machinery & Equipment	951,117	50,614	(30,614)	971,117
Total assets being depreciated	<u>35,395,013</u>	<u>364,430</u>	<u>(30,614)</u>	<u>35,728,829</u>
Less accumulated depreciation for:				
Infrastructure	(15,084,017)	(6,552)	-	(15,090,569)
Buildings & Improvements	(234,112)	(965,070)	-	(1,199,182)
Machinery & Equipment	(527,348)	(122,355)	30,614	(619,089)
Total accumulated depreciation	<u>(15,845,477)</u>	<u>(1,093,976)</u>	<u>30,614</u>	<u>(16,908,839)</u>
Total capital assets, being depreciated, net	<u>19,549,536</u>	<u>(729,546)</u>	<u>-</u>	<u>18,819,990</u>
Business-type activities capital assets, net	<u>\$ 20,404,840</u>	<u>\$ (400,678)</u>	<u>\$ -</u>	<u>\$ 20,004,162</u>

Capitalized interest calculated at \$10,293, was not recorded in current fiscal year.

**F. ORGANIZATION COSTS**

The District, in accordance with requirements of the Texas Water Commission, capitalizes and charges to organizational costs for the creation period, all costs incurred in the creation of the District allowed by the statute. The District amortizes its organizational costs on a straight-line basis over forty years.

	Fees	Prior Years Amortization Expense	Current Year Amortization Expense	3/31/2017 Balance
Organization Costs	<u>\$ 90,477</u>	<u>\$ (80,298)</u>	<u>\$ (2,263)</u>	<u>\$ 7,916</u>

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017**

**G. LONG-TERM OBLIGATIONS**

	Beginning 3/31/2016	Increase	Decrease	Ending 3/31/2017	Due Within One Year
<i>Business-type Activities</i>					
<i>Water &amp; Sewer</i>					
Revenue Bonds	\$ 13,670,000	\$ -	\$ (1,135,000)	\$ 12,535,000	\$ 1,185,000
Less: Discounts	(74,166)	-	74,166	-	-
Plus: Premiums	83,520	-	(83,520)	-	-
Total Bonds Payable	13,679,354	-	(1,144,354)	12,535,000	1,185,000
Compensated Absences	73,719	51,108	(51,107)	73,720	3,149
Business-type activity					
Long-term liabilities	<u>\$ 13,753,073</u>	<u>\$ 51,108</u>	<u>\$ (1,195,461)</u>	<u>\$ 12,608,720</u>	<u>\$ 1,188,149</u>

*Changes in Business-type Long-term Debt*

<u>Revenue Bonds</u>	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding			Amounts Outstanding March 31, 2017	Due Within One Year
			March 31, 2016	Issued	Retired		
Series 2001	5.125%	\$ 5,970,000	\$ 105,000	\$ -	\$ -	\$ 105,000	\$ -
Series 2004	4.05%	5,175,000	2,130,000	-	(410,000)	1,720,000	405,000
Series 2004-A	3.05%	1,500,000	800,000	-	(75,000)	725,000	80,000
Series 2007	2.6%	730,000	500,000	-	(35,000)	465,000	35,000
Series 2011-A	2.0%	6,740,000	3,845,000	-	(605,000)	3,240,000	455,000
Series 2011-B	4.5%	1,760,000	1,760,000	-	(10,000)	1,750,000	200,000
Series 2013	3.0%	1,435,000	1,435,000	-	-	1,435,000	10,000.00
Series 2015	4.0%	3,095,000	3,095,000	-	-	3,095,000	-
Total Bonds Payable		26,405,000	13,670,000	-	(1,135,000)	12,535,000	1,185,000
Compensated Absences			73,719	51,108	(51,107)	73,720	3,149
Total Long-Term Obligations		<u>\$ 26,405,000</u>	<u>\$ 13,743,719</u>	<u>\$ 51,108</u>	<u>\$ (1,186,107)</u>	<u>\$ 12,608,720</u>	<u>\$ 1,188,149</u>

Debt service requirements are as follows:

Year Ending March 31:	Principal	Interest	Total Requirements
2018	\$ 1,185,000	\$ 451,126	\$ 1,636,126
2019	1,230,000	405,687	1,635,687
2020	1,135,000	357,087	1,492,087
2021	1,160,000	314,497	1,474,497
2022	1,205,000	270,469	1,475,469
2023-2027	3,510,000	816,226	4,326,226
2028-2032	2,245,000	350,622	2,595,622
2033-2035	865,000	52,357	917,357
Totals	<u>\$ 12,535,000</u>	<u>\$ 3,018,071</u>	<u>\$ 15,553,071</u>

A brief discussion of each bond issuance follows:

\$5,970,000 Utility System Revenue Bonds issued December 27, 2001 for the purpose of refunding Bond Series 1979 and Bond Series 1987.

\$5,175,000 Utility System Revenue Bonds issued July 15, 2004 for the purchase of refunding 1996 Bond Series.

\$1,500,000 Utility System Revenue Bonds issued November 9, 2004 for the purpose of improvements to the sewer system infrastructure.

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017**

**G. LONG-TERM OBLIGATIONS (continued)**

\$730,000 Utility System Revenue Bonds issued March 27, 2007 for the purpose of improvements to the water system infrastructure.

\$6,740,000 Utility System Revenue Bonds issued January 15, 2011 for the purpose of refunding Bond Series 1994, 1999A, and a portion of Bond Series 2001.

\$1,760,000 Utility System Revenue Bonds issued October 1, 2011 for the purpose of purchasing, constructing, acquiring, owning, operating, repairing, improving or extending any districts works, improvements facilities, plants, equipment and appliances with respect to the District's Utility System, including the acquisition of land and rights-of-way and to pay the costs associated with the issuance of the Bonds.

\$1,435,000 Utility System Revenue Bonds issued February 20, 2013 for the purpose of purchasing, constructing, acquiring, owning, operating, repairing, improving or extending any District works, improvements, facilities, plants, equipment and appliances with respect to the District's Waterworks and Sewer System, including the acquisition of land and right-of-ways and to pay the costs associated with the issuance of the 2013 Series Bonds.

\$3,095,000 Utility System Revenue Bonds issued November 1, 2015 for the purpose of purchasing, constructing, acquiring, owning, operating, repairing, improving or extending any District works, improvements, facilities, plants, equipment and appliances with respect to the District's Waterworks and Sewer System, including the acquisition of land and right-of-ways and to pay the costs associated with the issuance of the 2015 Series Bonds.

**H. DEFERRED COMPENSATION PLAN**

Plans of deferred compensation described in IRC section 457 are available for certain state and local governments and non-governmental entities tax exempt under IRC 501. Plans eligible under 457b allow employees of sponsoring organizations to defer income taxation on retirement savings into future years.

The District implemented a 457 Deferred Compensation Plan for its employees. Under Section 457b of the Internal Revenue Code, an employee may generally defer a maximum of pre-deferred taxable income of \$18,000 per year. Effective January 1, 1997, the District may elect to make loans available to participants of the Plan. An employee becomes 100% vested after five years.

The employee may withdraw assets from his/her account either upon retirement, leaving employment or severe financial hardship. The employee must begin receiving benefit payments no later than April 1 of the calendar year end he/she reaches the age of 70 1/2 or the year in which he/she retires, if later.

Payments may be paid as follows:

1. Lump sum distribution
2. Periodic payments over a specified number of years
3. Periodic payments over the determined life expectancy
4. A periodic payment of a specified amount per month or year until the account is exhausted
5. Purchase a lifetime annuity

In the event of death, the designated beneficiary is eligible to withdraw the deferred compensation plan benefit.

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017**

**H. DEFERRED COMPENSATION PLAN** (continued)

The plan is administered by ICMA/RC Retirement Corporation ("RC"). RC is a not-for-profit, independent corporation founded by public sector employees in 1972 to provide retirement plans exclusively for state and local government employees.

The Plan summary is as follows:	FYE 3/31/2016	FYE 3/31/2017
Beginning Fund Balance, April 1	\$ 587,544	\$ 636,445
Contributions	63,223	22,414
Earnings/(Loss)	(18,945)	23,678
Distributions & Fees	(71,390)	(46,092)
Ending Fund Balance, March 31	<u>\$ 560,432</u>	<u>\$ 636,445</u>

**I. HEALTH CARE COVERAGE**

During the year ended March 31, 2017, employees of the District were covered by a health insurance plan. The District pays 100% per month per employee, and 50% of the cost for dependent coverage. Employees, at their option authorized payroll withholdings to pay contributions for dependent coverage. All contributions were paid to Blue Cross Blue Shield. The Plan is authorized by article 3.51-2, Texas Insurance Code and documented by contractual agreement.

**J. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District had general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The District pays an annual premium to TML for its above coverage. The agreement for the formation of TML, provides that TML will be self-sustaining through member premiums and will reinsure through commercial insurance for claims in excess of acceptable risk levels; however each category of coverage has its own level of reinsurance. The District continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three years.

The District estimates that the amount of actual or potential claim against it as of March 31, 2017 will not materially affect the financial condition of the District. Therefore, the accompanying financial statements do not contain a provision for any such claims.

**K. LITIGATION**

The District is subject to certain legal proceedings in the normal course of operations. In the opinion of management, the aggregate liability, if any, with respect to potential legal actions will not materially adversely affect the District's financial position, results of operations, or cash flows.

**L. ENGINEERING REPORT**

There is no special provision of the bond resolutions regarding engineering reports. The engineer is available to review the operations and physical conditions of the system.

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017**

**M. WATER AND WASTEWATER SERVICES**

*Waterworks System*

The District's utility system is comprised of two water treatment plants, water storage facilities and distribution lines and two wastewater treatment plants and related collection facilities. The District serves water and sewer customers within its boundaries and outside its boundaries in the areas designated in separate certificates of convenience and necessity issued by TCEQ.

The District's source of raw water is Cedar Creek Reservoir pursuant to separate contracts with Tarrant Regional Water District ("TRWD") and the City of Trinidad, Texas. The contract with TRWD does not limit the amount of water the District may buy. The contract with the City of Trinidad, Texas is limited to 700 acre/feet per year but at a lesser cost. Raw water is pumped from Cedar Creek Reservoir directly to the plants with screening in place to prevent debris from entering the plants.

The District operates two conventional water treatment plants. The McKay Water Treatment Plant ("McKay WTP") provides water to customers in the southern portion of the District and the Brookshire Water Treatment Plant ("Brookshire WTP") services customers in the northern section.

McKay WTP, located off Hwy 198 just prior to entering the Town of Enchanted Oaks, has been in operation for approximately 18 years. The McKay WTP has a water treatment capacity of 1.73 million gallons per day. Two ground storage tanks and one elevated water tower provide a treated water storage capacity of 637,000 gallons.

Brookshire WTP, located off Welch Lane in Gun Barrel City, is more than 20 years old. Brookshire WTP has a water treatment capacity of 4.0 million gallons per day. Two ground storage tanks and one elevated water tower provide a treated water storage capacity of 1,570,000 gallons.

*Wastewater System*

The District operates two wastewater treatment plants ("WWTP"). The south WWTP is located along the east side of Hwy 198 just north of the entrance to the Town of Enchanted Oaks, and serves the southern area of the District. The north WWTP is located in an unincorporated area on Hammer Road, just off Welch Lane in Gun Barrel City and serves the District's northern sector.

The south WWTP is approximately 20 years old with a permitted capacity of 197,000 gallons per day or 0.197 million gallons per day as stated within the permit. Less than one-third of the plant's capacity is used daily. This WWTP sits on a 178-acre tract with 1.38 acres dedicated toward water irrigation from the plant. Treated water effluent from the plant is processed to a large holding pond and then utilized as irrigation source water. The residual sludge is processed for disposal to a sanitary landfill.

The District has contracted out cutting, baling, and selling of hay for the plant's irrigated acreage. The District received \$9,086 in hay sales during the current fiscal year.

The north WWTP was built in 1979 with a treatment capacity of 0.626 million gallons per day ("MGD") with a surge capacity of 1.3 MGD for a period not to exceed two hours. With upgrades over the years, the District is now permitted for a treatment capacity of 0.750 MGD which will satisfy District needs for approximately 10 years. The new permit imposes more challenges to the treatment process due to new and more stringent water quality discharge limits. The major portion of the latest upgrades was due to the need to construct a 1-MGD tertiary clarifier to treat and reduce phosphorous limits to a 1 part per million or less prior to discharging effluent from the treatment facility directly to Cedar Creek Lake.

*Additional Services*

The District collects water and sewer franchise fees for the City of Gun Barrel, Town of Enchanted Oaks, and Payne Springs. These monies are paid to the three entities once a year - City of Gun Barrel is paid in August of each year and Town of Enchanted Oaks and Paynes Springs are paid in January of each year. The District does not charge an administrative fee for this service.

**EAST CEDAR CREEK FRESH WATER SUPPLY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2017**

**N. CONSTRUCTION COMMITMENTS**

The District has several active construction projects as of March 31, 2017. The projects include water and sewer infrastructure improvements. These commitments are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Lift station upgrades	\$ 189,466	\$ 200,000
North side water infrastructure projects	205,329	2,796,902
Tamarack sewer line relocation	111,572	-
Accounting software upgrade	48,277	-
Manhole rehab	94,480	-
McKay WTP Backwash Valve Rep & Automation	-	68,000
Brookshire WTP Faulty Meter, Actuator, & Filter Tank Monitors	4,441	15,559
Total	<u>\$ 653,565</u>	<u>\$ 3,080,461</u>

**O. EXTRAORDINARY INCOME**

Management chose to write off accounts payables that had accumulated over several years. The payables relate to items that originally were open invoices. Those items have a low probability of requiring payment and occurred over the course of several years. Therefore, management will write off amounts that do not reflect recent open invoices.

**P. SUBSEQUENT EVENTS**

The District has evaluated all events or transactions that occurred after March 31, 2017 through July 11, 2017, the date the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.

**APPENDIX B**

FORM OF BOND COUNSEL'S OPINION

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[CLOSING DATE]

Norton Rose Fulbright US LLP  
2200 Ross Avenue, Suite 3600  
Dallas, Texas 75201-7932  
United States

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IN REGARD to the authorization and issuance of the “East Cedar Creek Fresh Water Supply District Utility System Revenue Bonds, New Series 2018”, dated February 1, 2018, in the principal amount of \$3,940,000 (the “Bonds”), we have examined into their issuance by the East Cedar Creek Fresh Water Supply District (the “District”) solely to express legal opinions as to the validity of the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the District, the disclosure of any financial or statistical information or data pertaining to the District and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on January 1 in each of the years specified in the resolution adopted by the Board of Directors of the District authorizing the issuance of the Bonds (the “Resolution”), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Resolution.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings of the District in connection with the issuance of the Bonds, including the Resolution, (ii) certifications and opinions of officers of the District relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the District and to certain other facts within the knowledge and control of the District, and (iii) such other documentation, including an examination of the Bond executed and delivered initially by the District (which we found to be in due form and properly executed), and such matters of law as we deem relevant to the matters discussed below. In such examinations, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies and the accuracy of the statements and information contained in such certificates.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the District and, when issued in compliance with the provisions of the Resolution, are valid, legally binding and enforceable special obligations of the District, in accordance with the terms thereof, and are payable solely from and secured by a lien on and pledge of the Net Revenues (as

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Re: East Cedar Creek Fresh Water Supply District Utility System Revenue Bonds, New Series 2018

defined in the Resolution) of the District's utility system (the "System"), such lien and pledge, however, being junior and subordinate to the lien on and pledge of such Net Revenues to the payment and security of the Prior Lien Bonds, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Resolution provides certain conditions under which the District may issue additional obligations payable from the same source and secured in the same manner as the Bonds.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the District with the provisions of the Resolution relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. For taxable years that began before January 1, 2018, interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing 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 our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

**APPENDIX C**

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, 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 Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the 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 AGM. 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 AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

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 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 AGM 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 of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount 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 or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, AGM 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 AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, 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, (a) 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 and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100



Financial Advisory Services  
Provided By

