

OFFICIAL STATEMENT

Dated: October 5, 2021

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

The Bonds **have been** designated as "Qualified Tax-Exempt Obligations" for financial institutions

\$915,000.00**TYLER COUNTY SPECIAL UTILITY DISTRICT****(a political subdivision located in Tyler County, Texas)****WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2021****Dated Date: October 15, 2021****Due: As shown on page ii**

Tyler County Special Utility District (the "District" or "Issuer") \$915,000 Water System Revenue Refunding Bonds, Series 2021 (the "Bonds") are being issued pursuant to the Constitution and laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code, as amended, and a bond resolution (the "Bond Resolution") adopted on July 20, 2021 by the Board of Directors of the District. In the Bond Resolution, the Board of Directors delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who approved a "Pricing Certificate" on October 5, 2021, which contains the final terms of sale and completed the sale of the Bonds (the Bond Resolution and the Pricing Certificate are jointly referred to herein as the "Resolution"). (See "THE BONDS - Authority for Issuance" herein.)

The Bonds are special obligations of the District payable solely from and, equally and ratably secured by a first lien on and pledge of Net Revenues (as defined in the Resolution). **The Bonds do not constitute a general obligation of the District, and the holders of the Bonds shall not have the right to demand payment thereof from any funds raised or to be raised by taxation. The District has no taxing power.** (See "THE BONDS - Security for Payment" herein.)

Interest on the Bonds will accrue from October 15, 2021 (the "Dated Date") and will be payable on March 1 and September 1 of each year commencing March 1, 2022, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered obligations in denominations of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity. 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 authorized denominations thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal 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 U.S. Bank National Association, Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company ("BAM"). (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.)

Proceeds from the sale of the Bonds will be used to refund, for debt service savings, certain outstanding debt obligations of the District (the "Refunded Obligations") (See Schedule I attached hereto) and to pay the costs related to the issuance of the Bonds and the refunding of the Refunded Obligations. (See "PLAN OF FINANCING- Purpose" herein.)

The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2033, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and if within a maturity by lot), on September 1, 2030, or any date thereafter, at the par value plus accrued interest to the date fixed for redemption. Additionally, the Bonds maturing on September 1, 2033 and September 1, 2037 are subject to the mandatory sinking fund redemption provisions, as further described herein. (See "THE BONDS - Redemption Provisions" herein.)

**STATED MATURITY SCHEDULE****(On Page ii)**

The Bonds are offered for delivery, when, as and if issued, and received by the initial purchaser named below (the "Underwriter") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas. The legal opinion of Bond Counsel will be printed on, or will accompany, the Bonds. Certain matters will be passed upon for the Underwriter by its counsel, Bracewell LLP, Houston, Texas. It is expected that the Bonds will be available for delivery through DTC on or about November 10, 2021.

SAMCO CAPITAL MARKETS

**TYLER COUNTY SPECIAL UTILITY DISTRICT
WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2021**

**MATURITY SCHEDULE
(Due September 1)**

Base CUSIP Number: 902189

\$525,000 Serial Bonds

<u>Stated Maturity ⁽¹⁾ (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate (%)</u>	<u>Initial Yield (%) ⁽²⁾</u>	<u>CUSIP Suffix ⁽³⁾</u>
2022	\$ 80,000	3.000	0.400	<u>AA7</u>
2023	80,000	3.000	0.550	<u>AB5</u>
2024	75,000	3.000	0.700	<u>AC3</u>
2025	45,000	3.000	0.900	<u>AD1</u>
2026	45,000	3.000	1.100	<u>AE9</u>
2027	50,000	3.000	1.300	<u>AF6</u>
2028	50,000	3.000	1.500	<u>AG4</u>
2029	50,000	3.000	1.650	<u>AH2</u>
2030	50,000	3.000	1.850	<u>AJ8</u>

(Interest to accrue from the Dated Date)

\$390,000 Term Bonds

\$160,000 2.125% Term Bond due 9/1/2033⁽²⁾, Price to Yield 2.350%, CUSIP Suffix AM1⁽¹⁾

\$230,000 2.500% Term Bond due 9/1/2037⁽²⁾, Price to Yield 2.600%, CUSIP Suffix AR0⁽¹⁾

(Interest to accrue from the Dated Date)

- (1) The Bonds maturing on or after September 1, 2033 are subject to redemption, in whole or in part at the option of the District, on September 1, 2030 or any date thereafter. Additionally, the Bonds maturing on September 1, 2033 and September 1, 2037 are subject to the mandatory sinking fund redemption provisions, as further described herein. (See "THE BONDS – Redemption Provisions").
- (2) The initial yields are established by and are the sole responsibility of the Underwriter and may be subsequently changed.
- (3) CUSIP is a registered trademark of the American Bankers Association. CUSIP data 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 the CUSIP Services. None of the Underwriter, the District or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement, which includes the cover page, Schedule I 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.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Bonds or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offense.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE 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.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

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 THE 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.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this official statement for any purpose.

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "Bond Insurance" and "Exhibit F - Specimen Municipal Bond Insurance Policy".

TYLER COUNTY SPECIAL UTILITY DISTRICT
12139 FM 92 Rd S.
Spurger, Texas 77660
(409) 429-3994

ELECTED OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Commenced</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Jim Boone	President	May 2020	May 2023	Retired
James Alfaro	Vice President	May 2021	May 2024	Retired
Paul Jones	Secretary	May 2021	May 2024	Retired
Brian Bell	Director	May 2021	May 2024	Retired
Keith Wilson	Director	May 2020	May 2023	Retired
Willie Gill	Director	May 2020	May 2023	Retired
Charles Horton	Director	May 2020	May 2023	Semi-Retired

ADMINISTRATION

<u>Name</u>	<u>Position</u>	<u>Years in Current Role</u>	<u>Years of Total Service</u>
Jerry Lovelady	General Manager	12	12
Kristi Strawser	Office Supervisor	9	10

CONSULTANTS AND ADVISORS

Bond Counsel	McCall, Parkhurst & Horton L.L.P. Dallas, Texas
Financial Advisor	Hilltop Securities Inc. Dallas, Texas

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TABLE OF CONTENTS

MATURITY SCHEDULE.....	ii	Build America Mutual Assurance Company	7
USE OF INFORMATION IN OFFICIAL STATEMENT	iii	BOND INSURANCE RISK FACTORS	8
ELECTED OFFICIALS	iv	General.....	8
ADMINISTRATION.....	iv	Claims-Paying Ability and Financial Strength of Municipal	
CONSULTANTS AND ADVISORS.....	iv	Bond Insurers	8
TABLE OF CONTENTS	v	BOOK-ENTRY-ONLY SYSTEM.....	9
SELECTED DATA FROM THE OFFICIAL STATEMENT.....	i	Use of Certain Terms in Other Sections of this Official	
INTRODUCTORY STATEMENT.....	1	Statement.....	10
PLAN OF FINANCING	1	INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF	
Purpose	1	THE ISSUER.....	10
Refunded Obligations	1	Current Investments	12
SOURCES AND USES OF FUNDS	1	RETIREMENT PLAN AND OTHER POST RETIREMENT	
THE BONDS	1	BENEFITS	12
General.....	1	LEGAL MATTERS	12
Authority for Issuance	2	TAX MATTERS.....	13
Security for Payment.....	2	Opinion	13
Reserve Fund	2	CONTINUING DISCLOSURE OF INFORMATION	15
Redemption Provisions	2	Annual Reports.....	15
Funds.....	3	Event Notices	16
Flow of Funds	3	Limitations and Amendments	16
Rate Covenants	4	Compliance with Prior Agreements	17
Additional Bonds.....	4	INFECTIOUS DISEASE OUTBREAK – COVID-19.....	17
Payment Record	4	OTHER PERTINENT INFORMATION	17
Legality	4	Registration and Qualification of Bonds for Sale	17
Defeasance.....	4	Litigation	17
Amendments.....	5	Legal Investments and Eligibility to Secure Public Funds in	
Default and Remedies	5	Texas.....	17
REGISTRATION, TRANSFER AND EXCHANGE.....	6	Rating	18
Paying Agent/Registrar	6	Underwriting	18
Record Date.....	6	Financial Advisor	18
Future Registration, Transfer and Exchange	6	Forward-Looking Statements Disclaimer.....	18
Replacement Bonds.....	7	AUDITED FINANCIAL STATEMENTS.....	18
BOND INSURANCE.....	7	CONCLUDING STATEMENT	18
Bond Insurance Policy	7		
Schedule of Refunded Obligations	Schedule I		
Financial Information Regarding Tyler County SUD.....	Appendix A		
General Information Regarding Tyler County SUD and Tyler County, Texas	Appendix B		
Form of Opinion of Bond Counsel	Appendix C		
The Issuer's Audited Financial Statements for the Year Ended December 31, 2020	Appendix D		
Selected Provisions of the Resolution.....	Appendix E		
Specimen Municipal Bond Insurance Policy	Appendix F		

The cover page, subsequent pages hereof, Schedule I and appendices attached hereto, are part of this Official Statement.

SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data 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 page from this Official Statement or to otherwise use it without the entire Official Statement. Capitalized terms used herein and not otherwise defined shall have the meanings assigned thereto in the Bond Resolution authorizing the issuance of the Bonds.

The Issuer	Tyler County Special Utility District (the “District” or “Issuer”) is a political subdivision of the State of Texas created and functioning as a conservation and reclamation district under Article 16, Section 59, of the Texas Constitution, pursuant to Chapter 65, as amended, of the Texas Water Code. The District serves approximately 5,715 customers within Tyler County. (See “Appendix B - General Information Regarding Tyler County Special Utility District” herein.)
The Bonds	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Chapter 1207, Texas Government Code, as amended and a bond resolution (the “Bond Resolution”) adopted on July 20, 2021 by the Board of Directors of the District (the “Board”). In the Bond Resolution, the Board of Directors delegated pricing of the Bonds and certain other matters to a “Pricing Officer” who approved a “Pricing Certificate” on October 5, 2021, which contains the final terms of sale and completed the sale of the Bonds (the Bond Resolution and the Pricing Certificate are jointly referred to herein as the “Resolution”). (See “THE BONDS - Authority for Issuance” herein.)
Payment of Interest on the Bonds	Interest on the Bonds accrues from the Dated Date to and is payable on March 1 and September 1 of each year, beginning March 1, 2022, until stated maturity or prior redemption (see “THE BONDS – Optional Redemption”).
Paying Agent/Registrar	The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas.
Security	The Bonds are special obligations of the District payable solely from and, equally and ratably secured by a first lien on and pledge of Net Revenues (as defined in the Resolution). <i>The Bonds do not constitute a general obligation of the District, and the holders of the Bonds shall not have the right to demand payment thereof from any funds raised or to be raised by taxation. The District has no taxing power.</i> (See “THE BONDS - Security for Payment” herein.)
Redemption Provisions	The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2033, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and if within a maturity by lot), on September 1, 2030, or any date thereafter, at the par value plus accrued interest to the date fixed for redemption. Additionally, the Bonds maturing on September 1, 2033 and September 1, 2037 are subject to the mandatory sinking fund redemption provisions, as further described herein. (See “THE BONDS - Redemption Provisions” herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under “TAX MATTERS” herein. (See “TAX MATTERS” and “Appendix C - Form of Legal Opinion of Bond Counsel” herein.)
Qualified Tax-Exempt Obligations	The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the District covenanted to take such action that would assure, or to refrain from such action that would adversely affect the treatment of the Bonds as “qualified tax-exempt obligations.” (See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions” herein.)
Use of Bond Proceeds	Proceeds from the sale of the Bonds are being used to refund for debt service savings certain outstanding debt obligations of the District (See Schedule I attached hereto) and to pay the costs related to the issuance of the Bonds and the refunding of the Refunded Obligations. (See “PLAN OF FINANCING- Purpose” herein.)
Book-Entry-Only System	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York described herein. No physical delivery of the Bonds will be made to the beneficial owners of the Bonds. Such Book-Entry-Only System may affect the method and timing of payments on the Bonds and the manner by which the Bonds may be transferred. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)
Municipal Bond Insurance and Municipal Bond Rating	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 Build America Mutual Assurance Company (“BAM”). (See “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS” herein.). It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), will assign a municipal bond rating of “AA” (stable outlook) to the Bonds with the

	understanding that, upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by BAM. (See "OTHER PERTINENT INFORMATION – Rating" herein.)
Payment Record	The District has never defaulted on its debt obligations.
Additional Debt	The District does not anticipate the issuance of any additional debt in the next 12 months.
Delivery	When issued, anticipated on or about November 10, 2021.
Legality	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel.

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by Tyler County Special Utility District (the "District" or "Issuer") of its \$915,000 Water System Revenue Refunding Bonds, Series 2021 (the "Bonds") identified on the cover page hereof.

Tyler County Special Utility District (the "District" or "Issuer") is a political subdivision of the State of Texas created and functioning as a conservation and reclamation district under Article 16, Section 59, of the Texas Constitution, pursuant to Chapter 65, as amended, of the Texas Water Code. The District serves approximately 5,715 customers within Tyler County. (See "Appendix B - General Information Regarding Tyler County Special Utility District" herein.)

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution (see "Appendix E – Selected Provisions of the Resolution"). Included in this Official Statement are descriptions of the Bonds and certain information about the Issuer and its finances. **ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT** (see "Appendix E – Selected Provision of the Resolution"). Copies of such documents may be obtained from the Issuer or the Financial Advisor.

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds are being used to refund for debt service savings certain outstanding debt obligations of the District (collectively, the "Refunded Obligations") (see Schedule I attached hereto) and to pay the costs related to the issuance of the Bonds and the refunding of the Refunded Obligations.

Refunded Obligations

The principal and interest due on the Refunded Bonds are to be paid on the redemption date of such Refunded Bonds, from funds to be deposited directly with the holder of the Refunded Bonds.

Hilltop Securities will execute a certificate (the "Sufficiency Certificate") certifying that the cash deposited with the holder of the Refunded Bonds will be sufficient to pay the principal of and interest on the Refunded Bonds on the redemption date.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds will be applied approximately as follows:

<u>Sources of Funds</u>	
Principal Amount	\$ 915,000.00
Accrued Interest	1,729.17
Net Premium	29,992.90
Total Sources of Funds	\$946,722.07
 <u>Uses of Funds</u>	
Payment of the Refunded Bonds	\$ 864,557.14
Deposit to Debt Service Fund	2,763.39
Costs of Issuance ⁽¹⁾	66,000.00
Underwriter's Discount	13,401.54
Total Uses of Funds	\$ 946,722.07

⁽¹⁾ Includes legal fees of the District, financial advisory fees, fees of the Paying Agent/Registrar, bond insurance premium, contingency, and other costs of issuance.

THE BONDS

General

The Bonds will be dated October 15, 2021 (the "Dated Date"). The Bonds will accrue interest from the Dated Date, and such interest is payable on March 1 and September 1 in each year, commencing on March 1, 2022, until stated maturity or prior redemption. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on page ii of this Official Statement, and such interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Interest on the Bonds is payable to the registered owner appearing on the bond registration books of the Paying Agent/Registrar on the Record Date (as defined below) and such interest shall be paid by the Paying Agent/Registrar (as defined below) (i) by check sent by United States Mail, first class postage prepaid, to the address of the registered owner recorded in the bond register or (ii)

by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at maturity or prior redemption, upon their presentation and surrender to 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 the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

The Bonds will be issued only in fully registered form 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. The Bonds will be issued in denominations of \$5,000 of principal amount or any integral thereof within a maturity. The principal of 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 laws of the State, particularly Texas Government Code, Chapter 1207, as amended, and the Resolution.

Security for Payment

The Bonds are special obligations of the District payable solely from and, equally and ratably secured by a first lien on and pledge of Net Revenues (as defined in the Resolution). ***The Bonds do not constitute a general obligation of the District, and the holders of the Bonds shall not have the right to demand payment thereof from any funds raised or to be raised by taxation. The District has no taxing power.***

Reserve Fund

As additional security for the payment of Parity Obligations, the Resolution provides for the District to maintain a Reserve Fund and accumulate and maintain therein an amount (the "Required Reserve") not less than the average annual debt service requirements for all Parity Obligations. **It is anticipated that the amount of the Required Reserve will be \$272,743 as of the Delivery Date.**

As directed by the Pricing Officer in the Pricing Certificate, the Required Reserve amount for the Bonds may be funded by the deposit to the Reserve Fund of: (i) proceeds of the Bonds on the Issuance Date and in the amount necessary to fully fund the Required Reserve as of said Issuance Date, (ii) a Credit Facility in the amount necessary to fully fund the Required Reserve as of the Issuance Date, or (iii) monthly transfers of cash in 1/36th of the amount necessary to fully fund the Required Reserve as of the Issuance Date, beginning on the 25th day of the month following the month of in which the Bonds are issued. If so funded with a Credit Facility or cash (whether at the time of delivery of the Bonds or by monthly deposits over time), a cash amount (or investments of cash) or the face value of a Credit Facility shall at least equal the Required Reserve. All funds, investments and Credit Facilities on deposit and credited to the Reserve Fund shall be used solely for (i) the payment of the principal of and interest on the Bonds, when and to the extent other funds available for such purposes are insufficient, (ii) to make Credit Facility Payments and (iii) to the extent not required to maintain the Required Reserve, 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 in the Resolution, or (iv) as provided in clause (d) below, any excess amount in the Reserve Fund may be transferred to the Revenue Fund and allocated in accordance with Section 10 of the Resolution. Subject to approval by the Board of Directors and the Attorney General of the State of Texas,, the Issuer may at any time substitute a qualifying Credit Facility for all or part of the cash or other Credit Facility on deposit in, or held for the benefit of, the Reserve Fund.

Redemption Provisions

Optional Redemption: The Bonds maturing on September 1, 2033 and thereafter are subject to redemption, at the option of the District, in whole or in part, in principal amounts of \$5,000 or any multiple thereof on any date beginning September 1, 2030 at the redemption price of par plus accrued interest. If less than all of the Bonds subject to redemption are to be redeemed, the District shall determine the amounts of each maturity or maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, within such maturity or maturities to be redeemed.

Mandatory Sinking Fund Redemption: In addition, the Term Bonds maturing September 1, 2033 and September 1, 2037 are subject to the mandatory sinking fund redemption provisions, as further described herein by the Paying Agent/Registrar by lot, or by any other customary method that results in a random selection, at a price equal to the principal amount thereof, plus accrued interest to the redemption date, out of moneys available for such purpose in the interest and sinking fund for the Bonds, on September 1 in the years and in the respective principal amounts, set forth in the following schedule:

Term Bonds Maturing September 1, 2033		Term Bonds Maturing September 1, 2037	
Year	Principal Amount	Year	Principal Amount
9/1/2031	\$ 55,000	9/1/2034	\$ 55,000
9/1/2032	50,000	9/1/2035	60,000
9/1/2033*	55,000	9/1/2036	60,000
		9/1/2037*	55,000

* The principal amount of Term Bonds of a stated maturity required to be redeemed on any mandatory redemption date will be reduced, at the option of the District, by the principal amount of any Term Bonds of the same maturity which, at least 45 days prior to a mandatory redemption date (1) have been acquired by the District, (2) have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (3) have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

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

With respect to any optional redemption of the Bonds, unless 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, such notice shall be of no force and effect, the District shall not redeem such 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.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bonds or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Resolution and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Funds

The Resolution requires the establishment and maintenance of the following funds: (1) TYLER COUNTY Special Utility District Water System Revenue Fund, hereinafter called the "Revenue Fund", has been established and shall be maintained in a Depository, (2) TYLER COUNTY Special Utility District Water System Interest and Sinking Fund, hereinafter called the "Interest and Sinking Fund", has been established and shall be maintained in a Depository, and such funds are to be kept separate and apart for all other funds and accounts of the District and moneys deposited to the credit of such funds shall be used and expended as provided in the Resolution.

Flow of Funds

In the Resolution, all Net Revenues shall be deposited from time to time as received into the Revenue Fund. All Net Revenues shall be credited to the Revenue Fund immediately upon receipt. All Net Revenues deposited into the Revenue Fund shall promptly be transferred to the following funds in the following order of priority:

FIRST: To the payment of the amounts required to be deposited in the Interest and Sinking Fund for the payment of Debt Service on the Parity Obligations as the same becomes due and payable;

SECOND: To the payment of the amounts required to be deposited in a Reserve Fund pursuant to this Resolution or any resolution relating to the issuance of Parity Obligations;

THIRD: To the payment of amounts required to be deposited in any other fund or account required by any resolution authorizing the issuance of Parity Obligations; and

FOURTH: To any fund or account held at any place or places, or to any payee, required by any other resolution of the Board which authorized the issuance of obligations or the creation of debt of the Issuer having a lien on the Net Revenues subordinate to the lien created herein on behalf of the Parity Obligations.

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

Rate Covenants

The Issuer will at all times fix, maintain, charge, and collect for services rendered by the Tyler County Special Utility District Water System (the "Water System"), rates and charges which will produce Net Revenues sufficient to pay all of the principal and interest on the Parity Obligations and any Additional Bonds or other indebtedness secured by Net Revenues and to make all other deposits required to be made into the funds by the Bond Resolution and in connection with the Series 2010 Bonds and any Additional Bonds.

Additional Bonds

In the Resolution, the District reserves the right to issue Additional Bonds for any lawful purpose (including the refunding of the Bonds or any other bonds or obligations of the District issued in connection with or payable from the revenues of the System), payable from and secured by a parity lien on the Net Revenues of the Water System, and the Bonds, the Previously Issued Obligations and Additional Bonds shall be equally and ratably secured by a parity lien on the Net Revenues in all respects; provided certain terms and condition prescribed for the issuance of such Additional Bonds are satisfied. Among the terms and conditions to be satisfied is the District obtaining a written certificate from a certified public accountant or professional engineer to the effect that during either the next preceding Fiscal Year, or any twelve consecutive calendar month period ending not later than 90 days preceding the month in which the resolution authorizing the issuance of the then proposed Additional Bonds is passed, the Net Revenues of the Water System were at least 1.25 times the average annual principal and interest requirements on all Parity Obligation to be Outstanding after the delivery of the then proposed Additional Bonds. It is specifically provided, however, that in calculating the amount of Net Revenues for the purposes described above, if there has been any increase in the rates or charges for services of the Water System which is then in effect but which was not in effect during all of the entire period for which the Net Revenues of the Water System are being calculated (hereinafter referred to as the "entire period") then the implementation of such Net Revenues may be incorporated into the District's certification if a certified public accountant or professional engineer determine and certify the amount of Net Revenues as being the total of (i) the actual Net Revenues of the Water System for the entire period, plus (ii) a sum equal to the aggregate amount by which the actual billings to customers of the Water System during the entire period would have been increased if such increased rates or charges had been in effect during the entire period.

Payment Record

The District has never defaulted on the payment of its debt obligations.

Legality

The Bonds are offered when, as and if issued, subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. The legal opinion of Bond Counsel will accompany or will be printed on the Bonds. A form of the legal opinion of Bond Counsel appears in Appendix C attached hereto.

Defeasance

The Resolution provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized entity, in trust (1) money sufficient to make such payment or (2) Defeasance 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 "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds; provided, however, that for so long as the Policy of BAM is in effect, such Defeasance Securities shall be limited to non-callable, direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, or as otherwise maybe authorized under State law and approved by BAM (see "BOND INSURANCE" and "SELECTED PROVISIONS OF THE BOND RESOLUTION" herein).. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligation 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 are, on the date the Board approves such defeasance, rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are, on the date the Board approves such defeasance, rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded as being outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, 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.

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 Bond. Because the Resolution does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Resolution or treated as debt of the District or applying any limitation on the District's ability to issue debt or for any other purpose.

Amendments

In the Resolution, the District has reserved the right to, without the consent of or notice to any registered owner of the Bonds, amend the Resolution in any manner not detrimental to the interests 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 registered owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Resolution, provided that without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may (1) change the date specified as the date on which the principal of any Bond is due and payable, reduce the principal amount thereof, the redemption price therefor change the place or places at, or the coin or currency in which any Bond is payable, or in any other way modify the terms of payment of the principal of the Bonds, (2) give any preference to any Bond over any other Bond, or (3) modify any of the provisions of the Resolution relating to the amendment hereof, except to increase any percentage provided in the Resolution or to provide that certain other provisions of the Resolution cannot be modified or waived without the consent of the registered owner of each Bond affected thereby.

Default and Remedies

The Resolution specifies the following events of default: (i) the failure of the Issuer to make payment of the principal of or interest on any of the Bonds when the same becomes due and payable or (ii) default in the performance or observance of any other covenant, agreement or obligation of the Issuer, which failure materially, adversely affects the rights of the Registered Owners, including, but not limited to, their prospect or ability to be repaid in accordance with the Resolution, and the continuation thereof for a period of 60 days after notice of such default is given by any Registered Owner to the Issuer. Upon an event of default, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Resolution and the District's obligations are not uncertain or disputed. The 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 covenants contained in the Bonds or 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. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce any lien to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors

under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). 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, by principals of governmental immunity, and by general principles of equity that permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas. In the Resolution, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a commercial bank, a trust company, financial institution or other entity qualified and authorized to serve in such capacity. Upon a change in the Paying Agent/Registrar for the Bonds, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid.

The Bonds will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal will be paid to the registered owner at stated maturity upon presentation to 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 "Book-Entry-Only System" herein. If the date for the payment of the principal of or interest 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.

Record Date

The record date ("Record Date") for interest payable to the registered owner of a Bond on any interest payment date means the fifteenth day of the month next preceding such interest payment date.

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 Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "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 registered owner 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.

Future Registration, Transfer and Exchange

The Bonds are initially to be issued utilizing the Book-Entry-Only System of DTC. In the event such Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to the owners of the Bonds and thereafter, the Bonds may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer 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 and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or 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. 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 (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer 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 denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Bond or Bonds surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be initially utilized in regard to ownership and transferability of the Bonds.)

Replacement Bonds

In case any Bond shall be mutilated, 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.

BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM. The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2021 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$488.6 million, \$165.5 million and \$323.1 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

BOND INSURANCE RISK FACTORS

General

If a commitment from a bond insurance company (the "Insurer") to provide a municipal bond insurance policy relating to the Bonds (the "Policy") is obtained, the following risk factors generally apply.

In the event of default of the scheduled payment of principal of or interest on the Bonds when all or a portion thereof becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. 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 Bonds owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the District (unless the 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 - Defaults and Remedies"). The Insurer 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 holders of the Bonds.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the District. In the event the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Bonds.

If a Policy is acquired, the long-term ratings on the Bonds will be dependent in part on the financial strength of the Insurer and its claims-paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the ratings on the Bonds, whether or not subject to a Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Bonds. See the disclosure described in "OTHER PERTINENT INFORMATION - Rating" herein. The obligations of the Insurer under a Policy are general obligations of the Insurer and in an event of default by the Insurer the remedies available may be limited by applicable bankruptcy law. Neither the District nor the Financial Advisor has made independent investigation into the claims-paying ability of any Insurer and no assurance or representation regarding the financial strength or projected financial strength of any Insurer is given.

Claims-Paying Ability and Financial Strength of Municipal Bond Insurers

Moody's Investor Services, Inc., S&P Global Ratings and Fitch Ratings, Inc. (the "Rating Agencies") have, over the last several years, downgraded and/or placed on negative watch the claims-paying and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers are possible. In addition, events

over the last several years in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Bonds. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of any such bond insurer, particularly over the life of the Bonds.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee 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 Issuer and the Financial Advisor believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The Issuer cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or any 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 any 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 securities 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 certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of each maturity, and will be deposited with DTC.

DTC, the world's largest 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 certificated securities. 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 S&P Global Ratings rating of "AA+". The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Resolution. 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 the 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 Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer 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).

Principal and interest 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 Issuer or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer 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 the Direct and Indirect Participants.

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

The Issuer 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. (See "REGISTRATION, TRANSFER, AND EXCHANGE" herein.)

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor the Underwriter take 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 Direct or Indirect 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.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE ISSUER

Available District funds are invested as authorized by State law and in accordance with investment policies approved by the Board of Directors. Both State law and the District's investment policies are subject to change. Under State law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations 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 (the "FDIC") 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 FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the District appoints as its custodian of the banking deposits, in compliance with the Public Funds Investment Act (Chapter 2256, Government Code), as amended (the "PFIA"), the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257,

Texas Government Code, 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 a broker or institution that has a main office or branch office in the State and selected by the District in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds 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, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) above, clause (12) below, or, if applicable, 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; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than 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 365 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) 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 (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party designated by the District, (v) 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 (vi) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service.

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

Under State law, the District may 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 of 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 has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

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 owned by the District, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. As an integral part of its investment policy, the District is required to adopt a separate written investment strategy for each of the funds under its control. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under 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 during 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.

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; (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, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in non-money market 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.

Current Investments

As of June 30, 2021, the District's investable funds in the amount of \$1,033,794 were invested as follows:

Money Market	\$ 768,931
CD	250,074
Checking	14,789
Total	<u>\$ 1,033,794</u>

RETIREMENT PLAN AND OTHER POST RETIREMENT BENEFITS

The District participates in the Texas County and District Retirement System (TCDRS), which is a statewide agent multiple-employer, public employee retirement system. The District provides pensions for all its full-time employees through TCERS. For more detailed information concerning the District's funding policy and contributions in connection with the TCERS, see Appendix D, "Excerpts from the Issuer's Annual Financial Report".

LEGAL MATTERS

The District will furnish to the Underwriter 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 the State of Texas 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. A form of such opinion is attached hereto as Appendix C.

The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds, will also be furnished. In connection with the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District. Though it may represent the Financial Advisor and the Underwriter 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 the issuance of the Bonds. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions "PLAN OF FINANCING—REFUNDED OBLIGATIONS," "THE BONDS" (except under the subcaptions "Payment Record" and "Default and Remedies"), "REGISTRATION, TRANSFER AND EXCHANGE", "LEGAL MATTERS" (excluding the last two sentences of the second paragraph thereof), "TAX MATTERS", "OTHER PERTINENT INFORMATION- Registration and Qualification of Bonds for Sale" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Agreements"), and such firm is of the opinion that the information relating to the Bonds

and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Resolution. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Bracewell LLP, Houston, Texas. The legal fee of such firm is contingent upon the sale and delivery of the Bonds.

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

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, (b) covenants of the District with respect to arbitrage and the use of the proceeds of the Bonds and the Refunded Bonds and the property financed or refinanced therewith, and (c) the Sufficiency Certificate. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds or the Refunded Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

Future and Proposed Legislation

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

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

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

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

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the District's continuing disclosure obligations, because the District does not currently have outstanding more than \$10,000,000 in aggregate principal amount of municipal securities (excluding securities offered in transactions that were exempt from the Rule). Pursuant to the exemption, in the Resolution, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds unless it amends or repeals the agreement as described below. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available to securities brokers and others at no charge via the MSRB's Electronic Municipal Market Access ("EMMA") System at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB. 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, but only to the extent that such information is customarily prepared by the District and publicly available. Currently, the only information that is customarily prepared by the District and publicly available consists of an annual audit of the District's financial statements. The District will update and provide this information within twelve months after the end of each fiscal year.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, 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 information of the District of the general type included in this Official Statement 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 D or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is December 31. Accordingly, the District must provide audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) on or before

December 31 of the following year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

Event Notices

The Issuer will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after 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 Notes; (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 Issuer, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into 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; (14) appointment of a successor or additional paying/agent registrar or the change of name of a paying agent/registrar, if material; (15) Incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties. 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." Neither the Bonds nor the Resolution make any provision for debt service reserves, credit enhancement (although the District has submitted an application for bond insurance), or liquidity enhancement. In addition, the Issuer will provide timely notice of any failure by the Issuer to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The Issuer will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Issuer 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 Issuer, 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 Issuer. For the events listed in clause (15) and (16) above, the term "financial obligation" means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) a guarantee of either (A) or (B). The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Limitations and Amendments

The Issuer has agreed to update information and to provide notices of events only as described above. The Issuer 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 Issuer 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 Issuer disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or beneficial owners of Bonds may seek a writ of mandamus to compel the Issuer to comply with its agreement.

The Issuer may amend its continuing disclosure agreement 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 Issuer, if 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 either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Issuer (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The Issuer may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the Issuer also may amend the provisions of this Article in its discretion in any other manner or circumstance, but in either case 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 giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the Issuer amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Agreements

During the last five years, the Issuer has complied in all material respects with all previous continuing disclosure agreements made in accordance with the Rule, except as follows. Due to administrative oversight, certain financial information was not timely filed with EMMA for fiscal years 2016-2020. All information has been filed including a notice of late filing. The issuer has implemented procedures to ensure timely filing of all future financial information.

INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the “Pandemic”) by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on September 13, 2020, the President of the United States declared outbreak of COVID-19 in the United States a national emergency. Subsequently, the President’s Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On September 13, 2020, the Governor declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has issued a series of executive orders relating to COVID-19 preparedness and mitigation. Under executive orders in effect as of the date of this Official Statement, there are no COVID-19 related operating limits for any business or other establishments. The Governor retains the authority to impose additional restrictions on activities. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect the collection of Net Revenues by the District. See “APPENDIX A – FINANCIAL INFORMATION OF THE ISSUER – TABLE 2 – CONDENSED WATERWORKS AND SEWER SYSTEM OPERATING STATEMENTS.”

OTHER PERTINENT INFORMATION

Registration and Qualification of Bonds for Sale

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Issuer 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.

Litigation

There is no litigation pending or threatened against the District.

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, as amended, and are 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. Furthermore, Section 65.511 of the Texas Water Code provides that the Bonds are legal and authorized investments for all banks, savings banks, trust companies, savings and loan associations, insurance companies, fiduciaries, and trustees, guardians, and for interest and sinking funds and other public funds of the state and its agencies, including the permanent school fund, and counties, cities, school districts, and other political subdivisions of the state. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, requires that the Bonds be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency. See “OTHER PERTINENT INFORMATION – Rating” 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 fair market value.

No representation is made that the Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Bonds for such purposes.

Rating

The District has not applied for an underlying investment grade rating on the Bonds nor is it expected that the District would have been successful if such application had been made. It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), will assign a municipal bond rating of "AA" (stable outlook) to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company ("BAM" or the "Insurer"). An explanation of this rating may be obtained from S&P.

The rating reflects only the view of S&P and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS."

Underwriting

The Underwriter has agreed, subject to certain conditions specified in a bond purchase agreement, to purchase the Bonds from the District at a price equal to the initial public offering prices, as shown on page ii of this Official Statement less an underwriting discount of \$13,401.54, plus accrued interest. The Underwriter will be obligated to purchase all of the Bonds, if the Bonds are purchased. The Bonds may be offered and sold to certain dealers (including the Underwriter and other dealers depositing the Bonds into investment trusts) and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

Financial Advisor

Hilltop Securities is employed as a Financial Advisor to the Issuer in connection with the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds and has assisted in drafting this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and delivery of the Bonds.

Forward-Looking Statements Disclaimer

The statements contained in this Official Statement, and in any other information provided by the Issuer, that are not purely historical, are forward-looking statements, including statements regarding the Issuer'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 Issuer on the date hereof, and the Issuer assumes no obligation to update any such forward-looking statements. The Issuer'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 Issuer. 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.

AUDITED FINANCIAL STATEMENTS

The report of Thomas Stephen & Company, LLP, relating to District's audited financial statements for the fiscal year ended December 31, 2020 is included in this Official Statement in Appendix D; however, Thomas Stephen & Company, LLP, has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the District, including without limitation any of the information contained in this Official Statement.

CONCLUDING STATEMENT

This Official Statement has been prepared using information received from the District and other sources, which is considered to be reliable. All information contained in this Official Statement is subject, in all respects, to the complete body of information

contained in the original sources thereof and no guaranty, warranty, or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates, and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, the Rule.

The Resolution authorizing the issuance of the Bonds delegated authority to the Pricing Officer to approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and to authorize its further use in the reoffering of the Bonds by the Underwriter. This Official Statement has been approved by the Pricing Officer of the District for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12.

TYLER COUNTY SPECIAL UTILITY DISTRICT

Pricing Officer
Tyler County Special Utility District

SCHEDULE I
SCHEDULE OF REFUNDED BONDS

TYLER COUNTY SPECIAL UTILITY DISTRICT

Water System Revenue Bonds, Series 2009A

Original Maturity (September 1)	Principal Amount Outstanding	Interest Rate	Principal Amount to be Refunded	Principal Amount Remaining	Date of Redemption
2022	\$ 30,000	5.600%	\$ 30,000	\$ -	11/10/2021
2023	30,000	5.810%	30,000	-	11/10/2021
2024	30,000	5.880%	30,000	-	11/10/2021
2025	35,000	6.160%	35,000	-	11/10/2021
2026	35,000	6.370%	35,000	-	11/10/2021
2027	40,000	6.440%	40,000	-	11/10/2021
2028	40,000	6.510%	40,000	-	11/10/2021
2029	45,000	6.580%	45,000	-	11/10/2021
2030	45,000	6.580%	45,000	-	11/10/2021
2031	50,000	6.720%	50,000	-	11/10/2021
2032	50,000	6.790%	50,000	-	11/10/2021
2033	55,000	6.860%	55,000	-	11/10/2021
2034	60,000	6.860%	60,000	-	11/10/2021
2035	65,000	6.860%	65,000	-	11/10/2021
2036	70,000	6.860%	70,000	-	11/10/2021
2037	70,000	6.860%	70,000	-	11/10/2021
	<u>\$ 750,000</u>		<u>\$ 750,000</u>	<u>\$ -</u>	

Water System Revenue Bonds, Series 2009B

Original Maturity (September 1)	Principal Amount Outstanding	Interest Rate	Principal Amount to be Refunded	Principal Amount Remaining	Date of Redemption
2022	\$ 34,000	5.430%	\$ 34,000	\$ -	11/10/2021
2023	36,000	5.480%	36,000	-	11/10/2021
2024	34,000	5.530%	34,000	-	11/10/2021
	<u>\$ 104,000</u>		<u>\$ 104,000</u>	<u>\$ -</u>	

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APPENDIX A

FINANCIAL INFORMATION OF THE ISSUER

(This appendix contains quantitative financial information and operating data with respect to the Issuer. The information is only a partial representation and does not purport to be complete. For further and more complete information, reference should be made to the original documents, which can be obtained from various sources, as noted.)

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FINANCIAL INFORMATION OF THE ISSUER

REVENUE BOND DEBT OUTSTANDING

TABLE 1

Revenue Bond Debt Principal Outstanding: (As of September 1, 2021)

Water System Revenue Bonds, Series 2009A	\$ 750,000
Water System Revenue Bonds, Series 2009B	104,000
Water System Revenue Bonds, Series 2010	708,000
Outstanding Revenue Debt Principal	<u>\$ 1,562,000</u>
Less Refunded Bonds (see Schedule I)	\$ (854,000)
Water System Revenue Refunding Bonds, Series 2021 (The Bonds)	915,000
Total Revenue Bond Debt Principal Outstanding Following the Issuance of the Bonds	<u>\$ 1,623,000</u>
Less: I&S Fund Balance (as of 6/30/2021 unaudited)	263,657
Net Revenue Bond Debt Outstanding	<u>\$ 1,359,343</u>
Net Revenue Bond Debt Principal Per 2020 Water Connection ⁽¹⁾	<u>\$ 711</u>

⁽¹⁾ Based on 1,912 connections

CONDENSED WATERWORKS AND SEWER SYSTEM OPERATING STATEMENTS

TABLE 2

	Fiscal Year Ended December 31				
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016^(c)</u>
Revenues ^(a)	\$1,169,062	\$ 1,142,503	\$ 1,132,655	\$ 1,071,616	\$ 631,169
Expenses ^(b)	<u>929,447</u>	<u>827,627</u>	<u>786,311</u>	<u>791,806</u>	<u>550,942</u>
Net Available for Debt Service	<u>\$ 239,615</u>	<u>\$ 314,876</u>	<u>\$ 346,344</u>	<u>\$ 279,810</u>	<u>\$ 80,227</u>
Annual Debt Service Requirements	\$190,476	\$192,179	\$193,518	\$189,303	\$186,740
Coverage	1.26 X	1.64 X	1.79 X	1.48 X	0.43 X
Customer Count					
Water	1,912	1,889	1,872	1,854	1,838

Source: Tyler County SUD Annual Financial Reports

(a) Includes earnings on investments

(b) Expenses exclude depreciation

(c) For the seven months ending December 31, 2016, following fiscal year end change.

PRO FORMA COVERAGE FACTORS OF THE DISTRICT'S REVENUE DEBT

TABLE 3

2020 Net Revenues Available for Debt Service (Unaudited)	\$ 239,615
Maximum Debt Service Requirement Upon the Issuance of the Bonds (2023)	\$ 114,500
Coverage	2.09
Average Annual Debt Service Requirement Upon Issuance of the Bonds (2022-2040)	\$ 95,360
Coverage	2.51

REVENUE BOND DEBT SERVICE REQUIREMENTS

TABLE 4

Fiscal Year Ending Dec. 31	Outstanding Revenue Debt Service	Less: Debt Svc. on Refunded Bonds	The Bonds			Total Debt Service
			Principal	Interest	Total	
2021	\$ 240,356					\$ 240,356
2022	130,081	\$ (119,081)	\$ 80,000	\$ 21,857	\$ 101,857	112,857
2023	129,555	(117,555)	80,000	22,500	102,500	114,500
2024	124,839	(111,839)	75,000	20,100	95,100	108,100
2025	123,195	(79,195)	45,000	17,850	62,850	106,850
2026	121,039	(77,039)	45,000	16,500	61,500	105,500
2027	123,809	(79,809)	50,000	15,150	65,150	109,150
2028	121,233	(77,233)	50,000	13,650	63,650	107,650
2029	123,629	(79,629)	50,000	12,150	62,150	106,150
2030	120,668	(76,668)	50,000	10,650	60,650	104,650
2031	122,707	(78,707)	55,000	9,150	64,150	108,150
2032	119,347	(75,347)	50,000	7,981	57,981	101,981
2033	120,952	(76,952)	55,000	6,919	61,919	105,919
2034	122,179	(78,179)	55,000	5,750	60,750	104,750
2035	123,063	(79,063)	60,000	4,375	64,375	108,375
2036	123,604	(79,604)	60,000	2,875	62,875	106,875
2037	118,802	(74,802)	55,000	1,375	56,375	100,375
2038	43,000					43,000
2039	43,000					43,000
2040	14,000					14,000
	<u>\$ 2,309,056</u>	<u>\$ (1,360,700)</u>	<u>\$ 915,000</u>	<u>\$ 188,832</u>	<u>\$ 1,103,832</u>	<u>\$ 2,052,188</u>

PRINCIPAL REPAYMENT SCHEDULE
TABLE 5

Fiscal Year Dec 31	Outstanding Principal	Refunded Bonds	The Bonds	Total	Bonds Unpaid at End of the Year	Percent of Principal Retired (%)
2021	\$ 176,000			\$ 176,000	\$ 1,623,000	9.78%
2022	75,000	\$ (64,000)	\$ 80,000	91,000	1,532,000	14.84%
2023	78,000	(66,000)	80,000	92,000	1,440,000	19.96%
2024	77,000	(64,000)	75,000	88,000	1,352,000	24.85%
2025	79,000	(35,000)	45,000	89,000	1,263,000	29.79%
2026	79,000	(35,000)	45,000	89,000	1,174,000	34.74%
2027	84,000	(40,000)	50,000	94,000	1,080,000	39.97%
2028	84,000	(40,000)	50,000	94,000	986,000	45.19%
2029	89,000	(45,000)	50,000	94,000	892,000	50.42%
2030	89,000	(45,000)	50,000	94,000	798,000	55.64%
2031	94,000	(50,000)	55,000	99,000	699,000	61.15%
2032	94,000	(50,000)	50,000	94,000	605,000	66.37%
2033	99,000	(55,000)	55,000	99,000	506,000	71.87%
2034	104,000	(60,000)	55,000	99,000	407,000	77.38%
2035	109,000	(65,000)	60,000	104,000	303,000	83.16%
2036	114,000	(70,000)	60,000	104,000	199,000	88.94%
2037	114,000	(70,000)	55,000	99,000	100,000	94.44%
2038	43,000			43,000	57,000	96.83%
2039	43,000			43,000	14,000	99.22%
2040	14,000		-	14,000	-	100.00%
	<u>\$ 1,738,000</u>	<u>\$ (854,000)</u>	<u>\$ 915,000</u>	<u>\$ 1,799,000</u>		

ENTERPRISE FUND BALANCES
TABLE 6
(As of June 30, 2021, unaudited)

General Fund	\$ 14,789
Interest & Sinking	263,657
Capital Projects	297,118
	<u>\$ 575,564</u>

Source: The District.

Fiscal Year Ended 12/31	Water Usage in Gallons			Water Revenue
	Average Daily Usage	Peak Day Usage	Total Usage (Pumped)	
2016	459,147	966,000	168,288,400	\$ 1,049,463
2017	543,743	992,700	186,203,400	1,069,002
2018	644,000	1,158,800	216,496,700	1,132,290
2019	521,223	1,030,400	222,245,900	1,136,099
2020	613,727	872,000	206,496,700	1,166,601

TEN LARGEST WATER WATER CUSTOMERS (BASED ON GALLONS CONSUMED)

TABLE 9

Customer	Type of Industry	Yearly Water Usage	% of Total Water Usage (Pumped)	Water Revenue	% of Total Water Revenue
HACO A	Residential	1,484,200	0.72%	\$ 9,416.51	0.81%
Warren ISD	Industrial	726,800	0.35%	4,543.10	0.39%
Pam Flippo	Residential	546,650	0.26%	3,357.89	0.29%
Alisa Priebe	Residential	521,630	0.25%	3,202.07	0.27%
Spurger ISD	Industrial	584,630	0.28%	3,421.90	0.29%
Jerry Wilson	Residential	496,910	0.24%	3,052.97	0.26%
Pam Properties	Residential	465,670	0.23%	2,875.59	0.25%
Altech	Commercial	450,410	0.22%	2,835.00	0.24%
Vivian Reed	Residential	440,100	0.21%	2,685.24	0.23%
Pony Express	Commercial	436,580	0.21%	2,662.16	0.23%
Bill Dover	Commercial	469,630	0.23%	2,667.60	0.23%
		<u>6,623,210</u>	<u>3.21%</u>	<u>\$ 40,720.03</u>	<u>3.49%</u>

MONTHLY WATER RATES (Effective July 1, 2021)

TABLE 10

Minimum monthly charge (no water included)	
5/8" x 3/4" meter	\$29.00
1" meter	59.00
1 1/2" meter	77.00
2" meter	93.00
Bulk meter	155.00
Gallons Used	Rate (per 1,000 gallons)
0 - 2,000	\$3.80
2,001 - 5,000	5.55
5,001 - 10,000	6.20
10,001+	6.55

APPENDIX B

**GENERAL INFORMATION REGARDING TYLER COUNTY SPECIAL UTILITY DISTRICT
AND TYLER COUNTY, TEXAS**

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GENERAL INFORMATION REGARDING TYLER COUNTY SPECIAL UTILITY DISTRICT AND TYLER COUNTY, TEXAS

Tyler County Special Utility District (TCSUD or SUD) serves almost 6,000 customers in Tyler County, Texas, and it is the largest water utility in the county. The SUD serves small communities and rural areas via 250 miles of water mains with water produced by six active wells. It has been designated a “Superior Water System” by the Texas Commission on Environmental Quality (TCEQ).

The governing body of the SUD—the Board of Directors—has taken a proactive approach to governance and they have maintained financial stability while making important system improvements that support and benefit their growing customer base. As of June 30, 2021, the financial assets of the SUD exceeded one million dollars based on appropriate and incremental rate increases and prudent financial management strategies.

Tyler County is in southeast Texas near the Louisiana border. The County was officially established by the Texas Legislature on April 3, 1846. The County is bounded on the north and east by the Neches River. The County comprises 908 square miles of the East Texas timberlands, an area densely forested with pine and a great variety of hardwoods. It contains two units and parts of two more of the twelve units of the Big Thicket National Preserve established by Congress in 1974.

MAP OF TEXAS SHOWING LOCATION OF TYLER COUNTY SPECIAL UTILITY DISTRICT



POPULATION TRENDS

<u>Year</u>	<u>Tyler County</u>
2019 Estimate	21,672
2010 Census	21,766
2000 Census	20,871

Source: U.S. Census Bureau

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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

\$915,000
TYLER COUNTY SPECIAL UTILITY DISTRICT
WATER SYSTEM REVENUE REFUNDING BONDS,
SERIES 2021

AS BOND COUNSEL FOR THE TYLER COUNTY SPECIAL UTILITY DISTRICT (the “Issuer”) in connection with the issuance of its Water System Revenue Refunding Bonds, Series 2021 (the “Bonds”), we have examined into the legality and validity of the Bonds, which bear interest from the date and mature on the dates in accordance with the terms and conditions stated in the text of the Bonds. Terms used herein and not otherwise defined shall have the meaning given in the Resolution of the Issuer authorizing the issuance and sale of the Bonds (the “Resolution”).

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments relating to the authorization of the Bonds and the issuance and delivery of the Bonds, including one of the executed Bonds (Bond No. TR-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, and that the Bonds have been duly issued and delivered, all in accordance with law; and that, except as may be limited by laws applicable to the Issuer relating to governmental immunity, bankruptcy, reorganization, and other similar matters affecting creditors' rights, the Bonds constitute valid and legally binding special obligations of the Issuer secured by and payable from, together with other outstanding bonds, a first lien on and pledge of the “Net Revenues” of the Issuer’s Water System (as defined in the Resolution).

THE ISSUER has reserved the right, subject to the restrictions stated in the Resolution, to issue additional parity revenue bonds which, when issued and delivered, shall be payable from the Interest and Sinking Fund, and shall be payable from and secured by a first lien on and pledge of the Net Revenues of the Water System and entitled to the benefits of and secured by the Resolution in the same manner and to the same extent as, and be on a parity with, the Bonds

THE ISSUER HAS RESERVED THE RIGHT to amend the Resolution as provided therein, and under some (but not all) circumstances amendments thereto must



be approved by the Registered Owners of a majority in aggregate principal amount of the outstanding Bonds.

THE REGISTERED OWNERS of the Bonds shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation, or from any source whatsoever other than specified in the Resolution.

IT IS FURTHER OUR OPINION that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Bonds (i) is excludable from the gross income of the owners thereof and (ii) the Bonds will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Bond and the use of the property financed or refinanced therewith, and the certification by the holders of the refunded obligations verifying the sufficiency of the cash paid thereto to pay the redemption price of the refunded bonds on the redemption date. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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 (the “Service”); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.



EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to federal, state or local tax consequences arising from the enactment of any pending or future legislation.

WE HAVE ACTED AS BOND COUNSEL for the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds described above under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on information furnished by the Issuer with respect to the adequacy of the “Net Revenues”. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Very truly yours,

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APPENDIX D

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED DECEMBER 31, 2020

(Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements - not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.)

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TYLER COUNTY SPECIAL UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2020



THOMAS STEPHEN & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Thomas Stephen & Company, LLP

Certified Public Accountants

3300 Oak Lawn Avenue, Suite 650

Dallas, Texas 75219

Phone (214) 824-2556

Fax (214) 823-9367

Introductory Section

Tyler County Special Utility District
Annual Financial Report
December 31, 2020

TABEL OF CONTENTS

	<u>Page(s)</u>	<u>Exhibit</u>
Introductory Section		
Table of Contents	1	
Annual Filing Affidavit.....	2	
Financial Section		
Independent Auditor's Report.....	3-4	
Management's Discussion and Analysis(Required Supplementary Information).	5-10	
<u>Basic Financial Statements</u>		
Fund Financial Statements:		
Statement of Net Position - Enterprise Fund	11	A-1
Statement of Revenues, Expenses, and Changes in		
Fund Net Position - Enterprise Fund	12	A-2
Statement of Cash Flows - Proprietary Funds.....	13	A-3
Notes to Financial Statements.....	14-24	
Other Supplementary Information Section		
<u>Budgetary Comparison Schedules as Supplementary Information:</u>		
Enterprise Funds:		
Budgetary Comparison Schedule:		
Water Fund	25-26	B-1
Texas Supplemental Information		
List of Supplemental Schedules Included	27	
Services and Rates	28-29	TSI-1
Water Fund - Schedule of Operating Expenses.....	30	TSI-2
Temporary Investments	31	TSI-3
Long-Term Debt Service Requirements by Year	32-35	TSI-5
Changes in Long-Term Bonded Debt	36	TSI-6
Comparative Schedule of Revenues and Expenses- Enterprise Fund	37-38	TSI-7
Board Members, Key Personnel and Consultants.....	39	TSI-8
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....		
	40-41	

THE STATE OF TEXAS

COUNTY OF TYLER

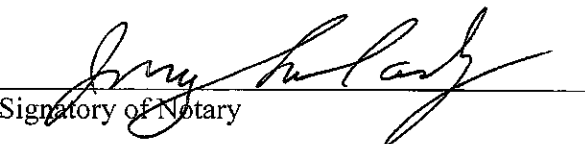
I, JIM BOONE, of Tyler County Special Utility District, here by swear, or affirm, that the District named above has reviewed and approved at a meeting of the Board of Directors of the District on the 20th day of APRIL, 2021, its annual audit report for the year ended December 31, 2020 and that copies of the annual audit report have been filed in the District in the District office, located 12139 FM 92, Spurger, Texas 77660.

The annual filing affidavit and the attached copy of the annual audit report are being submitted to the Texas Commission of Environmental Quality in satisfaction of all annual filing requirements within Section 49.194 of the Texas Water Code.

Date: APRIL 20, 2021

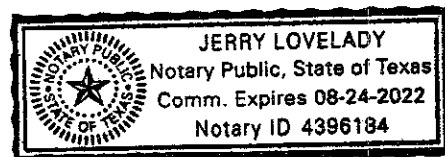

Signature of District Official

Sworn to and subscribed to before me this 20th day of APRIL, 2021


Signatory of Notary

(Seal)

My Commission Expires on: 8-24-22
Notary Public in and for the State of Texas



Independent Auditor's Report

To the Board of Directors
Tyler County Special Utility District
P.O. Drawer 138
Spurger, Texas 77660

We have audited the accompanying financial statements of Tyler County Special Utility District ("the District") as of and for the year ended December 31, 2020, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tyler County Special Utility District as of December 31, 2020, and the changes in financial position and its cash flows 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 and Analysis identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tyler County Special Utility District's basic financial statements. The introductory section, budgetary comparison schedule and the *Texas Supplementary Information* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section, budgetary comparison schedule and the *Texas Supplementary 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 20, 2021, 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 solely 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 the effectiveness of the District's 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.



Thomas Stephen & Company, LLP
Dallas, Texas
April 20, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Tyler County Special Utility District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2020. We encourage readers to consider the information presented here.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the current year by \$1,392,020 (net position) compared to \$1,422,569 for the prior year. Of this amount, \$500,610 (unrestricted net position) may be used to meet the District's obligations to creditors.
- The District's total net position decreased by \$30,549 for the current year reported. Net position in the previous year decreased by \$10,282.
- Total capital assets (net of depreciation) were \$2,143,942 for the current year reported compared to \$2,215,657 in the previous year.
- Bonds payable were \$1,738,000 at year-end compared to \$1,858,000 at the previous year-end.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Tyler County Special Utility District's basic financial statements. The District's basic financial statements comprise two components: 1) proprietary fund financial statements, and 2) notes to the financial statements. This report also contains other supplementary information and statistical information in addition to the basic financial statements themselves.

Proprietary fund financial statements. The District maintains one proprietary fund. The District uses an enterprise fund to account for its water and sewer operations. The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases to net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Change in Net Position presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

The basic financial statements can be found on pages 11 through 13.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 14 - 24 of this report.

Other information. In addition to the basic financial and accompanying notes, this report also presents certain supplementary information that further explains and supports the information in the financial statements.

Proprietary Fund Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Tyler County Special Utility District, assets exceeded liabilities by \$1,392,020 as of December 31, 2020.

A significant portion of the District's net position (31%) reflects its investment in capital assets (e.g. land, construction in progress, buildings, water systems, sewer systems, and equipment), net of any related debt used to acquire those asset that is still outstanding. Tyler County Special Utility District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. The use of constructed assets (pumps, storage tanks, distribution system, metering equip, transmission line, etc.) coupled with the workforce actually provide the foundation which generates some \$1.1 million annually in collections from retail and wholesale customers. TCSUD reports that about 23% of every dollar collected goes towards debt service and CIP spending. Seemingly assets have a significant role as a source which in part helps to retire debt.

An additional portion of the District's net position (33%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$500,610 represents resources that may be used to meet the District's ongoing obligations to creditors. As of December 31, 2020, the District is able to report a positive balance in all the categories of net position.

Below are summaries of the Tyler County Special Utility District's Statement of Net Position (Table A-1) and Statement of Revenues, Expenses, and Changes in Net Position-Proprietary Fund (Table A-2).

Table A-1
District's Net Position
(In thousands of dollars)

	Business-type Activities		Change
	<u>2020</u>	<u>2019</u>	<u>2020-2019</u>
Current assets:			
Cash and cash equivalents	\$ 351.8	\$ 414.2	\$ (62.4)
Prepaid expenses	0.9	4.9	(4.0)
Accounts receivable	120.3	117.8	2.5
Inventories	12.3	9.6	2.7
Total current assets	<u>485.3</u>	<u>546.5</u>	<u>(61.2)</u>
Noncurrent assets:			
Investment	210.2	208.5	1.7
Restricted cash and cash equivalents	<u>464.2</u>	<u>475.3</u>	<u>(11.1)</u>
Total restricted assets	674.4	683.8	(9.4)
Capital assets	7,187.6	7,178.5	9.1
Less: accumulated funded depreciation	<u>(5,043.7)</u>	<u>(4,962.8)</u>	<u>(80.9)</u>
Total noncurrent assets	<u>2,818.3</u>	<u>2,899.5</u>	<u>(81.17)</u>
Total assets	<u>3,303.6</u>	<u>3,446.0</u>	<u>(142.4)</u>
Current liabilities			
Accounts payable and accrued liabilities	31.1	28.4	2.7
Accrued interest	21.5	23.5	(2.0)
Customer deposits	110.2	102.4	7.8
Current portion - bonds payable	<u>176.0</u>	<u>120.0</u>	<u>56.0</u>
Total current liabilities	<u>338.8</u>	<u>274.3</u>	<u>64.5</u>
Long-term liabilities			
Compensated absences	10.8	11.1	(0.3)
Bonds payable	<u>1,562.0</u>	<u>1,738.0</u>	<u>(176.0)</u>
Total noncurrent liabilities	<u>1,572.8</u>	<u>1,749.1</u>	<u>(176.3)</u>
Total liabilities	<u>1,911.6</u>	<u>2,023.4</u>	<u>(111.80)</u>
Net position:			
Net investment in capital assets	427.2	584.7	(158)
Unrestricted	500.6	363.0	137.6
Restricted	<u>464.2</u>	<u>474.9</u>	<u>(10.7)</u>
Total net assets	<u>\$ 1,392.0</u>	<u>\$ 1,422.6</u>	<u>\$ (30.6)</u>

Table A-2
Changes in District's Net Position
(In thousands of dollars)

	Business-type Activities		Change
	<u>2020</u>	<u>2019</u>	<u>2020-2019</u>
Program Revenues:			
Charges for services	\$ 1,163.4	\$ 1,135.2	\$ 28.2
General Revenues:			
Interest income	5.6	7.3	(1.7)
Other income	13.7	21.2	(7.5)
Total Revenues	<u>1,182.7</u>	<u>1,163.7</u>	<u>19.0</u>
Program Expenses:			
Water	<u>1,213.3</u>	<u>1,174.0</u>	<u>39.3</u>
Total Expense	<u>1,213.3</u>	<u>1,174.0</u>	<u>39.3</u>
Change in Net Position	(30.6)	(10.3)	(20.3)
Net Position - Beginning	<u>1,422.6</u>	<u>1,432.9</u>	<u>(10.3)</u>
Net Position - Ending	<u>\$ 1,392.0</u>	<u>\$ 1,422.6</u>	<u>\$ (30.6)</u>

The District's net position decreased \$30,549 in the current year compared with a \$10,282 decrease in the prior year. Total operating revenues increased \$28,178 (2.5%). Water sales increased due to population growth in the area. Other income decreased \$9,142 primarily because of the gain on the sale of the old property in prior year was higher than current year. Total expenses increased \$41,712. Salary expense increased \$60,108 because of a higher level of experience of employees in current year. Depreciation expense decreased \$60,108 due to fully depreciated assets.

Capital Assets

The Tyler County Special Utility District's investment in capital assets as of December 31, 2020, amounts to \$2,143,924 (net of accumulated depreciation) (See Table A-3).

Major capital asset events during the current year included the following:

- \$51,428 for vehicle purchases and major repairs
- \$84,407 for water and well system improvements and repairs

At the end of 2020, the District had invested \$7,178.4 thousand in a broad range of capital assets, including land, a water system, equipment, building, and vehicles. (See Table A-3)

Table A-3
District's Capital Assets
(In thousands of dollars)

	Business-type Activities		Change
	<u>2020</u>	<u>2019</u>	<u>2020-2019</u>
Land	\$ 54.4	\$ 54.4	\$ -
Buildings and improvements	55.4	55.4	-
Equipment	574.2	566.3	7.9
Vehicles	203.6	286.8	(83.2)
Water system	6,300.0	6,215.6	84.4
Total in historical cost	<u>7,187.6</u>	<u>7,178.5</u>	<u>9.1</u>
Total accumulated funded depreciation	<u>(5,043.7)</u>	<u>(4,962.8)</u>	<u>(80.9)</u>
Net capital assets	<u>\$ 2,143.9</u>	<u>\$ 2,215.7</u>	<u>\$ (71.8)</u>

Additional information on the District's capital assets can be found in the notes to the financial statements.

Long Term Debt

The following is the District's outstanding debt and liability for compensated absences at December 31, 2020 and 2019 (Table A-4):

Table A-4
District's Long Term Debt
(In thousands of dollars)

	Business-type Activities		Change
	<u>2020</u>	<u>2019</u>	<u>2020-2019</u>
Bond payable	\$ 1,738.0	\$ 1,858.0	\$ (120.0)
Compensated absences	<u>10.8</u>	<u>11.1</u>	<u>(0.3)</u>
Total Long Term Debt	<u>\$ 1,748.8</u>	<u>\$ 1,869.1</u>	<u>\$ (120.3)</u>

More detailed information about the District's debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Operating income is budgeted to increase to \$1,165,000 in the 2021 budget. The 2021 budget conservatively projects water sales to be slightly higher due to the growing market in the Tyler County area.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the District's main office.

Basic Financial Statements

Tyler County Special Utility District
Statement of Net Position
Proprietary Fund
December 31, 2020

Exhibit A-1

Assets

Current assets	
Cash and cash equivalents	\$ 351,824
Prepaid expenses	873
Accounts receivable, net of allowance	120,273
Inventories	12,346
Total current assets	<u>485,316</u>
Noncurrent assets	
Certificates of deposit	210,187
Restricted cash and cash equivalents	464,184
Land	54,370
Capital assets, net of funded accumulated depreciation	2,089,562
Total noncurrent assets	<u>2,818,303</u>
Total assets	<u>\$ 3,303,619</u>

Liabilities and Net Assets

Current liabilities	
Accounts payable	\$ 7,345
Accrued interest payable	21,452
Accrued expenses and other liabilities	23,835
Customer deposits	110,160
Current portion of bonds payable	176,000
Total current liabilities	<u>338,792</u>
Long-term liabilities	
Compensated absences	10,807
Bonds payable, net of current portion	1,562,000
Total long-term liabilities	<u>1,572,807</u>
Total liabilities	<u>1,911,599</u>
Net position:	
Net investment in capital assets	427,226
Unrestricted	500,610
Restricted for debt service - reserves	464,184
Total net assets	<u>1,392,020</u>
Total liabilities and net assets	<u>\$ 3,303,619</u>

See accompanying notes and independent auditors' audit report.

Tyler County Special Utility District
Statement of Revenues, Expenses, and Changes in Fund net Position
Proprietary Fund
For the year ended December 31, 2020

Exhibit A-2

Operating revenues:	
Water sales and fees	<u>\$ 1,163,416</u>
Total operating revenues	<u>1,163,416</u>
Operating expenses:	
Bad debts	11,023
Funded depreciation	215,388
Director's expense	9,900
Education	830
Gas and oil	22,403
Insurance	61,512
Legal and professional	13,059
Dues, subscriptions, licenses and fees	6,062
Miscellaneous	44,694
Postage and printing	13,434
Repairs and maintenance	37,425
Retirement expense	15,240
Salaries	474,953
Supplies - chemicals	32,837
Supplies - field and plant	77,727
Supplies - office	6,507
Payroll taxes	38,746
Telephone	5,439
Utilities	<u>57,656</u>
Total operating expenses	<u>1,144,835</u>
Operating income	<u>18,581</u>
Non-operating revenues(expenses)	
Interest income	5,646
Interest expense	(68,435)
Gain on sale of fixed assets	<u>13,659</u>
Total non-operating expenses	<u>(49,130)</u>
Net loss	(30,549)
Net assets, beginning of year	<u>1,422,569</u>
Net assets, end of year	<u><u>\$ 1,392,020</u></u>

See accompanying notes and independent auditors' audit report.

Tyler County Special Utility District
Statement of Cash Flows
Proprietary Fund
For the year ended December 31, 2020

Exhibit A-3

Cash flows from operating activities:

Cash received from customers	\$ 1,149,923
Cash payments to employees for services	(506,382)
Cash payments to other suppliers for goods and services	<u>(465,327)</u>
Net cash provided by operating activities	<u>178,214</u>

Cash flows from investing activities

Proceeds from sale of assets	13,780
Purchase of certificates of deposits	(1,670)
Purchase of capital assets	<u>(143,784)</u>
Net cash used in investing activities	<u>(131,674)</u>

Cash flows from financing activities

Principal payments on long-term debt	<u>(120,000)</u>
Net cash used in financing activities	<u>(120,000)</u>

Net change in cash and cash equivalents	(73,460)
Cash and cash equivalents, beginning of year	<u>889,468</u>
Cash and cash equivalents, end of year	<u><u>\$ 816,008</u></u>

**Reconciliation of operating loss to net cash
provided by operating activities:**

Cash flows from operating activities	
Net loss	\$ (30,549)
Adjustments to reconcile net loss to net cash flows from operating activities	
Funded depreciation	215,388
Provision for doubtful accounts	15,390
Gain on sale of assets	(13,659)
Changes in operating assets and liabilities:	
Accounts receivable	(17,860)
Prepaid expenses	3,981
Inventory	(2,795)
Accounts payable	(4,711)
Accrued liabilities	5,276
Customer deposits	<u>7,753</u>
Net cash provided by operating activities	<u><u>\$ 178,214</u></u>

See accompanying notes and independent auditors' audit report.

Tyler County Special Utility District
Notes to the Financial Statements
December 31, 2020

A. Summary of Significant Accounting Policies

Tyler County Special Utility District (the "District") is a governmental, tax exempt agency, per chapter 65 of the Texas water code. The combined financial statements of the District have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The District was created as a result of the transfer of assets, related liabilities, contractual rights and obligations as well as all legal claims against its predecessor entity, Tyler County Water Supply Corporation ("TCWSC"). The transfer was completed, effective June 1, 2016. The district supplies retail water and sewer services to customers in the Tyler County area.

2. Basic Financial Statements – Fund Financial Statements

The financial statements of the District are reported in the proprietary fund financial statements. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, net position, revenues and expenses.

Proprietary Fund

The focus of proprietary fund measurement is on the determination of operating income, changes in net position, financial position, and cash flows. The generally accounting principles applicable are those similar to businesses in the private sector. The following briefly describes the purpose of proprietary fund.

Proprietary fund is required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

3. Measurement Focus and Basis of Accounting and Financial Statement Presentation

The 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 when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the grantor have been met.

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

Tyler County Special Utility District
Notes to the Financial Statements
December 31, 2020

A. Summary of Significant Accounting Policies (Continued)

3. Measurement Focus and Basis of Accounting and Financial Statement Presentation (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 are charges to customers for sales and services. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

4. Assets, Liabilities and Net Position

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Inventories and Prepaid Items

Inventories of parts and supplies are stated at weighted average cost. These inventories are used for repairs and maintenance of the water and sewer systems.

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

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used. Expenditures under \$5,000 are capitalized at management's discretion.

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

Tyler County Special Utility District
Notes to the Financial Statements
December 31, 2020

A. Summary of Significant Accounting Policies (Continued)

4. Assets, Liabilities and Net Position (Continued)

c. Capital Assets (Continued)

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Water supply and distribution system	25-50 years
Buildings	10-30 years
Office furniture and equipment	3-20 years
Auto and transportation equipment	5-10 years

d. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end. All trade receivables are shown net of an allowance for uncollectible amounts of \$105,099.

e. Net Position

Net position represents the difference between assets and liabilities. Proprietary fund net position are divided into three components:

- Net investment in capital assets – consist of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets and adding back unspent proceeds.
- Restricted net position – consist of net position that are restricted by the District's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted – all other net position are reported in this category.

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

Tyler County Special Utility District
Notes to the Financial Statements
December 31, 2020

A. Summary of Significant Accounting Policies (Continued)

4. Assets, Liabilities and Net Position (Continued)

f. Restricted Assets

Certain proceeds of enterprise fund revenue and general obligation bonds, as well as certain resources set aside for their payment, are classified as restricted assets on the balance sheet since their use is limited by applicable bond covenants.

g. Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the use of estimates by management that affect reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

B. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District 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") insurance.

Cash Deposits:

At December 31, 2020, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,025,296. The District's cash deposits at December 31, 2020 and during the year ended December 31, 2020, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Restricted Cash:

The District has a balance of \$464,184, which is restricted for use of servicing the District's long-term debt obligations and construction of capital assets.

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

Tyler County Special Utility District
Notes to the Financial Statements
December 31, 2020

B. Deposits and Investments (Continued)

Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The District's investments at December 31, 2020 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Fair Value</u>
Certificate of Deposit	6/2/2021	1.30%	\$ 105,223
Certificate of Deposit	2/23/2022	1.39%	104,964
			<u>\$ 210,187</u>

Analysis of Specific Deposit and Investment Risks:

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

a. Credit Risk

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

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

Tyler County Special Utility District
Notes to the Financial Statements
December 31, 2020

B. Deposits and Investments (Continued)

b. Custodial Credit Risk

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

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

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

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

Tyler County Special Utility District
Notes to the Financial Statements
December 31, 2020

B. Deposits and Investments (Continued)

Fair Value Measurement

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The District had no investments that required valuation using fair value measurement at December 31, 2020.

Tyler County Special Utility District
Notes to the Financial Statements
December 31, 2020

C. Capital Assets

Capital asset activity for the year ended December 31, 2020 was as follow:

	Beginning Balances	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 54,370	\$ -	\$ -	\$ 54,370
Total capital assets not being depreciated	54,370	-	-	54,370
Capital assets being depreciated:				
Building and improvements	55,444	-	-	55,444
Furniture and equipment	566,292	7,949	-	574,241
Vehicles	286,837	51,428	(134,620)	203,645
Water system	6,215,532	84,407	-	6,299,939
Total capital assets being depreciated	7,124,105	143,784	(134,620)	7,133,269
Less: accumulated funded depreciation for:				
Building and improvements	(45,424)	(2,438)	-	(47,862)
Furniture and equipment	(459,254)	(18,572)	-	(477,826)
Vehicles	(265,267)	(22,316)	134,499	(153,084)
Water system	(4,192,873)	(172,062)	-	(4,364,935)
Total accumulated funded depreciation	(4,962,818)	(215,388)	134,499	(5,043,707)
Total capital assets being depreciated, net	2,161,287	(71,604)	(121)	2,089,562
Business-typed activities capital assets, net	\$ 2,215,657	\$ (71,604)	\$ (121)	\$ 2,143,932

Depreciation was charged to functions as follows:

Water	\$ 215,388
	<u>\$ 215,388</u>

D. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended December 31, 2020, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
Business-type activities:					
Revenue bonds	\$ 1,858,000	\$ -	\$ 120,000	\$ 1,738,000	\$ 176,000
Compensated absences*	11,058	-	251	10,807	-
Total business-type activities	<u>\$ 1,869,058</u>	<u>\$ -</u>	<u>\$ 120,251</u>	<u>\$ 1,748,807</u>	<u>\$ 176,000</u>

*Other long-term liabilities

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

Tyler County Special Utility District
Notes to the Financial Statements
December 31, 2020

D. Long-Term Obligations (Continued)

1. Long-Term Obligation Activity (Continued)

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Business-type	Water Fund

BONDS

Texas Water Development Board Series 2009A bonds in the amount of \$990,000 with an interest rate of 4.2%, payable in semi-annual installments over 30 years and maturing in September, 2040 \$ 775,000

Texas Water Development Board Series 2009B bonds in the amount of \$1,039,000 with an interest rate of 5.23%, payable in semi-annual installments over 30 years and maturing in September, 2024. 250,000

Texas Water Development Board Series 2010 bonds in the amount of \$745,000 with an interest rate of 0.00% , payable in annual installments over 30 years and maturing in September, 2040 713,000

Total Bonds Payable \$ 1,738,000

2. Debt Service Requirements

Debt service requirements on long-term debt at December 31, 2020, are as follows:

<u>Year Ending December 31,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 176,000	\$ 64,356	\$ 240,356
2022	75,000	55,081	130,081
2023	78,000	51,555	129,555
2024	77,000	47,839	124,839
2025	79,000	44,195	123,195
Thereafter	1,253,000	308,032	1,561,032
Totals	<u>\$ 1,738,000</u>	<u>\$ 571,056</u>	<u>\$ 2,309,056</u>

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

Tyler County Special Utility District
Notes to the Financial Statements
December 31, 2020

E. Restricted Assets

In accordance with debt and bond covenants, the District maintains various separate cash accounts. As these accounts have been specified for use related to the servicing of the District's long-term debt and construction of capital assets, they have been classified as restricted assets and are not included with other cash and cash equivalents. The District maintains the following restricted cash accounts:

Interest and sinking fund	\$ 191,441
Reserve funds	<u>272,743</u>
	<u>\$ 464,184</u>

F. 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. During fiscal year 2020, the District obtained 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 insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies 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 did not exceed coverage.

G. Pension Plan

The employees participate in the Federal Social Security Administration retirement program (i.e. Social Security). Social Security coverage is required to be provided to government employees who are not participating in a public retirement program.

The District sponsors a defined contribution plan (SIMPLE IRA) for the benefit of its employees. For the seven months ended December 31, 2020, all full-time employees were eligible to participate in the retirement plan. The District matched employees' contributions to the plan up to a maximum of three (3) percent of each employee's compensation. The District contributed approximately \$15,240 for the year ended December 31, 2020 on behalf of the eligible employees.

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

Tyler County Special Utility District
Notes to the Financial Statements
December 31, 2020

H. Health Care Coverage

During the year ended December 31, 2020, employees of the District were covered by a health insurance plan (the Plan) through BlueCross BlueShield of Texas. The District paid one hundred (100) percent of the employees' monthly premium to the Plan.

The District also contributes to health savings accounts on behalf of its employees. These amounts are included in insurance expense on the accompanying statement of revenues, expenses, and changes in net position.

I. Commitments and Contingencies

1. Litigation

No reportable litigation was pending against the District at December 31, 2020.

J. Subsequent Events

The District has evaluated subsequent events through April 20, 2021, which is the date the financial statements were available to be issued, and determined that there were no subsequent events or transactions that required recognition or disclosure in the financial statements for the year ended December 31, 2020.

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

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APPENDIX E

SELECTED PROVISIONS OF THE RESOLUTION

SELECTED PROVISIONS OF THE BOND RESOLUTION

* * *

Section 2. DEFINITIONS. Throughout this Resolution, the following terms and expressions as used herein shall have the meanings set forth below:

The term "Additional Bonds" shall mean revenue bonds or other evidences of indebtedness which the Issuer reserves the right to issue or enter into, as the case may be, in the future in accordance with the terms and conditions provided in this Resolution.

The term "Additional Security" shall mean the Trust Estate identified in the Deed of Trust whereby Issuer pledges the Trust Estate as security for the Series 2009 Bonds and Series 2010 Bonds (but not for the Bonds authorized herein); provided, however, that additional sources of payment obtained by the Issuer for the payment of Additional Bonds, including but not limited to, letters of credit and payment guarantee insurance policies, shall not constitute Additional Security.

The term "Attorney General" shall mean the Office of the Attorney General of the State.

The term "Average Annual Debt Service" shall be the amount which, at the time of computation, is derived by dividing the total amount of Debt Service to be paid over a period of years as the same as scheduled to become due and payable by the number of years taken into account in determining the total Debt Service.

The term "Board of Directors" or "Board" shall mean the governing body of the Issuer.

The term "Bond Counsel" shall mean McCall, Parkhurst & Horton L.L.P., Dallas, Texas, or such other attorney or firm of attorneys experienced in matters relating to municipal finance law and selected by the Issuer.

The term "Bond Fund" shall mean the Sinking Fund established by the Issuer pursuant to the Series 2010 Bond Resolution and confirmed in Section 10(c) of this Resolution.

The term "Bonds" shall mean the Bonds authorized herein which shall be sold for the purpose of refunding the Series 2009 Bonds.

The term "Business Day" shall mean any day which is not a Saturday, a Sunday, a legal holiday or a day on which the Registrar is authorized by law or executive order to close.

The term "Comptroller" shall mean the Office of the Comptroller of Public Accounts of the State.

The term "Code" shall mean the Internal Revenue Code of 1986, as amended.

The term "Debt Service" as of any particular date of computation, with respect to any obligations and with respect to any period, is the aggregate of the amounts to be paid or set aside

by the Issuer as of such date or in such period for the payment of the principal amount of the Bonds, and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to maturity, the principal amounts thereof will be redeemed prior to maturity in accordance with the mandatory redemption provisions applicable thereto.

The term "Deed of Trust" shall mean that certain instrument entitled Deed of Trust and Security Agreement dated as of September 1, 2009 executed by the Issuer to the Mortgage Trustee and recorded under File No. 09-6253, Official Public Records of Real Property, Tyler County, Texas.

The term "Fiscal Year" shall mean the annual financial accounting period for the System now ending on December 31 of each calendar year; provided, however, the Board of Directors of the Issuer may change such annual financial accounting period to end on another date if such changes found and deemed to be necessary.

The term "Gross Revenues" shall mean all revenues, income and receipts of every nature derived or received by the Issuer from the operation and ownership of the System (excluding refundable meter deposits, restricted gifts and grants in aid of construction), including earnings and income derived from the investment or deposit of monies in any special funds or accounts created and established for the payment and security of the Bonds and other obligations payable solely from and secured only by a lien on and pledge of the Net Revenues.

The term "Initial Bond" shall have the meaning assigned said term in Section 5 hereof.

The term "Issuance Date" shall mean the date on which the Bonds are authenticated by the Paying Agent/Registrar and delivered to and paid for by the Purchaser. Bonds delivered upon transfer of or in exchange for other Bonds shall bear the same issuance date as the Bond or Bonds in lieu of or in exchange for which the new Bond or Bonds may be delivered.

The term "Issuer" shall mean the Tyler County Special Utility District, and any other public agency succeeding to the powers, rights, privileges and functions of the Issuer and, when appropriate, the Board of Directors of the Issuer.

The term "Maintenance and Operating Expenses" shall mean the reasonable and necessary expenses of operation and maintenance of the System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service (but only such repairs and extensions as in the judgment of the Issuer are necessary to keep the System in operation and render adequate service to the Issuer and its customers, or such may be necessary to meet some other physical action or condition which would otherwise impair the Bonds), and all payments under contracts now or hereafter defined as Operating Expenses by the Legislature of State of Texas. Depreciation shall not be considered as maintenance and operation expense.

The term "Maximum Annual Debt Service" shall mean the highest amount of Debt Service due on all Outstanding Parity Obligations in any Fiscal Year. Capitalized interest payments provided from bond proceeds, accrued interest on any Additional Bonds, and interest earnings thereon shall be excluded in making such computation.

The term "Mortgage" shall mean the Deed of Trust, as supplemented by the Renewal, Extension and Modification as to Deed of Trust and Security Agreement, which collectively evidence a first lien mortgage on the Trust Estate (as defined in the Deed of Trust) for the benefit of the Series 2009 Bonds and the Series 2010 Bonds, but which shall not secure the Bonds or any Additional Bonds.

The term "Net Revenues" shall mean all Gross Revenues remaining after the deduction of Maintenance and Operating Expenses.

The term "Outstanding", when used in this Resolution with respect to Parity Obligations, including the Bonds, means, as of the date of determination, all Parity Obligations theretofore sold, issued and delivered by the Issuer, except:

(1) those Parity Obligations canceled or delivered to the transfer agent or registrar for cancellation in connection with the exchange or transfer of such obligations;

(2) those Parity Obligations paid or deemed to be paid in accordance with the provisions of Section 14 hereof or similar provisions of any resolution authorizing the issuance of Parity Obligations; or

(3) those Parity Obligations that have been mutilated, destroyed, lost, or stolen and replacement obligations have been registered and delivered in lieu thereof.

The term "Owner" or "Registered Owner" shall mean any person or entity who shall be the registered owner of any outstanding Bonds.

The term "Parity Obligations" shall mean the Series 2010 Bonds, the Bonds and any Additional Bonds, collectively.

The term "Paying Agent/Registrar" shall mean the bank named in the Pricing Certificate as the initial paying agent/registrar for the Series 2021 Bonds, or any successor thereto as provided in this Resolution.

The term "Payment Date", when used in connection with any Bond, shall mean each March 1 and September 1 following the Issuance Date until each of the Bonds as herein defined shall mature.

The term "Register" shall mean the books of registration kept by the Paying Agent/Registrar in which are maintained the names and addresses of and the principal amounts of Bonds registered to each Owner.

The term "Renewal, Extension and Modification as to Deed of Trust and Security Agreement" shall mean that certain Renewal, Extension and Modification as to Deed of Trust and Security Agreement executed by Issuer to the Mortgage Trustee (as defined in the Deed of Trust) to evidence a first lien mortgage on the Trust Estate (as defined in the Deed of Trust) for the benefit of the Series 2010 Bonds.

The term "Required Reserve" shall mean the amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 10 of this Resolution.

The term "Reserve Fund" shall mean the account established pursuant to the Series 2010 Bond Resolution and confirmed in Section 10(c) of this Resolution whereby certain Net Revenues are set aside by the Issuer and may be withdrawn and used for bond payments, extension to facilities and replacement of short-lived assets.

The term "Resolution" as used herein and in the Bonds shall mean this resolution authorizing the Bonds.

The term "Revenue Fund" shall mean the general operating fund of the Issuer as such account existed prior to the adoption of this Resolution.

The term "Series 2009 Bonds" shall mean collectively the Series 2009A and Series 2009B Bonds.

The term "Series 2010 Bond Resolution" shall mean the resolution adopted by the Board on April 27, 2010 authorizing the issuance of the Series 2010 Bonds.

The term "Series 2010 Bonds " shall mean the Tyler County Water Supply Corporation Water System Revenue Bonds, Series 2010, dated as of May 1, 2010.

The term "State" shall mean the State of Texas.

The term "System" shall mean the plants, facilities and improvements comprising the waterworks system of the Issuer which has been or will be hereafter constructed or otherwise acquired, together with any additions or extensions thereto or improvements and replacements thereof.

The term "TWDB" shall mean the Texas Water Development Board, and any other public agency succeeding to its powers, rights, privileges and functions.

* * *

Section 10. PLEDGE OF NET REVENUES AND ESTABLISHMENT OF FUNDS. The Issuer hereby confirms the establishment of, and agrees to maintain so long as any Bond remains outstanding, the following funds at a depository of the Issuer. The Issuer shall invest such funds only as provided for in this Section of the Resolution and shall apply such funds as described in this Section.

(a) Pledge of Net Revenues. The Net Revenues of the System are hereby irrevocably pledged to the payment of the principal of and the interest on the Parity Obligations; provided, however, the Issuer reserves the right to issue, for any lawful purpose at any time, in one or more installments, bonds or other evidences of indebtedness payable in whole or in part from the Net Revenues of the System that may be on a parity with, or junior and subordinate to the pledge of the Net Revenues securing the Parity Obligations as specified in this Resolution.

(b) Rates and Charges. So long as any Parity Obligation remains outstanding, there shall be fixed, charged and collected rates and charges for the use and services of the System which may be fully sufficient at all times:

- (i) To pay all Maintenance and Operating Expenses, depreciation charges and replacement and betterment costs;
- (ii) to produce Net Revenues in an amount not less than the amounts required to accumulate and maintain the funds as established and required by this Resolution; and
- (iii) to pay the Parity Obligations and all other indebtedness payable from the Net Revenues and/or secured by a lien or encumbrances on Issuer properties or revenues of the System.

The Issuer agrees that with the Owner of the Parity Oblations and any Additional Bonds to a rate covenant obligation as more fully set forth in this Resolution.

(c) Special Funds. The following special funds, as previously established by the Issuer in accordance with the Series 2010 Bond Resolution, are hereby confirmed and shall be maintained and accounted for as long as any Parity Obligations remain outstanding. The Bond Fund and the Reserve Fund shall be common funds that may be used for the Series 2010 Bonds issued by the Issuer prior to the date of this Resolution, the Bonds and for any Additional Bonds issued pursuant to this Resolution. The Series 2010 Bonds heretofore issued and any Additional Bonds issued hereafter shall provide for construction, escrow or other funds as may be required by the commitment for financing under such indebtedness.

- (i) Water System Revenue Bonds Sinking Fund, Series 2010 (the "Bond Fund"); and
- (ii) Water System Revenue Bonds Reserve Fund, Series 2010 (the "Reserve Fund").

The Special Funds shall be maintained at an official depository bank of the Issuer, and shall constitute trust funds which shall be held in occurrence for the benefit of the Parity Obligations and the proceeds of which are hereby pledged to the payment of the Parity Obligations. All of the funds named above shall be used as provided in this Resolution as long as any Parity Obligations remain outstanding.

(d) Flow of Funds. The Issuer hereby covenants and agrees that the Gross Revenues of the System (excluding earnings and income derived from investments held in the Bond Fund, Reserve Fund and the Reserve Account) shall be deposited to the credit of a fund or account maintained on the books and records of the Issuer to be known as the "Water System Fund" (the "Revenue Fund"). Such revenues of the System shall be accounted for separate and apart from other funds of the Issuer and, such revenues, as collected, shall be deposited in a banking account maintained at an official depository of Issuer Funds. All revenues deposited in the Revenue Fund shall be pledged and appropriated to the extent required for the following uses and in the following order of priority:

- (i) **First**, to pay Maintenance and Operating Expenses and to provide by encumbrance for the payment of all obligations incurred by the Issuer for Maintenance and Operating Expenses which may include an operating reserve equal to one month estimated Maintenance and Operating Expenses and which shall include contractual payments due under any water supply contract executed by the Issuer including the Water Supply Contract with the Lower Neches Valley Authority.
- (ii) **Second**, to the payment on a parity basis of amounts and the establishment of accounts required by this Resolution.
- (iii) **Third**, to the payment of the amounts required to be deposited in the Reserve Fund to accumulate and maintain therein the Required Reserve in accordance with provisions of this Resolution or any other order relating to the issuance of Additional Bonds.

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

(e) Bond Fund. On or before the last business day of each month so long as any Bonds remain outstanding, there shall be transferred into the Bond Fund from the Revenue Fund the following amounts:

- (i) Such amounts, in approximately equal monthly installments, as will be sufficient to pay the interest scheduled to become due on the Parity Obligations on the next Payment Date; and
- (ii) Such amounts, in approximately equal monthly installments, as will be sufficient to pay the next maturing principal of the Parity Obligations, including the principal amount of and any redemption premiums on any bonds payable as a result of the exercise or operation of any redemption provision contained in this Resolution or in any resolution authorizing the issuance of the Parity Obligations.

Monies deposited to the credit of the Bond Fund shall be used for the purpose of paying principal (either at maturity or prior redemption or to purchase Bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Parity Obligations, plus bank charges and other costs and expenses relating to such payment, on a pro rata basis among all series of Parity Obligations.

On or before each Payment Date for the Parity Obligations, the Issuer shall transfer from the Bond Fund to the paying agents for the Parity Obligations an amount equal to the principal payable on the Parity Obligations on such date together with an amount equal to all bank charges and other costs and expenses relating to such payment. The paying agents for the Parity Obligations shall totally destroy all paid Parity Obligations and coupons, if any, and shall provide the Issuer with an appropriate certificate of destruction.

(f) Reserve Fund. (i) After making transfers into the Bond Fund as required in paragraph 10(e) of this Resolution, the Issuer shall deposit and maintain or cause to be deposited and maintained in the Reserve Fund an amount of not less than the average annual debt service requirements for all Parity Obligations, to be accumulated in equal monthly installments, over the initial sixty (60) months following the issuance of the Parity Obligations or, if a surety policy or municipal bond guarantee insurance policy is utilized, a provision that said policy will be issued in an amount equal to the accumulation required for the reserve fund and lieu of depositing cash in the Reserve Fund. After the Reserve Fund requirements have been satisfied as herein described and so long thereafter as any such requirements remain satisfied, no further deposits into the Reserve Fund shall be required. When the Reserve Fund contains more than the Reserve Fund requirement, the Issuer may transfer any excess cash amount to the Bond Fund for the payment of Parity Obligations, and (ii) if a surety policy or municipal bond guarantee insurance policy is utilized in lieu of depositing cash in the Reserve Fund and if the TWDB holds the Bonds, that (a) sixty (60) days prior to closing, or sixty (60) days prior to the conversion from a cash reserve to a surety policy or a municipal bond guarantee insurance policy, a draft of said policy will be provided to the Executive Administrator of the TWDB for the determination of whether the policy is appropriate security in accordance with TWDB policies; (b) prior to closing, or prior to the conversion from a cash reserve to a surety policy or municipal bond guarantee insurance policy, the executed underlying documents of said policy will be provided, the form and substance of which is satisfactory to the Executive Administrator of the TWDB; and (c) prior to closing, the Attorney General's Office will have approved the use of said policy as a part of its approval of the proposed bond issue.

(g) Construction Fund. No proceeds of the Bonds shall be deposited to any construction fund with the Issuer's depository bank.

(h) Investment of Funds; Transfer of Investment Income. Money in each fund maintained pursuant to this Section of this Resolution are subject to the Public Funds Investment Act, Texas Government Code, Chapter 2256, as amended, and may, at the option of the Issuer, be invested in authorized investments of the Issuer as provided for in the Issuer's Investment Policy. All investments shall be valued in terms of current market value no less frequently than the last business day of each fiscal year of the Issuer except that any direct obligations of the United States of America, state or local government shall be continuously valued at their par value or principal face amount. Any obligation which is monies so invested shall be kept and held in the official depository of the Issuer at which the fund is maintained from which such investment was made. All such investments shall be promptly sold when necessary to prevent any default in connection with the Bonds.

(i) Security for Uninvested Funds. All Funds created by this Resolution shall be secured in the manner and to the fullest extent required by law, including particularly, the Public Funds Collateral Act, Chapter 2257, Texas Government Code, and such Funds shall be used only for the purposes and in the manner permitted or required by this Resolution

(j) Government Code Chapter 1208. Chapter 1208, Government Code, as amended, applies to the issuance of the Bonds and the pledge of the Net Revenues of the System granted by the Issuer under this Section, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time while the Bonds are outstanding such that the pledge of the

Net Revenues of the System granted by the Issuer under this Section is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, as amended, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the Issuer agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

Section 11. SPECIAL COVENANTS OF THE ISSUER.

(a) Insurance. The Issuer shall maintain the System in good condition and operate the System in an efficient manner and at a reasonable cost. In regard to the operations and properties of the System, the Issuer also agrees to carry and maintain liability and property damage insurance of the kind and in the amounts carried by water supply corporations in Texas owning and operating similar facilities and providing like services.

(b) Operations and Maintenance. While any of the Bonds are outstanding, the Issuer covenants and agrees to keep and cause to be kept all of the System in good condition, repair and working order and to operate and maintain and cause the System to be operated and maintained in an efficient manner so as to assure the receipt of Gross Revenues sufficient to meet all requirements of this Resolution.

(c) Rate Covenant. As specified in this Resolution, Issuer covenants and agrees that it will at all times fix, maintain, charge and collect for services rendered by the System rates and charges that will produce Net Revenues sufficient to pay all of the principal and interest on the Parity Obligations and any Additional Bonds or other indebtedness secured by Net Revenues and to make all other deposits required to be made into the funds by this Resolution and in connection with the Series 2010 Bonds and any Additional Bonds. If a report by a certified public accountant reflects that the Net Revenues of the System for the prior fiscal year covered by the report of the certified public accountant were less than the amounts required to meet the rate obligations of this Resolution, the Board of Directors of the Issuer within thirty (30) days after receipt of such report will review the operation of the System, and concurrently the rates and charges for services rendered under the System and will make the necessary rate and charge adjustments to ensure that Net Revenues will be sufficient to meet the requirements of this Resolution for following fiscal years. If the System should become legally liable for other obligations or indebtedness as permitted in this Resolution, Issuer shall fix, maintain, charge and collect additional rates and charges for services rendered by the System sufficient to establish and maintain funds for the payment of such additional other obligations or indebtedness. The Board of Directors of the Issuer shall, annually, review its rates and charges to insure that the covenants made in this Resolution as to rates and charges are met.

(d) Title. Issuer lawfully owns or will own or will have rights of use of all lands or easement upon which the System is and will be located and has or will acquire good and indefeasible estate in such lands in fee simple or lawfully obtain any easements to operate the System that it warrants that will be necessary so as Issuer will be able to defend the title to any and all such lands or easements for the benefit of the owners of the Bonds against any claims or demand any and all persons whomsoever.

(e) Budget. The Issuer will prepare, adopt and place into effect an annual budget (the "Annual Budget") for operation and maintenance of the System for each fiscal year, including in each Annual Budget and defined terms such items as are customary and reasonable for a waterworks system budget under generally accepted accounting procedures. Issuer shall, at least thirty (30) days subsequent to the adoption and placing into effect, each Annual Budget furnish, without cost, a copy of said Annual Budget to any owner of 25% or more aggregate of the principal amount of Outstanding Bonds.

(f) No Free Service. No free service of the System shall be allowed, and should the Issuer or any of its agents or instrumentalities make use of the services and facilities of the Issuer, payment of the reasonable value thereof shall be made by the Issuer out of funds from sources other than the revenues and income of the System.

(g) Prohibited Franchises. To the extent that it legally may while the Bonds are Outstanding, the Issuer shall not grant any franchise for the installation or operation of any waterworks other than that owned by the Issuer or to be hereafter constructed and the operation of any such system by anyone other than the Issuer is hereby prohibited.

(h) Compliance with Franchises. The Issuer shall comply with all the terms and conditions of any and all franchises, permits and authorizations applicable to or necessary with respect to the System, and which have been obtained from any governmental agency, and the Issuer has or will obtain and keep in full force and effect all franchises, permits, authorizations and other requirements applicable to or necessary with respect to the acquisition, construction, operation, equipping and maintenance of the System.

(i) Resolution is a Contract. In consideration of the purchase and acceptance of the Bonds authorized to be issued hereunder by those persons who hold the same from time to time, the provisions of this Resolution shall be deemed to be and shall constitute a contract between the Issuer and the Owners of the Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction except as expressly provided herein.

Section 12. **DEFAULT AND REMEDIES.** (a) Events of Default. Any one or more of the following events shall constitute and hereinafter shall be called an "Event of Default":

(1) the failure by the Issuer to make due and punctual payment of principal of, redemption premium, if any, and interest on the Bonds on any date such payment is due to be made to any Bondholder, whether payment is required at maturity or by call for redemption or otherwise;

(2) the Issuer defaulting in the observance or performance of any other of its covenants, conditions, or obligations in the Bonds or this Resolution, and the Issuer not remedying such default within 60 days after written notice to do so has been received by the Issuer from the Paying Agent/Registrar or the owners of the Bonds; and the Paying Agent/Registrar may serve such notice, in its discretion, or shall serve such notice at the written request of the owners of not less than 51% in aggregate principal amount of the Bonds then Outstanding;

- (3) the Issuer becomes insolvent, or makes a transfer in fraud of creditors, or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts as they become due;
- (4) the Issuer is generally not paying its debts as such debts become due;
- (5) a receiver, trustee, or custodian is appointed for, or takes possession of, all or substantially all of the assets of the Issuer or any of the System, either in a proceeding brought by the Issuer or in a proceeding brought against the Issuer or the Issuer consents to or acquiesces in such appointment or possession;
- (6) the Issuer files a petition for relief under the United States Bankruptcy Code, as amended, or any other present or future federal or state insolvency, bankruptcy or similar law (all of the foregoing being hereinafter collectively referred to as "applicable Bankruptcy Law") or any composition, rearrangement, extension, reorganization or other relief of debtors now or hereafter existing is requested or consented to by the Issuer;
- (7) an involuntary petition for relief is filed against the Issuer under any applicable Bankruptcy Law or an order for relief naming the Issuer is entered under any applicable Bankruptcy Law, or any composition, rearrangement, extension, reorganization or other relief of debtors is sought against the Issuer;
- (8) the System or any part thereof shall be taken on execution or other process of law in any action against the Issuer;
- (9) the Issuer abandons all or a portion of the System except for old or out of date parts which does not render the System unprofitable;
- (10) without any prior written consent required under this Resolution, there occurs any sale, conveyance, further encumbrance or other transfer of title to the System, or any interest therein (whether voluntarily or by operation of law), including specifically, without limitation:
 - (i) any sale, conveyance, assignment, or other transfer of, or the grant of a security interest in, all or any part of the legal and/or equitable title to the System or all or substantially all of the Issuer's assets; or
 - (ii) foreclosure of any lien for taxes levied against the System;
- (11) the System is so demolished, destroyed, or damaged that, in the judgment of the registered owners of at least 51% in principal amount of Bonds Outstanding, it cannot be restored or rebuilt with available funds to a profitable condition within a reasonable period of time; or
- (12) so much of the System is taken in condemnation, or sold in lieu of condemnation, or the System is so diminished in value due to any injury or damage to the System, that the remainder thereof cannot, in the judgment of the registered owners of at least 51% in

principal amount of Bonds Outstanding, continue to be operated profitably for the purpose for which it was being used immediately prior to such taking, sale, or diminution.

(b) Declaration of Principal and Interest Due. Upon the happening of an Event of Default, upon the written request of the owners of at least 51% in aggregate principal amount of the Bonds then outstanding, and upon being indemnified to its satisfaction, the Paying Agent/Registrar shall declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest, together with any applicable agreed liquidated damages, and any applicable redemption premium, and any other amounts then due, shall thereupon become and be immediately due and payable, anything in the Bonds or this Resolution to the contrary notwithstanding.

(c) Enforcement by Paying Agent/Registrar. Upon the happening of an Event of Default, the Paying Agent/Registrar, upon the written request of the owners of at least 51% in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction, shall take such appropriate action by judicial proceedings or otherwise to cure the Event of Default and/or to require the Issuer to carry out its covenants and obligations under and with respect to the Bonds or this Resolution, including without limitation, the use and filing of actions for specific performance, and mandamus proceedings, in any court of competent jurisdiction, against the Issuer, its Board of Directors, and its officers, employees, and/ or agents.

(d) Remedies Non-Exclusive. No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Bonds or the Bonds Resolution, or now and hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon the happening of an Event of Default continuing as aforesaid shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and so often as may be deemed expedient.

(e) Waiver of Defaults. Upon the written request of the owners of a majority in aggregate principal amount of the Bonds then Outstanding the Paying Agent/Registrar shall waive any Event of Default hereunder and its consequences, except that an Event of Default in the payment of any amounts with respect to the Bonds when and as the same shall become due and payable may be waived only if the Event of Default therein shall have been remedied and made good. In case of any such waiver, the Issuer, the Paying Agent/Registrar, and the owners of the Bonds shall be restored to their former position and rights hereunder respectively, but such waiver shall not extend to any subsequent or other Event of Default or impair any right consequent thereon.

(f) Application of Moneys. All money collected by the Paying Agent/Registrar pursuant to the exercise of the remedies and powers provided in this Section, together with all other sums which then may be held by the Paying Agent/Registrar under any provision of this Resolution as security for the Bonds, shall be applied as follows:

FIRST: to the payment of the costs and expenses of the proceedings whereunder such money was collected, including a reasonable compensation to the Paying Agent/Registrar, its agents, attorneys, and all other necessary or proper expenses, liabilities, and advances incurred or made by the Paying Agent/Registrar under this Resolution, and to the payment of all taxes, assessments, and liens superior to the lien of this Resolution, if any.

SECOND: to the payment of matured interest on the Bonds.

THIRD: to the payment of principal of and redemption premium, if any, on the Bonds which have been called for redemption as permitted or required by this Resolution or have matured as provided thereby.

FOURTH: to the payment of the surplus, if any, to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct. If in making distribution pursuant to the order above stated, the amount available for distribution in a particular classification shall be insufficient to pay in full all of the items in such classification, the amount available for distribution to items in such classification shall be prorated among such items in the proportion that the amount each item bears to the total of all such items.

(g) Direction by Majority in Principal Amount of Bondholders. It is expressly provided, however, that the owners of a majority in aggregate principal amount of the Bonds then Outstanding, or a committee representing, pursuant to a written appointment filed with the Paying Agent/Registrar, the owners of a majority in aggregate principal amount of the Bonds then Outstanding, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Paying Agent/Registrar, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the rights of the owners of the Bonds or the Paying Agent/Registrar's rights and remedies under this Resolution, and may exercise any right or perform any action hereunder, provided, that such direction shall not be otherwise than in accordance with the provisions of law and of this Resolution.

(h) Notice by Paying Agent Registrar. The Paying Agent/Registrar shall not be required to take notice nor be deemed to have notice of any default specified in this Resolution except for the Event of Default specified in Subsection (a) (1) of this Section unless specifically notified in writing of such default by the owners of at least 51% in aggregate principal amount of the Bonds then Outstanding.

(i) Concurrence of Bondholders. In determining whether the owners of a requisite aggregate principal amount of Bonds outstanding have concurred in any request, demand, authorization, direction, notice, consent, or waiver under this Resolution, Bonds owned by or for the account of the Issuer or any person controlled by, controlling, or under common control of the Issuer, shall be disregarded and deemed not to be outstanding for the purpose of any such determination; provided, however, that for the purpose of determining whether the Paying Agent/Registrar shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, or waiver, only Bonds of which the Paying Agent/Registrar has actual knowledge of such ownership shall be so disregarded.

(j) Notice to Issuer of Past Due Payments. Pursuant to this Resolution payments by the Issuer are to be paid directly to the Paying Agent/Registrar. In the event that any such payments are not timely made, the Paying Agent/Registrar shall as soon as reasonably practicable notify the Issuer by wire at the address provided herein or by telephonic notice with confirmation of such notice by wire or in writing, that payment has not been made. Such notice shall be deemed given at the time the wire or written notice is received or telephonic notice is given, whichever is earlier. Failure of the Paying Agent/Registrar to give, or the Issuer to receive, such notice shall not relieve the Issuer of any covenant or obligation under this Resolution and shall not constitute a waiver of any Event of Default under this Resolution.

Section 13. FINAL PAYMENT AND UNCLAIMED FUNDS. (a) Whenever the total amount in the Bond Fund and any Reserve Fund established for any Parity Obligations under Section 10 hereof, shall be equivalent to the aggregate principal amount of all Parity Obligations Outstanding, plus all interest accrued and to accrue on such Parity Obligations, no further payments need be made into the Bond Fund or such Reserve Fund, and said obligations shall not be regarded as being Outstanding except for the purpose of being paid with the funds on hand.

(b) Any money deposited with the Paying Agent/Registrar in trust for the payment of the principal of, redemption premium, if any, or interest on any Parity Obligation and remaining unclaimed for four years after such principal of, redemption premium, if any, or interest on such Parity Obligation has become due and payable shall, subject to the unclaimed property laws of the State of Texas, be paid to the Issuer; provided, however, that before the Paying Agent/Registrar shall be required to make any such repayment, the Paying Agent/Registrar may at the expense of the Issuer cause to be published at least once, in a financial newspaper, journal, or publication of general circulation in The City of New York, New York, or in the State of Texas, a notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Issuer. After the payment of such unclaimed moneys to the Issuer, the owner of such Parity Obligation shall thereafter look only to the Issuer for the payment thereof, and all liability of the Paying Agent/Registrar with respect to such money shall thereupon cease.

Section 14. DEFEASANCE OF PARITY OBLIGATIONS. (a) Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer Outstanding (a "Defeased Bond") within the meaning of this Resolution, except to the extent provided in subsection (d) of this Section, when payment of the principal of such Bond, plus interest thereon to the due date (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar for such payment (1) lawful money of the United States of America sufficient to make such payment or (2) Defeasance Securities which mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been made by the Issuer with the Paying Agent/Registrar for the payment of its services until all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond hereunder, as

aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of the Net Revenues pledged as provided in this Resolution, and such principal and interest shall be payable solely from such money or Defeasance Securities.

(b) Notwithstanding the provisions of subsection (a), the Issuer expressly reserves the right, pursuant to Section 1207.033(c), Texas Government Code, to later call the Defeased Bonds for redemption in accordance with the provisions of this Resolution.

(c) Any moneys so deposited with the Paying Agent/Registrar may at the written direction of the Issuer also be invested in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Defeasance Securities received by the Paying Agent/Registrar which is not required for the payment of the Defeased Bonds and interest thereon with respect to which such money has been so deposited, shall be turned over to the Issuer, or deposited as directed in writing by the Issuer.

(d) The term "Defeasance Securities" as used in this Section, shall mean any obligations now or hereafter permitted by State law to defease obligations such as the Bonds.

(e) Until all Defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the Issuer shall make proper arrangements to provide and pay for such services as required by this Resolution.

(f) In the event that the Issuer elects to defease less than all of the principal amount of Bonds of a particular maturity, the Paying Agent/Registrar shall select such amount of Bonds by such random method as it deems fair and appropriate.

Section 15. ADDITIONAL BONDS. (a) Subject to the provisions of subparagraph (b) hereof, the Issuer reserves the right to issue additional parity revenue bonds for any lawful purpose, including the refunding of any Parity Obligations, to be known as Additional Bonds, which, when issued and delivered, shall be payable from and secured by a first lien on and pledge of the Net Revenues (but not secured by the lien on the System covered by the Mortgage) in the same manner and to the same extent as the Bonds.

(b) No installment or series of Additional Bonds shall be issued unless:

(1) A certificate is executed by the President or the chief administrative officer of the Issuer to the effect that no default exists in connection with any of the covenants or requirements of the Resolution or Resolutions authorizing the issuance of all then Outstanding Parity Obligations and that the Bond Fund and the Reserve Fund each contains the amount then required to be on deposit therein;

(2) An opinion of bond counsel is rendered to the effect that (i) such Additional Bonds are valid and binding obligations of the Issuer and enforceable in accordance with their terms subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights or remedies generally and to the extent that certain equitable

remedies, including specific performance may not be available; (ii) such Additional Bonds have been duly and validly authorized and issued in accordance with law; and

(3) for so long as the TWDB is Owner of any Parity Obligations, an independent certified public accountant, or independent firm of certified public accountants, acting by and through a certified public accountant, signs and provides to the TWDB at least 45 days prior to the proposed issuance date of Additional Bonds, a written certificate to the effect that, in his or its opinion, during either the next preceding fiscal year, or any twelve consecutive calendar month period ending not later than 90 days preceding the month in which the resolution authorizing the issuance of the then proposed Additional Bonds is passed, the Net Revenues were at least 1.25 times the average annual Debt Service requirements of all Parity Obligations and Additional Bonds which are scheduled to be outstanding after the delivery of the then proposed Additional Bonds. It is specifically provided, however, that in calculating the amount of Net Revenues for the purposes of this subparagraph, if there has been any increase in the rates or charges for services of the System which is then in effect and which has been in effect for at least 60 days prior to the month in which the resolution authorizing the issuance of the proposed Additional Bonds is passed, but which was not in effect during all of the entire period for which the Net Revenues are being calculated (hereinafter referred to as the "entire period") then the certified public accountant, or in lieu of the certified public accountant a firm of consulting engineers, shall determine and certify the amount of Net Revenues as being the total of (i) the actual Net Revenues for the entire period, plus (ii) a sum equal to the aggregate amount by which the actual billings to customers of the System during the entire period would have been increased if such increased rates or charges had been in effect during the entire period. If the TWDB is no longer an Owner of any Parity Obligations, then the certificate required by this subsection (i) may be executed by the President or the chief administrative officer of the Issuer and delivered to the Board no later than the date the Board adopts a resolution authorizing the issuance of the then proposed Additional Bonds, and (ii) shall not be required for the issuance of refunding bonds to refund a series of Outstanding Parity Obligations if such refunding results in a debt service savings to the Issuer.

(c) The Issuer further reserves the right to issue bonds, notes, or other obligations of inferior liens and bonds, notes, or other obligations payable from sources other than Net Revenues.

(d) All Bonds of all series from time to time issued and delivered under this Resolution shall be equally and ratably secured by the Net Revenues and any Additional Security as to principal, premium, if any, and interest.

Section 16. AMENDMENT OF RESOLUTION. The Issuer may, without the consent of or notice to any Owners, amend this Resolution in any manner not detrimental to the interests of the Owners, including the curing of any ambiguity, inconsistency or formal defect or omission herein. In addition, the Issuer may, with the written consent of the Owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of this Resolution, provided that without the consent of the Owners of all of the Bonds affected, no such amendment, addition or rescission may (1) change the date

specified as the date on which the principal of any Bond is due and payable, reduce the principal amount thereof, the redemption price therefor change the place or places at, or the coin or currency in which any Bond is payable, or in any other way modify the terms of payment of the principal of the Bonds, (2) give any preference to any Bond over any other Bond, or (3) modify any of the provisions of this Resolution relating to the amendment hereof, except to increase any percentage provided hereby or to provide that certain other provisions of this Resolution cannot be modified or waived without the consent of the Owner of each Bond affected thereby.

Section 17. **DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED BONDS.** (a) Replacement Bonds. In the event any Outstanding Parity Obligation is damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered, a new bond of the same principal amount, maturity, and interest rate, as the damaged, mutilated, lost, stolen, or destroyed Parity Obligation, in replacement for such Parity Obligation in the manner hereinafter provided.

(b) Application for Replacement Bonds. Application for replacement of damaged, mutilated, lost, stolen, or destroyed Parity Obligation shall be made by the registered owner thereof to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Parity Obligation, the registered owner applying for a replacement bond shall furnish to the Issuer and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Parity Obligation, the registered owner shall furnish to the Issuer and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft, or destruction of such Parity Obligation, as the case may be. In every case of damage or mutilation of a Parity Obligation, the registered owner shall surrender to the Paying Agent/Registrar for cancellation the Parity Obligation so damaged or mutilated.

(c) No Default Occurred. Notwithstanding the foregoing provisions of this Section, in the event any such Parity Obligation shall have matured, and no default has occurred which is then continuing in the payment of the principal of, redemption premium, if any, or interest on the Parity Obligation, the Issuer may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Parity Obligation) instead of issuing a replacement Parity Obligation, provided security or indemnity is furnished as above provided in this Section.

(d) Charge for Issuing Replacement Bonds. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the registered owner of such Parity Obligation with all legal, printing, and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Parity Obligation is lost, stolen, or destroyed shall constitute a contractual obligation of the Issuer whether or not the lost, stolen, or destroyed Parity Obligation shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Resolution equally and proportionately with any and all other Parity Obligations duly issued under this Resolution.

(e) Authority for Issuing Replacement Bonds. In accordance with Subchapter D of Chapter 1201, Texas Government Code, this Section of this Resolution shall constitute authority for the issuance of any such replacement bond without necessity of further action by the governing body of the Issuer or any other body or person, and the duty of the replacement of such bonds is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Parity Obligations in the form and manner and with the effect, as provided in Section 5(d) of this Resolution for Parity Obligations issued in conversion and exchange for other Parity Obligations.

Section 18. NO INDIVIDUAL LIABILITY. No covenant or agreement contained in the Parity Obligations or in this Resolution or in any corollary instrument shall be deemed to be the covenant or agreement of any member of the Board of Directors of the Issuer or any officer, agent, employee or representative of the Issuer in his individual capacity, and, except in the case of fraud, neither the directors, officers, agents, employees or representatives of the Issuer nor any person executing the Parity Obligations shall be personally liable thereon or be subject to any personal liability or accountability by reason of the issuance thereof, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty, or otherwise, all such liability being expressly released and waived as a condition of and in consideration for the issuance of the Parity Obligations.

Section 19. SALE OF BONDS; PURCHASE AGREEMENT. (a) The Bonds shall be sold and delivered subject to the provisions of Sections 1 through 3 hereof through a negotiated sale, competitive sale or private placement and pursuant to the terms and provisions of a purchase contract or a notice of sale and bidding instructions and official bid form (in either case, the "Purchase Agreement") which the Pricing Officer is hereby authorized to execute and deliver and in which the initial purchaser or purchasers (collectively, the "Purchaser") of the Bonds shall be designated. The Initial Bonds shall be registered in the name of the Purchaser thereof as set forth in the Pricing Certificate.

(b) The President, Secretary and General Manager of the Issuer are further authorized and directed to execute and deliver for and on behalf of the Issuer copies of a Preliminary Official Statement and Official Statement, prepared in connection with the offering of the Bonds by the Purchaser, in final form as may be required by the Purchaser, and such final Official Statement in the form and content as approved by the Pricing Officer or as manually executed by said officials shall be deemed to be approved by the Board of the Issuer and constitute the Official Statement authorized for distribution and use by the Purchaser. The form and substance of the Preliminary Official Statement for the Bonds and any addenda, supplement or amendment thereto, all as approved by the Pricing Officer, are hereby deemed to be approved in all respects by the Board of the Issuer, and the Preliminary Official Statement is hereby deemed final as of its date (except for the omission of pricing and related information) within the meaning and for the purpose of paragraph (b)(1) of the Rule (hereinafter defined).

(c) The Pricing Officer is authorized, in connection with effecting the sale of the Bonds, to obtain from a municipal bond insurance company so designated in the Pricing Certificate (the "Insurer") a municipal bond insurance policy (the "Insurance Policy") in support of the Bonds. To that end, should the Pricing Officer exercise such authority and commit the Issuer to obtain a municipal bond insurance policy, for so long as the Insurance Policy is in effect, the

requirements of the Insurer relating to the issuance of the Insurance Policy as set forth in the Pricing Certificate are incorporated by reference into this Resolution and made a part hereof for all purposes, notwithstanding any other provision of this Resolution to the contrary. The Pricing Officer shall have the authority to execute any documents to effect the issuance of the Insurance Policy by the Insurer.

(d) The President, Secretary, and General Manager of the Issuer and each Pricing Officer shall be and they are hereby expressly authorized, empowered and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver in the name and on behalf of the Issuer such documents, certificates and other instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Resolution, the Pricing Certificate, the Bonds, the sale of the Bonds and the Official Statement. In case any officer whose signature shall appear on any Bond shall cease to be such officer before the delivery of such Bond, such signature shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery.

Section 20. REDEMPTION OF REFUNDED OBLIGATIONS. (a) Subject to execution and delivery of the Purchase Agreement with the Purchaser, the Issuer hereby directs that the Refunded Obligations be called for redemption on the dates and at the prices set forth in the Pricing Certificate.

(b) The paying agent/registrar for the Refunded Obligations is hereby directed to provide the appropriate notice of redemption as required by the Refunded Obligations and is hereby directed to make appropriate arrangements so that the Refunded Obligations may be redeemed on the redemption date.

(c) If the redemption of the Refunded Obligations results in the partial refunding of any maturity of the Refunded Obligations, the Pricing Officer shall direct the paying agent/registrar for the Refunded Obligations to designate at random and by lot which of the Refunded Obligations will be payable from and secured solely from Net Revenues of the System pursuant to the resolution of the Issuer authorizing the issuance of such Refunded Obligations (the "2009 Bond Resolution"). For purposes of such determination and designation, all Refunded Obligations registered in denominations greater than \$5,000 in principal amount shall be considered to be registered in separate \$5,000 denominations. The paying agent/registrar shall notify by first-class mail all Registered Owners of all affected bonds of such maturities that: (i) a portion of such bonds have been refunded and are secured until final maturity solely with cash and investments maintained by the Escrow Agent in the Escrow Fund, (ii) the principal amount of all affected bonds of such maturities registered in the name of such Registered Owner that have been refunded and are payable solely from cash and investments in the Escrow Fund and the remaining principal amount of all affected bonds of such maturities registered in the name of such Registered Owner, if any, have not been refunded and are payable and secured solely from the "Net Revenues" of the Issuer as defined in the 2009 Bond Resolution, (iii) the Registered Owner is required to submit his or her Refunded Obligations to the paying agent/registrar, for the purposes of reregistering such Registered Owner's bonds and assigning new CUSIP numbers in order to distinguish the source of payment for the principal and interest on such bonds, and (iv) payment of principal of and interest on such bonds may, in some circumstances, be delayed until

such bonds have been reregistered and new CUSIP numbers have been assigned as required by (iii) above.

(d) The source of funds for payment of the principal of and interest on the Refunded Obligations on their respective maturity or redemption dates shall be from the funds deposited with the Escrow Agent, pursuant to the Escrow Agreement.

Section 21. COVENANTS REGARDING TAX EXEMPTION. The Issuer covenants to refrain from taking any action which would adversely affect, and to take any required action to ensure, the treatment of the Bonds as obligations described in Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the Issuer covenants as follows:

(a) to take any action to assure that no more than 10 percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited to a reserve fund, if any) or the projects financed therewith are used for any "private business use," as defined in Section 141(b)(6) of the Code or, if more than 10 percent of the proceeds or the projects financed therewith are so used, such amounts, whether or not received by the Issuer, with respect to such private business use, do not, under the terms of this Resolution, or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Bonds, in contravention of Section 141(b)(2) of the Code;

(b) to take any action to assure that in the event that the "private business use" described in subsection (a) hereof exceeds 5 percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business use" which is "related" and not "disproportionate," within the meaning of Section 141(b)(3) of the Code, to the governmental use;

(c) to take any action to assure that no amount which is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of Section 141(c) of the Code;

(d) to refrain from taking any action which would otherwise result in the Bonds being treated as "private activity bonds" within the meaning of Section 141(b) of the Code;

(e) to refrain from taking any action that would result in the Bonds being "federally guaranteed" within the meaning of Section 149(b) of the Code;

(f) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in Section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Bonds, other than investment property acquired with --

(1) proceeds of the Bonds invested for a reasonable temporary period of 3 years or less or, in the case of a refunding bond, for a period of 90 days or less until such proceeds are needed for the purpose for which the Bonds or refunding bonds are issued,

(2) amounts invested in a bona fide debt service fund, within the meaning of Section 1.148-1(b) of the rules and regulations of the United States Department of the Treasury (the "Treasury Regulations"), and

(3) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Bonds;

(g) to otherwise restrict the use of the proceeds of the Bonds or amounts treated as proceeds of the Bonds, as may be necessary, so that the Bonds do not otherwise contravene the requirements of Section 148 of the Code (relating to arbitrage);

(h) to refrain from using the proceeds of the Bonds or proceeds of any prior bonds to pay debt service on another issue more than 90 days after the date of issue of the Bonds in contravention of the requirements of section 149(d) of the Code (relating to advance refundings); and

(i) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Bonds) an amount that is at least equal to 90 percent of the "Excess Earnings," within the meaning of Section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under Section 148(f) of the Code; and

For purposes of the foregoing (a) and (b), the Issuer understands that the term "proceeds" includes "disposition proceeds" as defined in the Treasury Regulations and, in the case of refunding bonds, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of issuance of the Bonds. It is the understanding of the Issuer that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify or expand provisions of the Code, as applicable to the Bonds, the Issuer will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally-recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Bonds, the Issuer agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally-recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code. In furtherance of such intention, the Issuer hereby authorizes and directs each of the President of the Board of Directors and the General Manager of the Issuer to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the Issuer, which may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

In order to facilitate compliance with the above covenant (i), a "Rebate Fund" is hereby established by the Issuer for the sole benefit of the United States of America, and such fund shall not be subject to the claim of any other person, including without limitation the bondholders. The Rebate Fund is established for the additional purposes of compliance with Section 148 of the Code.

Section 22. INTEREST EARNINGS ON BOND PROCEEDS. The earnings, if any, derived from the investment of proceeds from the sale of the Bonds shall be used for extensions and improvements to the Water System; provided that after completion of the extensions and improvements to the Water System, if any of such interest earnings remain on hand, such interest earnings shall be deposited in the Bond Fund. It is further provided, however, that interest earnings on the Bonds proceeds which are required to be rebated to the United States of America pursuant to Section 21 hereof in order to prevent the Bonds from being arbitrage bonds shall be so rebated and not considered as interest earnings for the purpose of this Section.

Section 23. ALLOCATION OF, AND LIMITATION ON, EXPENDITURES FOR THE PROJECT; DISPOSITION OF THE PROJECT. (a) The Issuer covenants to account for the expenditure of Bond proceeds and investment earnings to be used for the construction or acquisition of the property constituting the project financed or refinanced with proceeds of the sale of the Bonds on its books and records by allocating proceeds to expenditures within 18 months of the later of the date that (1) the expenditure is made or (2) such construction or acquisition is completed. The foregoing notwithstanding, the Issuer shall not expend proceeds of the Bonds or investment earnings thereon more than 60 days after the earlier of (1) the fifth anniversary of the delivery of the Bonds or (2) the date the Bonds are retired, unless the Issuer obtains an opinion of nationally-recognized bond counsel that such expenditure will not adversely affect the tax-exempt status of the Bonds. For purposes hereof, the Issuer shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the Bonds on the Bonds.

(b) The Issuer covenants that the property constituting the project financed with proceeds of the Bonds will not be sold or otherwise disposed in a transaction resulting in the receipt by the Issuer of cash or other compensation, unless any action taken in connection with such disposition will not adversely affect the tax-exempt status of the Bonds. For purpose of the foregoing, the Issuer may rely on an opinion of nationally-recognized bond counsel that the action taken in connection with such sale or other disposition will not adversely affect the tax-exempt status of the Bonds. For purposes of the foregoing, the portion of the property comprising personal property and disposed in the ordinary course shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes hereof, the Issuer shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

Section 24. DESIGNATION AS QUALIFIED TAX-EXEMPT OBLIGATIONS. The Issuer hereby designates the Bonds as "qualified tax-exempt obligations" as defined in section 265(b)(3) of the Internal Revenue Code of 1986 (the "Code"), conditioned upon the Purchaser

identified in Section 19 hereof certifying that the aggregate initial offering price of the Bonds to the public (excluding any accrued interest) is no greater than \$10 million (or such other amount permitted by such section 265 of the Code). Assuming such condition is met, in furtherance of such designation, the Issuer represents, covenants and warrants the following: (a) that during the calendar year in which the Bonds are issued, the Issuer (including any subordinate entities) has not designated nor will designate bonds, which when aggregated with the Bonds, will result in more than \$10,000,000 (or such other amount permitted by such section 265 of the Code) of "qualified tax-exempt obligations" being issued; (b) that the Issuer reasonably anticipates that the amount of tax-exempt obligations issued during the calendar year in which the Bonds are issued, by the Issuer (or any subordinate entities) will not exceed \$10,000,000 (or such other amount permitted by such section 265 of the Code) ; and, (c) that the Issuer will take such action or refrain from such action as necessary, and as more particularly set forth in this Section, in order that the Bonds will not be considered "private activity bonds" within the meaning of section 141 of the Code

Section 25. CONTINUING DISCLOSURE UNDERTAKING.

(a) Annual Reports.

The Issuer shall provide annually to the MSRB, in an electronic format as prescribed by the MSRB, for each fiscal year ending in or after 2021, financial information and operating data with respect to the Issuer of the general type set forth in the Official Statement, provided that such information and data is customarily prepared by the Issuer and publicly available. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in the annual financial reports of the Issuer, or such other accounting principles as the Issuer may be required to employ from time to time pursuant to state law or regulation, and (2) audited, if the Issuer commission an audit of such statements and the audits are completed within the period during which they must be provided. If the audits of such financial statements is not complete within such period, then the Issuer shall provide unaudited financial information that is available to the Issuer by the required time and will provide audited financial statements for the applicable fiscal year to the MSRB, when and if the audit reports on such statements become available. Such information shall be transmitted electronically to the MSRB, in such format and accompanied by such identifying information as prescribed by the MSRB.

If the Issuer changes its fiscal year, the Issuer will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the Issuer otherwise would be required to provide financial information and operating data pursuant to this Section. The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document that is available to the public on the MSRB's internet website or filed with the SEC. All documents provided to the MSRB pursuant to this Section shall be accompanied by identifying information as prescribed by the MSRB.

(b) Event Notices.

(i) The Issuer shall file notice of any of the following events with respect to the Bonds with the MSRB in a timely manner and not more than 10 business days after 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 Issuer;
- (13) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, 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;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (15) Incurrence of a Financial Obligation of the Issuer, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Issuer, any of which affect security holders, if material; and
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Issuer, any of which reflect financial difficulties.

For these purposes, (i) any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Issuer 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 Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers of the Issuer 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 Issuer., and (ii) the Issuer intends the words used in the immediately preceding paragraphs (15) and (16) and the definition of Financial

Obligation in this Section to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

(iii) The Issuer shall notify the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner, of any failure by the Issuer to provide financial information or operating data in accordance with this subsection by the time required. All documents provided to the MSRB pursuant to this subsection shall be accompanied by identifying information as prescribed by the MSRB.

(c) Limitations, Disclaimers, and Amendments.

(i) The Issuer shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the Issuer remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the Issuer in any event will give notice of any deposit made in accordance with this Resolution or applicable law that causes Bonds no longer to be Outstanding.

(ii) The provisions of this Section are for the sole benefit of the registered owners and beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The Issuer undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the Issuer's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The Issuer does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

(iii) UNDER NO CIRCUMSTANCES SHALL THE ISSUER BE LIABLE TO THE REGISTERED OWNER OR BENEFICIAL OWNER OF ANY Bond OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE ISSUER, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

(iv) No default by the Issuer in observing or performing its obligations under this Section shall comprise a breach of or default under this Resolution for purposes of any other provision of this Resolution. Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the Issuer under federal and state securities laws.

(v) Should the Rule be amended to obligate the Issuer to make filings with or provide notices to entities other than the MSRB, the Issuer hereby agrees to undertake

such obligation with respect to the Bonds in accordance with the Rule as amended. The provisions of this Section may be amended by the Issuer 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 Issuer, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of this Resolution that authorizes such an amendment) of the Outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the Issuer (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The Issuer may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision 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 Issuer so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with subsection (b) of this Section an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data so provided.

(d) Definitions.

As used in this Section, the following terms have the meanings ascribed to such terms below:

"*Financial Obligation*" means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

"*MSRB*" means the Municipal Securities Rulemaking Board.

"*Rule*" means SEC Rule 15c2-12, as amended from time to time.

"*SEC*" means the United States Securities and Exchange Commission and any successor to its duties.

* * *

30.01. Notice and Other Information to be given to BAM. The Issuer will provide BAM with all notices and other information it is obligated to provide (i) under Section 25 of this Resolution and (ii) to the holders of Insured Obligations or the Paying Agent/Registrar.

The notice address of BAM is: Build America Mutual Assurance Company, 200 Liberty Street, 27th Floor, New York, NY 10281, Attention: Surveillance, Re: Policy No. _____, Telephone: (212) 235-2500, Telecopier: (212) 235-1542, Email: notices@buildamerica.com. In each case in which notice or other communication refers to an event of default or a claim on the Policy, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel at the same address and at claims@buildamerica.com or at Telecopier: (212) 235-5214 and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

30.02. Defeasance. Notwithstanding the provisions of Section 25 of this Resolution, the investments in the defeasance escrow relating to Insured Obligations shall be limited to non-callable, direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, or as otherwise maybe authorized under State law and approved by BAM.

At least (three) 3 Business Days prior to any defeasance with respect to the Insured Obligations, the Issuer shall deliver to BAM draft copies of an escrow agreement, an opinion of bond counsel regarding the validity and enforceability of the escrow agreement and the defeasance of the Insured Obligations and a verification report (a "Verification Report") prepared by a nationally recognized independent financial analyst or firm of certified public accountants regarding the sufficiency of the escrow fund. Such opinion and Verification Report shall be addressed to BAM and shall be in form and substance satisfactory to BAM. In addition, the escrow agreement shall provide that:

1. Any substitution of securities following the execution and delivery of the escrow agreement shall require the delivery of a Verification Report, an opinion of bond counsel that such substitution will not adversely affect the exclusion (if interest on the Insured Obligations is excludable) from gross income of the holders of the Insured Obligations of the interest on the Insured Obligations for federal income tax purposes and the prior written consent of BAM, which consent will not be unreasonably withheld.

2. The Issuer will not exercise any prior optional redemption of Insured Obligations secured by the escrow agreement or any other redemption other than mandatory sinking fund redemptions unless (i) the right to make any such redemption has been expressly reserved in the escrow agreement and such reservation has been disclosed in detail in the official statement for the refunding bonds, and (ii) as a condition to any such redemption there shall be provided to BAM a Verification Report as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following any such redemption.

3. The Issuer shall not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of BAM.

30.03. Trustee and Paying Agent. (a) BAM shall receive prior written notice of any name change of the Paying Agent/Registrar for the Insured Obligations or the resignation or removal of the Paying Agent/Registrar. Any Paying Agent/Registrar must be (A) a national

banking association that is supervised by the Office of the Comptroller of the Currency and has at least \$250 million of assets, (B) a state-chartered commercial bank that is a member of the Federal Reserve System and has at least \$1 billion of assets, or (C) otherwise approved by BAM in writing.

(b) No removal, resignation or termination of the Paying Agent/Registrar shall take effect until a successor, meeting the requirements above or acceptable to BAM, shall be qualified and appointed.

30.04. Amendments, Supplements and Consents. BAM's prior written consent is required for all amendments and supplements to the Security Documents, with the exceptions noted below. The Issuer shall send copies of any such amendments or supplements to BAM and the rating agencies which have assigned a rating to the Insured Obligations.

30.05 Consent of BAM. Any amendments or supplements to the Security Documents shall require the prior written consent of BAM with the exception of amendments or supplements:

1. To cure any ambiguity or formal defect or omissions or to correct any inconsistent provisions in the transaction documents or in any supplement thereto, or
2. To grant or confer upon the holders of the Insured Obligations any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the holders of the Insured Obligations, or
3. To add to the conditions, limitations and restrictions on the issuance of bonds or other obligations under the provisions of the Security Documents other conditions, limitations and restrictions thereafter to be observed, or
4. To add to the covenants and agreements of the Issuer in the Security Documents other covenants and agreements thereafter to be observed by the Issuer or to surrender any right or power therein reserved to or conferred upon the Issuer, or
5. To issue additional parity debt in accordance with the requirements set forth in the Security Documents (unless otherwise specified herein).

30.06 Consent of BAM in Addition to Bondholder Consent. Whenever any Security Document requires the consent of holders of Insured Obligations, BAM's consent shall also be required. In addition, any amendment, supplement, modification to, or waiver of, any of the Security Documents that adversely affects the rights or interests of BAM shall be subject to the prior written consent of BAM.

30.07. Consent of BAM in the Event of Insolvency. Any reorganization or liquidation plan with respect to the Issuer must be acceptable to BAM. In the event of any reorganization or liquidation of the Issuer, BAM shall have the right to vote on behalf of all holders of the Insured Obligations absent a continuing failure by BAM to make a payment under the Policy.

30.08. Consent of BAM. Upon Default. Anything in the Security Documents to the contrary notwithstanding, upon the occurrence and continuance of a default or an event of default, BAM shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Insured Obligations or the Paying Agent/Registrar for the benefit of the holders of the Insured Obligations under any Security Document. No default or event of default may be waived without BAM's written consent.

30.09. BAM as Owner. Upon the occurrence and continuance of a default or an event of default, BAM shall be deemed to be the sole owner of the Insured Obligations for all purposes under the Security Documents, including, without limitations, for purposes of exercising remedies and approving amendments.

30.10. Grace Period for Payment Defaults. No grace period shall be permitted for payment defaults on the Insured Obligations. No grace period for a covenant default shall exceed 30 days without the prior written consent of BAM.

30.11. Special Provisions for Insurer Default. If an Insurer Default shall occur and be continuing, then, notwithstanding anything in paragraphs 30.04 through 30.09 above to the contrary, (1) if at any time prior to or following an Insurer Default, BAM has made payment under the Policy, to the extent of such payment BAM shall be treated like any other holder of the Insured Obligations for all purposes, including giving of consents, and (2) if BAM has not made any payment under the Policy, BAM shall have no further consent rights until the particular Insurer Default is no longer continuing or BAM makes a payment under the Policy, in which event, the foregoing clause (1) shall control. For purposes of this paragraph, "Insurer Default" means: (A) BAM has failed to make any payment under the Policy when due and owing in accordance with its terms; or (B) BAM shall (i) voluntarily commence any proceeding or file any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law, (ii) consent to the institution of or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for such party or for a substantial part of its property, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, or (vi) take action for the purpose of effecting any of the foregoing; or (C) any state or federal agency or instrumentality shall order the suspension of payments on the Policy or shall obtain an order or grant approval for the rehabilitation, liquidation, conservation or dissolution of BAM (including without limitation under the New York Insurance Law).

30.12. [RESERVED]

30.13. BAM As Third Party Beneficiary. BAM is recognized as and shall be deemed to be a third party beneficiary of the Security Documents and may enforce the provisions of the Security Documents as if it were a party thereto.

30.14. Payment Procedure Under the Policy.

In the event that principal and/or interest due on the Insured Obligations shall be paid by BAM pursuant to the Policy, the Insured Obligations shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer, the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Issuer to the registered owners shall continue to exist and shall run to the benefit of BAM, and BAM shall be subrogated to the rights of such registered owners including, without limitation, any rights that such owners may have in respect of securities law violations arising from the offer and sale of the Insured Obligations.

In the event that on the second (2nd) business day prior to any payment date on the Insured Obligations, the Paying Agent/Registrar has not received sufficient moneys to pay all principal of and interest on the Insured Obligations due on such payment date, the Paying Agent/Registrar shall immediately notify BAM or its designee on the same business day by telephone or electronic mail, of the amount of the deficiency. If any deficiency is made up in whole or in part prior to or on the payment date, the Paying Agent/Registrar shall so notify BAM or its designee.

In addition, if the Paying Agent/Registrar has notice that any holder of the Insured Obligations has been required to disgorge payments of principal of or interest on the Insured Obligations pursuant to a final, non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such holder within the meaning of any applicable bankruptcy law, then the Paying Agent/Registrar shall notify BAM or its designee of such fact by telephone or electronic mail,

or by overnight or other delivery service as to which a delivery receipt is signed by a person authorized to accept delivery on behalf of BAM.

The Paying Agent/Registrar shall irrevocably be designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Insured Obligations as follows:

1. If there is a deficiency in amounts required to pay interest and/or principal on the Insured Obligations, the Paying Agent/Registrar shall (i) execute and deliver to BAM, in form satisfactory to BAM, an instrument appointing BAM as agent and attorney-in-fact for such holders of the Insured Obligations in any legal proceeding related to the payment and assignment to BAM of the claims for interest on the Insured Obligations, (ii) receive as designee of the respective holders (and not as Paying Agent/Registrar) in accordance with the tenor of the Policy payment from BAM with respect to the claims for interest so assigned, and (iii) disburse the same to such respective holders; and

2. If there is a deficiency in amounts required to pay principal of the Insured Obligations, the Paying Agent/Registrar shall (i) execute and deliver to BAM, in form satisfactory to BAM, an instrument appointing BAM as agent and attorney-in-fact for such holder of the Insured Obligations in any legal proceeding related to the payment of such principal and an assignment to BAM of the Insured Obligations surrendered to BAM, (ii) receive as designee of the respective holders (and not as Paying Agent/Registrar) in accordance with the tenor of the Policy payment therefore from BAM, and (iii) disburse the same to such holders.

The Trustee shall designate any portion of payment of principal on Insured Obligations paid by BAM, 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 Insured Obligations registered to the then current holder, whether DTC or its nominee or otherwise, and shall issue a replacement Insured Obligation to BAM, registered in the name directed by BAM, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Insured Obligation shall have no effect on the amount of principal or interest payable by the Issuer on any Insured Obligation or the subrogation or assignment rights of BAM.

Payments with respect to claims for interest on and principal of Insured Obligations disbursed by the Paying Agent/Registrar from proceeds of the Policy shall not be considered to discharge the obligation of the Issuer with respect to such Insured Obligations, and BAM shall become the owner of such unpaid Insured Obligations and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of the preceding paragraphs or otherwise.

Irrespective of whether any such assignment is executed and delivered, the Issuer and the Paying Agent/Registrar agree for the benefit of BAM that:

1. They recognize that to the extent BAM makes payments directly or indirectly (e.g., by paying through the Paying Agent/Registrar), on account of principal of or interest on the Insured Obligations, BAM will be subrogated to the rights of such holders to receive the amount of such principal and interest from the Issuer, with interest thereon, as provided and solely from the sources stated in the Security Documents and the Insured Obligations; and

2. They will accordingly pay to BAM the amount of such principal and interest, with interest thereon as provided in the transaction documents and the Insured Obligations, but only from the sources and in the manner provided therein for the payment of principal of and interest on the Insured Obligations to holders, and will otherwise treat BAM as the owner of such rights to the amount of such principal and interest.

3. Additional Payments. The Issuer agrees unconditionally that it will pay or reimburse BAM on demand any and all reasonable charges, fees, costs, losses, liabilities and expenses that BAM may pay or incur, including, but not limited to, fees and expenses of BAM's agents, attorneys, accountants, consultants, appraisers and auditors and reasonable costs of investigations, in connection with the administration (including waivers and consents, if any), enforcement, defense, exercise or preservation of any rights and remedies in respect of the Security Documents ("Administrative Costs"). For purposes of the foregoing, costs and expenses shall include a reasonable allocation of compensation and overhead attributable to the time of employees of BAM spent in connection with the actions described in the preceding sentence. The Issuer agrees that failure to pay any Administrative Costs on a timely basis will result in the accrual of interest on the unpaid amount at the Late Payment Rate, compounded semi-annually, from the date that payment is first due to BAM until the date BAM is paid in full.

Notwithstanding anything herein to the contrary, the Issuer agrees to pay to BAM (i) a sum equal to the total of all amounts paid by BAM under the Policy ("BAM Policy Payment"); and (ii) interest on such BAM Policy Payments from the date paid by BAM until payment thereof in full by the Issuer, payable to BAM at the Late Payment Rate per annum

(collectively, “BAM Reimbursement Amounts”) compounded semi-annually. Notwithstanding anything to the contrary, including without limitation the post default application of revenue provisions, BAM Reimbursement Amounts shall be, and the Issuer hereby covenants and agrees that the BAM Reimbursement Amounts are, payable from and secured by a lien on and pledge of the same revenues and other collateral pledged to the Insured Obligations on a parity with debt service due on the Insured Obligations.

30.15. Reserve Fund. The prior written consent of BAM shall be a condition precedent to the deposit of any credit instrument provided in lieu of a cash deposit into the Reserve Fund, if any. Amounts on deposit in the Reserve Fund shall be applied solely to the payment of debt service due on the Insured Obligations.

30.16. Exercise of Rights by BAM. The rights granted to BAM under the Security Documents to request, consent to or direct any action are rights granted to BAM in consideration of its issuance of the Policy. Any exercise by BAM of such rights is merely an exercise of the BAM’s contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the holders of the Insured Obligations and such action does not evidence any position of BAM, affirmative or negative, as to whether the consent of the holders of the Insured Obligations or any other person is required in addition to the consent of BAM.

30.17. BAM shall be entitled to pay principal or interest on the Insured Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Policy) and any amounts due on the Insured Obligations as a result of acceleration of the maturity thereof in accordance with the Security Documents, whether or not BAM has received a claim upon the Policy.

30.18. So long as the Insured Obligations are outstanding or any amounts are due and payable to BAM, the Issuer shall not sell, lease, transfer, encumber or otherwise dispose of the System or any material portion thereof, except upon obtaining the prior written consent of BAM.

30.19. No contract shall be entered into or any action taken by which the rights of BAM or security for or source of payment of the Insured Obligations may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of BAM.

30.20. If an event of default occurs under any agreement pursuant to which any Obligation of the Issuer has been incurred or issued and that permits the holder of such Obligation or paying agent/registrar to accelerate the Obligation or otherwise exercise rights or remedies that are adverse to the interest of the holders of the Insured Obligations or BAM, as BAM may determine in its sole discretion, then an event of default shall be deemed to have occurred under this Resolution and the related Security Documents for which BAM or the Paying Agent/Registrar, at the direction of BAM, shall be entitled to exercise all available remedies under the Security Documents, at law and in equity. For purposes of the foregoing "Obligation" shall mean any bonds, loans, certificates, installment or lease payments or similar obligations that are payable and/or secured on a parity or subordinate basis to the Insured Obligations.

30.21. Definitions.

“BAM” shall mean Build America Mutual Assurance Company, or any successor thereto.

“*Insured Obligations*” shall mean the Bonds.

“*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, N.A., at its principal office in The City of New York, 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, N.A.) plus 5%, and (ii) the then applicable highest rate of interest on the Insured Obligations and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. In the event JPMorgan Chase Bank, N.A., ceases to announce its Prime Rate, the Prime Rate shall be the prime or base lending rate of such other bank, banking association or trust company as BAM, in its sole and absolute discretion, shall designate. Interest at the Late Payment Rate on any amount owing to BAM shall be computed on the basis of the actual number of days elapsed in a year of 360 days.

“*Policy*” shall mean the Municipal Bond Insurance Policy issued by BAM that guarantees the scheduled payment of principal of and interest on the Insured Obligations when due.

“*Security Documents*” shall mean the resolution, trust agreement, indenture, ordinance, loan agreement, lease agreement, bond, note, certificate and/or any additional or supplemental document executed in connection with the Insured Obligations.

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APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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Financial Advisory Services
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