

OFFICIAL STATEMENT

DATED SEPTEMBER 25, 2023

In the opinion of Bond Counsel (identified below), assuming continuing compliance by the Issuer (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Resolution (defined below) and subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on certain corporations, interest on the Bonds under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. (See "TAX MATTERS" herein.)

\$40,000,000

WALNUT CREEK SPECIAL UTILITY DISTRICT

(A political subdivision of the State of Texas located in Parker and Wise Counties, Texas)

WATER SYSTEM REVENUE BONDS, NEW SERIES 2023

DATED DATE: OCTOBER 1, 2023

DUE: JANUARY 10, AS SHOWN ON THE FOLLOWING PAGE

The \$40,000,000 Walnut Creek Special Utility District Water System Revenue Bonds, Series 2023 (the "Bonds") are being issued pursuant to the laws of the State of Texas, particularly, Chapters 49 and 65, as amended, Texas Water Code and a resolution (the "Resolution") adopted by the Board of Directors of the Walnut Creek Special Utility District (the "District" or "Issuer") on September 25, 2023, being the date of sale of the Bonds. The Bonds are special obligations of the District payable solely from and, together with certain Outstanding Bonds (identified and defined in the Resolution), equally and ratably secured by a lien on and pledge of the Pledged Revenues (as defined in the Resolution) of the District's water system (herein referred to as the "System"). **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 raided by taxation. The District has no taxing power.**

Interest on the Bonds will accrue from the Dated Date as shown above and will be payable on January 10 and July 10 of each year, commencing January 10, 2024 and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository ("Securities Depository") for the Bonds. Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. The Purchaser of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by BOKF, NA, Dallas, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Bonds will be used (i) to finance the cost of designing and constructing infrastructure improvements to the System (collectively, the "Project"); and (ii) to pay costs of professional services rendered in connection with the Project and the financing thereof. (See "THE BONDS – Use of Bond Proceeds" herein.)

The District reserves the right to redeem the Bonds maturing on and after January 10, 2034, on January 10, 2033, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at a redemption price of par plus accrued interest to the date fixed for redemption, as described herein. Additionally, the Bonds maturing January 10, 2054 (the "Term Bonds") are also subject to mandatory sinking fund redemption. (See "THE BONDS – Redemption Provisions" herein.)

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 ASSURED GUARANTY MUNICIPAL CORP. ("AGM"). (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.)



SEE INSIDE FRONT COVER HEREOF FOR MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,
INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE BONDS

The Bonds are offered for delivery, when, as and if issued and received by Wells Fargo Bank, NA (the "Purchaser") 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., Austin, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Bonds. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" and "APPENDIX C – Form of Legal Opinion of Bond Counsel" herein). It is expected that the Bonds will be available for initial delivery through DTC on or about October 18, 2023.

\$40,000,000
WALNUT CREEK SPECIAL UTILITY DISTRICT
(A political subdivision of the State of Texas located in Parker and Wise Counties, Texas)
WATER SYSTEM REVENUE BONDS, SERIES 2023

STATED MATURITY SCHEDULE

(Due January 10)
CUSIP No. Prefix ⁽¹⁾ 932716

\$23,140,000 SERIAL BONDS

<u>Stated Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate (%)</u>	<u>Initial Yield (%)</u>	<u>CUSIP No. Suffix⁽¹⁾</u>	<u>Stated Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate (%)</u>	<u>Initial Yield (%)</u>	<u>CUSIP No. Suffix⁽¹⁾</u>
2025	\$ 510,000	7.000	3.950	JH7	2041	\$1,350,000	4.500	4.700	JZ7
2026	545,000	7.000	3.850	JJ3	2042	1,410,000	4.500	4.750	KA0
2027	585,000	7.000	3.750	JK0	2043	1,475,000	4.500	4.780	KB8
2028	625,000	7.000	3.750	JL8	2044	1,545,000	4.500	4.810	KC6
2029	675,000	7.000	3.750	JM6	2045	1,615,000	4.500	4.850	KD4
2030	720,000	7.000	3.770	JN4	2046	1,690,000	4.625	4.900	KE2
2031	775,000	7.000	3.800	JP9					
2032	830,000	7.000	3.800	JQ7					
2033	890,000	7.000	3.800	JR5					
2034	955,000	7.000	3.850 ⁽²⁾	JS3					
2035	1,020,000	6.000	4.000 ⁽²⁾	JT1					
2036	1,080,000	6.000	4.100 ⁽²⁾	JU8					
2037	1,135,000	4.125	4.450	JV6					
2038	1,185,000	4.250	4.500	JW4					
2039	1,235,000	4.250	4.600	JX2					
2040	1,290,000	4.375	4.650	JY0					

\$16,860,000 TERM BONDS

\$16,860,000 4.750% Term Bonds due January 10, 2054, and priced to yield 5.000% CUSIP Suffix⁽¹⁾ KN2

(Accrued Interest from Dated Date to be added)

The Issuer reserves the right to redeem the Bonds maturing on or after January 10, 2034 in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on January 10, 2033, or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption as further described herein. Additionally, "Term Bonds" are subject to mandatory sinking fund redemption prior to stated maturity on the dates and in the amounts described in the Official Statement. (See "THE BONDS – Redemption Provisions of the Bonds" herein.)

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

⁽²⁾ Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on January 10, 2033, the earliest date of redemption for the Bonds, at a price of par plus accrued interest to the date of redemption.

WALNUT CREEK SPECIAL UTILITY DISTRICT
1155 Highway 199 West
Springtown, Texas 76085
(817) 220-7707 (Phone)

BOARD OF DIRECTORS

<u>Name</u>	<u>Term Expires</u>
Mike Gilley, President	May, 2025
Al Garrett, Vice President	May, 2024
Beth Correll, Secretary	May, 2025
Frank Henderson, Director	May, 2024
Jim Cox, Director	May, 2025

ADMINISTRATIVE OFFICIALS

Name	Position	Length of Service (Years)
James Blackwood	General Manager	2 years 6 Months, 2023
Denise Taylor	Office Manager	8 months

CONSULTANTS AND ADVISORS

Bond Counsel	McCall, Parkhurst & Horton, L.L.P. Austin, Texas
Certified Public Accountants	Hatter & Associates, LLP Fort Worth, Texas
Financial Advisor	SAMCO Capital Markets, Inc. San Antonio, Texas

For Additional Information Please Contact:

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Walnut Creek Special Utility District
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james.blackwood@walnutcreeksud.org
817-220-7707 (Phone)

Mr. Mark McLiney, Senior Managing Director
Mr. Andrew Friedman, Senior Managing Director
SAMCO Capital Markets, Inc.
1020 NE Loop 410, Suite 640
San Antonio, Texas 78209
mmcliney@samcocapital.com
afriedman@samcocapital.com
210-832-9760 (Phone)

USE OF INFORMATION IN THE OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized to give any information, or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information or expression of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN 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.

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

The Purchaser has reviewed the information in this Official Statement in accordance with its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Purchaser does not guarantee the accuracy or completeness of such information.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NONE OF THE DISTRICT, THE PURCHASER OR THE FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM AND, AS SUCH INFORMATION WAS PROVIDED BY DTC, OR ANY POTENTIAL BOND INSURER OR ITS MUNICIPAL BOND GUARANTY POLICY AS DESCRIBED HEREIN (OR INCORPORATED BY REFERENCE) UNDER THE CAPTIONS "BOND INSURANCE", AS SUCH INFORMATION WAS PROVIDED BY DTC AND THE BOND INSURER, RESPECTIVELY.

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

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the Purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE BONDS.

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The cover page, subsequent pages hereof 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.

The Issuer	The Walnut Creek Special Utility District (the “District” or the “Issuer”), located in Wise and Parker Counties, Texas, is a body politic and corporate and a political subdivision of the State of Texas, duly created, existing and operating under the laws of the State of Texas, including, without limitation, Chapter 49 and 65, Texas Water Code, as amended. The District is the successor to the Walnut Creek Water Supply Corporation (the “Corporation”), originally organized in 1966 as a non-profit water supply corporation, for the purpose of providing and furnishing a safe and dependable water supply to the rural areas centralized around the City of Springtown, Texas. In August 1992, the Corporation was converted to a special utility district. The District is governed by a five member Board of Directors (the “Board”) elected for three-year staggered terms by the registered voters of the District. (See page iii herein.)
The Bonds	The Bonds are being issued pursuant to the Constitution and laws of the State of Texas, particularly, Chapters 49 and 65, as amended, Texas Water Code, and a resolution (the “Resolution”) adopted by the Board on September 25, 2023. (See “THE BONDS – Authority for Issuance” herein.)
Security for Payment	The Bonds are special obligations of the District payable solely from and, together with certain Outstanding Bonds (identified and defined in the Resolution), equally and ratably secured by a lien on and pledge of the Pledged Revenues (as defined in the Resolution) of the District’s Water System (hereinafter referred to as the “System”). <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 therefrom any funds raised or to be raised by taxation. The District has no taxing power.</i> (See “THE BONDS – Security for Payment” herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.
Redemption Provision of the Bonds	The Issuer reserves the right to redeem the Bonds maturing on or after January 10, 2034 in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on January 10, 2033, or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption as further described herein. Additionally, “Term Bonds” are subject to mandatory sinking fund redemption prior to stated maturity on the dates and in the amounts described in the Official Statement. See “THE BONDS - Redemption Provisions of the Bonds” herein.
Tax Matters	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under “TAX MATTERS”. (See “TAX MATTERS” and “APPENDIX C – Form of Opinion of Bond Counsel” herein).
Use of Bond Proceeds	Proceeds from the sale of the Bonds will be used (i) to finance the cost of designing and constructing infrastructure improvements to the System (collectively, the “Project”); and (ii) to pay costs of professional services rendered in connection with the Project and the financing hereof. (See “THE BONDS – Purpose of Bonds” herein.)
Bond Insurance	The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. (“AGM”). (See “BOND INSURANCE” herein.)
Ratings	S&P Global Ratings, a division of S&P Global Ratings Inc. (“S&P”) has assigned a rating of “AA” to the Bonds with the understanding that, concurrently with the delivery of the Bonds, a municipal bond insurance policy will be issued by AGM. The Bonds have received an underlying, unenhanced rating of “A+” from S&P. (See “BOND INSURANCE” herein.)

Book-Entry-Only System

The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York, relating to the method and timing of payment and the method and transfer relating to the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Payment Record

The Issuer has never defaulted on the payment of its bonded indebtedness.

Future Bond Issues

The Issuer does not anticipate the issuance of additional debt secured by and payable from its System (as defined in the Official Statement) in 2023.

Delivery

When issued, anticipated on or about October 18, 2023.

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., Bond Counsel, Austin, Texas.

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OFFICIAL STATEMENT

relating to

\$40,000,000

WALNUT CREEK SPECIAL UTILITY DISTRICT

(A Political Subdivision of the State of Texas located in Parker and Wise Counties, Texas)

WATER SYSTEM REVENUE BONDS, SERIES 2023

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the Walnut Creek Special Utility District (the "District" or "Issuer") of its \$40,000,000 Water System Revenue Bonds, Series 2023 (the "Bonds") identified on the cover page hereof.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the resolution adopted by the Board on September 25, 2023 authorizing the issuance of the Bonds (the "Resolution"). Included in this Official Statement are descriptions of the Bonds, the System (as defined herein) 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.** Copies of such documents may be obtained from the Issuer or the District's Financial Advisor, SAMCO Capital Markets, Inc., 1020 Northeast Loop 410, Suite 640, San Antonio, Texas 78209, via electronic mail or upon payment of reasonable copying, handling, and delivery charges.

All financial and other information presented in this Official Statement has been provided by the District from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from System revenues and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in financial position or other affairs of the District. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the final Official Statement pertaining to the Bonds will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the District's undertaking to provide certain information on a continuing basis.

THE BONDS

General Description

The Bonds will be dated October 1, 2023 ("Dated Date"), will mature on the dates and in the principal amounts and will bear interest from the Dated Date at the rates set forth on page ii of this Official Statement. Principal of and interest on the Bonds are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the security register maintained by BOKF, NA, Dallas, Texas, as the initial Paying Agent/Registrar, as of the Record Date (defined herein), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the Bonds will be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive Resolution to close, then the date for such payment must be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and laws of the State of Texas, particularly, Chapters 49 and 65, as amended, Texas Water Code, and the Resolution.

Security for Payment

The Bonds are special obligations of the District payable solely from and, together with the Outstanding Bonds (identified and defined in the Resolution), equally and ratably secured by a lien on and pledge of the Pledged Revenues (as defined in the Resolution) of the District's water system (herein referred to as the "System"). ***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.

The District has reserved and retained the right to issue additional revenue obligations payable from and equally and ratably secured by a parity lien on the Pledged Revenues of the System, in the same manner and to the same extent as the Bonds and the Outstanding Bonds subject to satisfying and complying with certain terms and conditions set forth in the Resolution. See "Appendix B - Selected Provisions of the Bond Resolution" to this Official Statement.

Reserve Fund

Except as provided below, as additional security for the payment of the Outstanding Bonds, the Bonds, and Additional Parity Bonds, if any, hereafter issued (collectively hereinafter referred to as the "Parity Bonds"), the Resolution provides for the District to maintain a Reserve Fund and accumulate and maintain therein an amount (the "Required Reserve") equal to the average annual principal and interest requirements (calculated on a Fiscal Year basis) for all Parity Bonds then Outstanding, as determined on the date each series of Additional Parity Bonds are delivered or incurred, as the case may be. The amount currently on deposit to credit of the Reserve Fund, as of August 11, 2023, (the "Current Reserve") is \$1,872,316. The Required Reserve, following the issuance of the Bonds shall be \$2,929,978. The Required Reserve shall be funded over no more than sixty (60) months after the issuance of the Bonds by monthly transfers from the System Fund, such amounts as shall be required in each resolution authorizing the issuance of Parity Bonds so that the Reserve Fund shall contain money and investments in an aggregate amount at least equal to the average annual principal and interest requirements on all Parity Bonds then outstanding. After such amount has accumulated in the Reserve Fund and so long thereafter as such Fund contains such amount, no further deposits shall be required to be made into the Reserve Fund, and any excess amounts may be transferred to the System Fund.

Notwithstanding the foregoing, there shall no longer be a requirement to maintain and fund the Reserve Fund for such time as (i) the requirements in the resolutions authorizing the issuance of the Outstanding Bonds prior to December 31, 2014 regarding the maintenance of the Reserve Fund are no longer in effect because such Outstanding Bonds prior to December 31, 2014 have been paid, redeemed or defeased and (ii) the Pledged Revenues for the immediately preceding Fiscal Year according to the District's independent certified public accountant are equal to at least 110% of the Average Annual Debt Service Requirements. Upon such determination by the certified public accountant, all moneys on deposit in the Reserve Fund may be released from the Reserve Fund and used by the District for any lawful purpose; provided, however, if the source of such funds was the proceeds of the Bonds or the proceeds of any of the Parity Bonds, such bond proceeds must be deposited into the Debt Service Fund; and provided further that once such moneys are released, an independent certified public account shall determine the ratio of Pledged Revenues to Average Annual Debt Service Requirements at the beginning of each Fiscal Year; and provided, however, in the event that thereafter the Pledged Revenues for any two consecutive Fiscal Years are less than 110%, (unless such percentage is below 100% in any Fiscal Year, in which case the requirements to fund the Required Reserve will commence after such Fiscal Year) of the Average Annual Debt Service Requirements of the then outstanding Parity Bonds, the District will be required to commence having a Reserve Fund and making the deposits to the Reserve Fund, and to continue making such deposits until the earlier of (i) such time as the Reserve Fund contains the Required Reserve or (ii) the District's independent certified public accountant certifies that the Pledged Revenues for a Fiscal Year have been equal to not less than 110% of the Average Annual Debt Service Requirements.

Flow of Funds

In the Resolution, all the Pledged Revenues are required to be deposited as collected into the fund maintained at an official depository of the District and known as the Walnut Creek Special Utility District Water System Fund (the "System Fund"), and such System Fund is to be maintained separate and apart from all other funds and accounts of the District.

The Resolution further provides that the amount on deposit to the credit of the System Fund from time to time is to be applied in the following order of priority:

First, to pay Maintenance and Operation Expenses;

Second, to make all deposits into the Interest and Sinking Fund required by the Outstanding Bond Resolutions, the Resolution and any resolution authorizing the issuance of Additional Parity Bonds;

Third, to make all deposits into the Reserve Fund required by the Outstanding Bond Resolutions, the Resolution and any resolutions authorizing the issuance of Additional Parity Bonds; and

Fourth, for any lawful purpose.

Rate Covenants

So long as any Parity Bonds remain outstanding, the Resolution provides that the District shall fix, change and collect rates and charges for the use and services of the System, which are calculated to be fully sufficient to produce Pledged Revenues of the System in each Fiscal Year at least equal to the amount required to maintain the Interest and Sinking fund and the Reserve Fund so as to provide for the payment of principal and interest on all Parity Obligation then outstanding and to pay the Maintenance and Operation Expenses of the System.

Furthermore, the Resolution provides the District will not grant or permit any free service from the System except for buildings and institutions operated by the District.

Redemption Provisions of the Bonds

Optional Redemption. The Issuer reserves the right, at its sole option, to redeem Bonds stated to mature, on or after January 10, 2034, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on January 10, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The Bonds maturing January 10, 2054 (the "Term Bonds") are also subject to mandatory redemption prior to their stated maturity in part and by lot, at the redemption prices equal to the principal amounts thereof, plus accrued interest thereon to the redemption dates, on January 10, in the years and principal amounts shown below:

<u>Term Bonds to Mature on January 10, 2054</u>			
<u>Year</u>	<u>Principal Amount (\$)</u>	<u>Year</u>	<u>Principal Amount (\$)</u>
2047	1,775,000	2051	2,145,000
2048	1,860,000	2052	2,250,000
2049	1,950,000	2053	2,360,000
2050	2,045,000	2054*	2,475,000

*Payable at Stated Maturity.

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Term Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District, at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent for cancellation, (2) shall have been purchased and cancelled by the Paying Agent at the request of the District with monies in the Debt Service Fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

Selection of Bonds to be Redeemed. The Bonds of a denomination larger than \$5,000 may be redeemed in part (in increments of \$5,000 or any integral multiple thereof). The Bonds to be partially redeemed must be surrendered in exchange for one or more new Bonds for the unredeemed portion of the principal. If less than all of the Bonds are to be redeemed, the District will determine the amounts to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) to select, at random and by lot, the particular Bonds, or portion thereof, to be redeemed. If a Bond (or any portion of the principal sum thereof) will have been called for redemption and notice of such redemption will have been given, such Bond (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption of Funds. At least 30 days prior to the date fixed for any such redemption, the District shall cause a written notice of such redemption to be deposited in the United States mail, first-class postage prepaid, addressed to each registered owner of a Bond to be redeemed at the address shown on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE 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. If such notice of redemption is given and if due provisions for such payment is made, all as provided above, the Bonds or portions thereof which are to be redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

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

Additional Parity Bonds

In the Resolution, the District reserves the right to issue, for any lawful purpose (including the refunding of any Parity Bonds or any other bonds or obligations of the District issued in connection with or payable from the revenues of the System), one or more series of Additional Parity Bonds payable from and secured by a first lien on the Pledged Revenues, including the Net Revenues of the System, on a parity with the Bonds and any other outstanding Additional Parity Bonds provided certain terms and conditions prescribed for the issuance of such Additional Parity Bonds are satisfied. Among the terms and conditions to be satisfied is the District obtaining a written certificate from an independent certified public accountant to the effect that, during either the last preceding fiscal year, or any twelve consecutive calendar month period ending not later than ninety (90) days preceding the month in which the resolution authorizing the issuance of the then proposed Additional Parity Bonds is passed, the Net Revenues of the System were at least 1.25 times the average annual principal and interest requirements of all Parity Bonds then outstanding and the Additional Parity Bonds which are scheduled to be outstanding after the delivery of the then proposed Additional Parity Bonds. In calculating the amount of Net Revenues for the purposes of complying with such requirement, the accountant may take into consideration any increase in the rates of 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 Parity Bonds is passed, but which was not in effect during all of the entire period for which the Pledged Revenues are being calculated (hereinafter referred to as the "entire period") or in lieu of the certified public accountant, a firm of consulting engineers, may 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.

For purposes of satisfying the terms and conditions for the issuance of Additional Parity Bonds, the term "Net Revenues of the System" means all of the Gross Revenues of the System less the Maintenance and Operation Expenses of the System, except that in calculating Net Revenues there shall not be deducted as Maintenance and Operation Expenses any depreciation. See "Appendix B - Selected Provisions of the Bond Resolution" to this Official Statement for a more complete description of the terms and conditions for the issuance of Additional Parity Bonds.

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., Austin, Texas. The legal opinion of Bond Counsel will accompany the global certificates to be deposited with DTC or will be printed on the Bonds should the Book-Entry-Only System be discontinued. A form of the legal opinion of Bond Counsel appears in Appendix C attached hereto.

Use of Bond Proceeds

Proceeds from the sale of the Bonds will be used (i) to finance the cost of designing and constructing infrastructure improvements to the System (collectively, the "Project"); and (ii) to pay costs of professional services rendered in connection with the Project and the financing hereof.

Payment Record

The Issuer has not defaulted on the payment of its bonded indebtedness.

Sources and Uses

Sources of Funds

Par Amount	\$40,000,000.00
Accrued Interest	96,408.59
Net Reoffering Premium	<u>392,529.05</u>
Total Sources of Funds	<u>\$40,488,937.64</u>

Uses of Funds

Deposit to Project Fund	\$38,637,972.30
Accrued Interest	96,408.59
Costs of Issuance	941,298.00
Purchaser's Discount (including AGM Bond Insurance)	<u>813,258.75</u>
Total Uses of Funds	<u>\$40,488,937.64</u>

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, in trust (1) money sufficient to make such payment, (2) Government Obligations (defined below) that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Government Obligations together so certified sufficient to make such payment. The District has additionally reserved the right in the Resolution, subject to satisfying the requirements of

(1) and (2) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance. The Resolution provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. In connection with the sale of the Bonds the District may restrict such eligible securities as deemed appropriate. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Resolution does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment 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, the District has the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, 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.

Default and Remedies

If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Resolution, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Resolution and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, subject to the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Resolution does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Resolution, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. 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, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Resolution covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Special districts, such as the District, must obtain the approval of the Texas Commission on Environmental Quality ("TCEQ") as a condition of seeking relief under Chapter 9. TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under Chapter 9 only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, if the District is permitted to such 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 District may not be placed into bankruptcy involuntarily. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is BOKF, NA, 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 national or state banking institution, shall be an association or a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and shall be authorized by law to serve as a Paying Agent/Registrar. 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 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 of the Bonds will be paid to the registered owner at stated maturity or upon prior redemption 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 or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where 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 determining the registered owner entitled to receive the interest payable on a Bond on any interest payment date means the fifteenth day of the month next preceding each interest payment date.

Special Record Date for Interest Payment

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

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 issued 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 of such printed certificates 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 Bond or Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. 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.)

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

In the Resolution, provision is made for the replacement of mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or the receipt of satisfactory evidence of destruction, loss, or theft, and the receipt by the District and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

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

ASSURED GUARANTY MUNICIPAL CORP.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its subsidiaries, provides credit enhancement products to the U.S. and non-U.S. public finance (including infrastructure) and structured finance markets and participates in the asset management business through ownership interests in Sound Point Capital Management, LP. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A1” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On July 13, 2023, S&P announced it had affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On October 21, 2022, KBRA announced it had affirmed AGM’s insurance financial strength rating of “AA+” (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On March 18, 2022, Moody’s announced it had upgraded AGM’s insurance financial strength rating to “A1” (stable outlook) from “A2” (stable outlook). AGM can give no assurance as to any further ratings action that Moody’s may take.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Capitalization of AGM

At June 30, 2023:

- The policyholders’ surplus of AGM was approximately \$2,702 million.
- The contingency reserve of AGM was approximately \$894 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,089 million. Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM’s wholly owned subsidiary Assured Guaranty UK Limited (“AGUK”) and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA (“AGE”).

The policyholders’ surplus of AGM and the contingency reserves, net unearned premium reserves and net deferred ceding commission income of AGM were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the “SEC”) that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (filed by AGL with the SEC on March 1, 2023);

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023 (filed by AGL with the SEC on May 10, 2023); and

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2023 (filed by AGL with the SEC on August 9, 2023).

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

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

Miscellaneous Matters

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

BOND INSURANCE GENERAL RISKS

General

If a Policy is purchased as a result of the District accepting a bid for the Bonds that incorporate the acquisition of such a policy, the following are risk factors relating to the bond insurance.

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 from the Beneficial Owners 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 - Default 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 Beneficial Owners.

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 from the ad valorem taxes further described under “THE BONDS – Security for Payment”. 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 enhanced long-term rating on the Bonds will be dependent 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 rating on the Bonds, whether or not subject to the 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 – Ratings” herein.

The obligations of the Insurer under the 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. None of the District, the Underwriter, or the District’s Financial Advisor have made an independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the 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. (collectively, the "Rating Agencies") have, in recent years, downgraded and/or placed on negative watch the claims-paying and financial strength of many providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers are possible. In addition, events in the credit markets over the past ten years 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 investment.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by the Depository Trust Company, New York, New York ("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 District, the Financial Advisor, and the Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The District, the Financial Advisor, and the Purchaser cannot and do 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 applicable series of 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 United States Securities and Exchange Commission (the "SEC"), 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"). Direct Participants and Indirect Participants are jointly referred to as "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 Bonds ("Beneficial Owner") is in turn to be recorded on the 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 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 Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds 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 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 Obligation documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Neither DTC or 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).

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

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. Payments 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 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, Bonds are required to be printed and delivered to DTC Participants or the Beneficial Owners, as the case may be.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer and the Purchaser believe to be reliable, but the Issuer, the Financial Advisor and the Purchaser take no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

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

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed certificates representing the Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Resolution and summarized under "REGISTRATION, TRANSFER AND EXCHANGE – Future Registration".

THE DISTRICT

Creation of the District

The District is a political subdivision of the State of Texas organized and operating pursuant to Texas Water Code Chapters 65 and 49. The District is the successor to the Walnut Creek Water Supply Corporation (the "Corporation"). The Corporation was originally organized in 1966 as a non-profit water supply corporation operating under Article 1434a, Revised Civil Statutes of Texas of 1925, as amended, for the purpose of providing and furnishing a safe and dependable water supply to the rural areas centralized around the City of Springtown in Parker and Wise Counties, Texas. On August 8, 1992, the Corporation was converted to a special utility district by the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the "TCEQ"). The successful conversion to a special utility district was in accordance with Texas Water Code, Chapter 65.

Location and Service Area

The District is located in northeastern Parker County and southeastern Wise County, both counties being north central counties in Texas. Springtown, the location of the District's offices is located 30 miles west of Fort Worth, Texas.

Population

The District estimates that approximately 32,000 persons reside within its boundaries.

Topography and Flood Hazards

Flood Hazard Boundary maps for Parker and Wise Counties, as published by the Federal Insurance Administration (FIA) and the Federal Emergency Management Administration (FEMA) were used in review of flood boundaries within the District. All existing facilities, consisting of the surface water, treatment plant, ground storage tanks and elevated storage tanks, are located outside all designated flood hazard areas.

Management

The District is governed by a five member Board of Directors elected by the registered voters of the District (see page iii herein for a list of the current Board of Directors). If at any time a vacancy occurs on the Board, either the TCEQ or the remaining Board members make appointments to fill such vacancies. Directors serve three-year staggered terms. The District's Directors receive remuneration in the amount of \$100 for serving on the Board. The District's general manager supervises administrative and operating functions of the District. At present, the District employs thirty-one (31) full-time employees. The District and all similar districts are subject to the continuing supervision and filing requirements of TCEQ, including the requirement of an annual independent audit. All plans and specifications for construction of District facilities to be financed by any bonds or other obligations of the District must be submitted to TCEQ for review and approval.

DESCRIPTION OF THE SYSTEM

Water Supply and System Facilities

The District takes its entire water supply from Lake Bridgeport.

The District's existing facilities consist of one 1,000,000-gallon elevated storage tank, one 500,000-gallon elevated storage tank, one 300,000-gallon elevated storage tank, one 1,000,000-gallon standpipe, two 500,000-gallon standpipes, one 350,000-gallon standpipe, four ground storage tanks (2 @ 2,000,000 gallons, 1 @ 500,000 gallons and 1 @ 250,000 gallons), distribution lines, meters, valves, and other necessary appurtenances. The District's treatment plant has a production of 6,000,000 gallons a day, additional overhead storage and pumping facilities with additional transmission mains. This was all covered in a project funded by four bond issues (Series 1993, 1994, 1999 and 2001), which were purchased by the Texas Water Development Board ("TWDB").

Water Services Agreements

Although the majority of the District's revenues come from its retail customers, the District has wholesale water services agreements with the four (4) cities (cities of Boyd, Paradise, Reno and Rhome) and one (1) Special Utility District (West Wise SUD), and a raw water sales contract with Jack County Power LLC. The TCEQ has ruled that the maximum allowable contract amount for the wholesale customers must be noted for evaluation purposes, even though their actual usage has historically been much less than the maximum allowed.

Maximum allowable contract amounts are shown below. Revenues from these customers make up approximately 6.37% of total annual revenues for the District.

<u>Wholesale Customer</u>	<u>Maximum Contract Amount</u>
City of Boyd	215 GPM
City of Paradise	250 GPM
City of Rhome	1,050 GPM
City of Reno	28.53 GPM
West Wise SUD	<u>250 GPM</u>
Total	<u>1,793.53 GPM</u>

FUTURE PLANS OF THE DISTRICT

The District does not anticipate the issuance of additional debt secured by and payable from revenues derived from the System in 2023.

INVESTMENT POLICIES

The District invests its investable funds in investments authorized by State law, including Chapter 2256, as amended, Texas Government Code (the "Texas Public Funds Investment Act"), and in accordance with investment policies approved by the Board. Both State law and the District's investment policies are subject to change.

Legal Investment

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union

Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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

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

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) 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 repurchase agreement, (6) 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 and (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

As of July 31, 2023, the District held investments as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Percentage</u>
Depository Bank Cash Accounts	\$ 2,450,571.03	44.00%
LOGIC Accounts (Savings Account only)	3,166,329.78	56.00%
Total	<u>\$5,616,900.81</u>	<u>100.00%</u>

As of such date, the market value of such investments (as determined by the Issuer by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the Issuer are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

⁽¹⁾ Unaudited.

TEXAS LEGISLATURE

The 88th Texas Legislature convened on January 10, 2023 and concluded on May 29, 2023. The Governor of Texas (the "Governor") is permitted to call one or more additional special sessions which may last no more than 30 days and for which the Governor sets the agenda. The Governor called a first special session which convened on May 29, 2023 to address property taxes related to school districts in Texas and border security; shortly after the conclusion of the First Special Session, the Governor called the Second Special Session on June 27, 2023 to consider additional legislation regarding property tax relief. The Second Special Session adjourned on July 13, 2023. The District is in the process of analyzing the effect of legislation adopted during the regular session. The District can make no representations or predictions regarding any actions the Legislature may take during any special session of the 88th Texas legislative session concerning the substance or the effect of any legislation that may be passed in the future or how such legislation could affect the District.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the Issuer, 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 to the Issuer 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 to the Issuer will rely upon (a) the Issuer's federal tax certificate and (b) covenants of the Issuer with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the Issuer to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel to the Issuer is conditioned on compliance by the Issuer with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the Issuer 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. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Bonds or the facilities financed or refinanced with the proceeds of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the Issuer that it deems relevant to render such opinion and is not a guarantee of a result. 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 audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is 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.

Interest on the Bonds may be includable in certain corporation's "adjusted financial statement income" determined under section 56A of the Code to calculate the alternative minimum tax imposed by section 55 of the Code.

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.

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 foreign investors, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

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.

CONTINUING DISCLOSURE OF INFORMATION

In the Resolution, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system, where it will be available to the general public, free of charge at www.emma.msrb.com.

Annual Reports

The Issuer will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the Issuer of the general type included in this Official Statement. The information to be updated includes the annual audited financial report of the District. The Issuer will update and provide this information within six months after the end of each fiscal year ending in and after 2023.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Website or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements for the Issuer, if the Issuer commissions an audit and it is completed by the required time. If audited financial statements cannot be provided, the Issuer will provide unaudited financial information of the type described in the preceding paragraph by the required time and audited financial statements when they become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Issuer's annual financial statements, or such other accounting principles as the Issuer may be required to employ from time to time pursuant to State law or regulation.

The Issuer's current fiscal year end is December 31. Accordingly, it must provide updated information by the last day in June in each year, unless the Issuer changes its fiscal year. If the Issuer changes its fiscal year, it will notify the MSRB of the change.

Notices of Certain Events

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

or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrant or the change of name of a paying agent/registrant, 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 any such 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 any such Financial Obligation of the District, any of which reflect financial difficulties. In the Resolution, the District will adopt policies and procedures to ensure timely compliance of its continuing disclosure undertakings. 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 provision for credit enhancement, or liquidity enhancement.

For these purposes, (a) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and Resolutions of a court or governmental authority, or the entry of an Resolution confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Availability of Information

All information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

Limitations and Amendments

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the past five years, the District has complied in all material respects in accordance with SEC Rule 15c2-12, except that in Fiscal Years 2018 and 2019, the District did not file its Principal Retail Water Customers data. The District filed a material event notice August 19, 2020 for failure to file this information. The District has since put procedures in place to ensure that it meets its requirements under the Rule.

LEGAL MATTERS

Legal Opinions

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the initial Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P. ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described below under "TAX MATTERS." Such opinions will express no opinion with respect to the

sufficiency of the security for or the marketability of the Bonds. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of Bonds actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Bonds.

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

No-Litigation Certificate

The District will furnish to the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

No Material Adverse Change

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

FORWARD LOOKING STATEMENTS

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

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

INFECTIOUS DISEASE OUTBREAK – COVID-19

In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") to be a public health emergency. On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State of Texas (the "State") because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State and pursuant to the Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings, and other activities.

There are currently no COVID-19 related operating limits for any business or other establishments in the State of Texas. The Governor retains the right to impose restrictions on activities if needed to mitigate the effects of COVID-19. The Governor retains the right to impose additional restrictions on activities if needed to mitigate the effects of COVID-19. 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 into this Official Statement.

To date, the District has not experienced any decrease in revenues, unusual customer payment delinquencies, or interruptions to service as a result of COVID-19; however the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

CYBERSECURITY RISKS

The District, like other municipalities in the State, utilizes technology in conducting its operations. As a user of technology, the District potentially faces cybersecurity threats (e.g., hacking, phishing, viruses, malware and ransomware) on its technology systems. Accordingly, the District may be the target of a cyber-attack on its technology systems that could result in adverse

consequences to the District. The District employs a multi-layered approach to combating cybersecurity threats. While the District deploys layered technologies and requires employees to receive cybersecurity training, as required by State law, among other efforts, cybersecurity breaches could cause material disruptions to the District's finances or operations. The costs of remedying such breaches or protecting against future cyber-attacks could be substantial. Further, cybersecurity breaches could expose the District to litigation and other legal risks, which could cause the District to incur other costs related to such legal claims or proceedings.

OTHER PERTINENT INFORMATION

Registration and Qualification of Bonds for Sale

The sale of the Bonds has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Bonds have not been qualified under the Securities Act of Texas in reliance upon 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 they 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 or qualification provisions.

Ratings

S&P Global Ratings ("S&P") has assigned a rating of "AA" to the Bonds with the understanding that, concurrently with the delivery of the Bonds, the policy will be issued by AGM. The District has received an underlying, unenhanced rating of "A+" from S&P. An explanation of the significance of such rating may be obtained from S&P. The rating of the Bonds by S&P reflect only the views of S&P at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revisions or withdrawals of the rating may have an adverse effect on the market price of the Bonds.

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. 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.

Financial Advisor

SAMCO Capital Markets, Inc. 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.

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

Winning Bidder

After requesting competitive bids for the Bonds, the District accepted the bid of \$39,579,270.30 from Wells Fargo Bank, NA (previously defined as the "Purchaser" or "Initial Purchaser") to purchase the Bonds at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a net premium of \$392,529.05, less a Purchaser's discount of \$813,258.75 (includes Bond Insurance Premium), plus accrued interest on the Bonds from their Dated Date to their date of initial delivery. The District can give no assurance that any trading market will be developed for the District after their sale by the District to the Purchaser. The District has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Legal Investments and Eligibility to Secure Public Funds in Texas

Pursuant to Section 49.186, Texas Water Code and Chapter 1201, Texas Government Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees and (b) legal investments for public funds of cities, counties, school districts and other political subdivisions or public agencies of the State. The Bonds are also eligible under the Public Funds Collateral Act,

Chapter 2257, Texas Government Code, to secure deposits of public funds of the State or any political subdivision or public agency of the State and are lawful and sufficient security for those deposits to the extent of their market value. Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose other, more stringent, requirements in Resolution for the Bonds to be legal investments of such entity's funds or to be eligible to serve as collateral for their funds.

The District makes no representation that the Bonds will be acceptable to banks, savings and loans associations, or public entities for investment purposes or to secure deposits of public funds. The District has not reviewed the laws in other states to determine whether the Bonds are legal investments for various institutions in those states or eligible to serve as collateral for public funds in those states. The District has made no investigation of any other laws, rules, regulations or investment criteria that might affect the legality or suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

Certification as to Official Statement

The District, acting by and through its Board in its official capacity hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the District has no obligation to disclose any changes in the affairs of the District and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the District delivers the Bonds to the Purchaser at closing, unless extended by the Purchaser. All information with respect to the resale of the Bonds subsequent to the "end of the underwriting period" is the responsibility of the Purchaser.

Updating the Official Statement During Underwriting Period

If, subsequent to the date of the Official Statement to and including the date the Purchaser is no longer required to provide and Official Statement to potential customers who request the same pursuant to Rule 15c2-12 of the federal Securities Exchange Act of 1934 (the "Rule") (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the District learns or is notified by the Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Purchaser, unless the Purchaser elects to terminate its obligation to purchase the Bonds as described in the notice of sale accompanying this Official Statement. The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Purchaser (the "end of the underwriting period" within the meaning of the Rule), unless the Purchaser provides written notice the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Purchaser agrees to notify the District in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

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Concluding Statement

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which the District considers to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Resolution contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Resolution. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

The Resolution authorizing the issuance of the Bonds approves the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize its further use in the re-offering of the Bonds by the Purchaser.

This Official Statement has been approved by the Board of Directors for distribution in accordance with the provisions of the SEC's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

WALNUT CREEK SPECIAL UTILITY DISTRICT

/s/ Mike Gilley
President, Board of Directors
Walnut Creek Special Utility District

ATTEST:

/s/ Beth Correll
Secretary, Board of Directors
Walnut Creek Special Utility District

APPENDIX A

FINANCIAL INFORMATION – WALNUT CREEK SPECIAL UTILITY DISTRICT

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FINANCIAL INFORMATION OF THE ISSUER

REVENUE BOND DEBT SERVICE REQUIREMENTS

TABLE 1

Fiscal Year Ending 12/31	Current Total Debt Service	The Bonds			Combined Debt Service
		Principal	Interest	Total	
2023	\$ 2,378,425			-	\$ 2,378,425
2024	2,405,113		\$ 1,582,235	\$ 1,582,235	3,987,348
2025	862,888	\$ 510,000	2,023,744	2,533,744	3,396,631
2026	858,944	545,000	1,986,819	2,531,819	3,390,763
2027	824,394	585,000	1,947,269	2,532,269	3,356,663
2028	814,269	625,000	1,904,919	2,529,919	3,344,188
2029	822,975	675,000	1,859,419	2,534,419	3,357,394
2030	825,669	720,000	1,810,594	2,530,594	3,356,263
2031	817,588	775,000	1,758,269	2,533,269	3,350,856
2032	725,300	830,000	1,702,094	2,532,094	3,257,394
2033	723,725	890,000	1,641,894	2,531,894	3,255,619
2034	721,375	955,000	1,577,319	2,532,319	3,253,694
2035	595,000	1,020,000	1,513,294	2,533,294	3,128,294
2036	575,000	1,080,000	1,450,294	2,530,294	3,105,294
2037	574,600	1,135,000	1,394,484	2,529,484	3,104,084
2038	573,400	1,185,000	1,345,894	2,530,894	3,104,294
2039	576,300	1,235,000	1,294,469	2,529,469	3,105,769
2040		1,290,000	1,240,006	2,530,006	2,530,006
2041		1,350,000	1,181,413	2,531,413	2,531,413
2042		1,410,000	1,119,313	2,529,313	2,529,313
2043		1,475,000	1,054,400	2,529,400	2,529,400
2044		1,545,000	986,450	2,531,450	2,531,450
2045		1,615,000	915,350	2,530,350	2,530,350
2046		1,690,000	839,931	2,529,931	2,529,931
2047		1,775,000	758,694	2,533,694	2,533,694
2048		1,860,000	672,363	2,532,363	2,532,363
2049		1,950,000	581,875	2,531,875	2,531,875
2050		2,045,000	486,994	2,531,994	2,531,994
2051		2,145,000	387,481	2,532,481	2,532,481
2052		2,250,000	283,100	2,533,100	2,533,100
2053		2,360,000	173,613	2,533,613	2,533,613
2054		2,475,000	58,781	2,533,781	2,533,781
	<u>\$ 15,674,963</u>	<u>\$ 40,000,000</u>	<u>\$ 37,532,770</u>	<u>\$ 77,532,770</u>	<u>\$ 93,207,732</u>

PRINCIPAL REPAYMENT SCHEDULE

TABLE 2

Fiscal Year Ending 12/31	Outstanding Bonds	The Bonds	Total	Bonds Unpaid at End of Year	Percent of Principal Retired (%)
2023	\$ 1,920,000		\$ 1,920,000	\$ 50,515,000	3.66%
2024	2,040,000		2,040,000	48,475,000	7.55%
2025	555,000	\$ 510,000	1,065,000	47,410,000	9.58%
2026	570,000	545,000	1,115,000	46,295,000	11.71%
2027	555,000	585,000	1,140,000	45,155,000	13.88%
2028	565,000	625,000	1,190,000	43,965,000	16.15%
2029	595,000	675,000	1,270,000	42,695,000	18.58%
2030	620,000	720,000	1,340,000	41,355,000	21.13%
2031	635,000	775,000	1,410,000	39,945,000	23.82%
2032	565,000	830,000	1,395,000	38,550,000	26.48%
2033	585,000	890,000	1,475,000	37,075,000	29.29%
2034	605,000	955,000	1,560,000	35,515,000	32.27%
2035	500,000	1,020,000	1,520,000	33,995,000	35.17%
2036	500,000	1,080,000	1,580,000	32,415,000	38.18%
2037	520,000	1,135,000	1,655,000	30,760,000	41.34%
2038	540,000	1,185,000	1,725,000	29,035,000	44.63%
2039	565,000	1,235,000	1,800,000	27,235,000	48.06%
2040	-	1,290,000	1,290,000	25,945,000	50.52%
2041	-	1,350,000	1,350,000	24,595,000	53.09%
2042	-	1,410,000	1,410,000	23,185,000	55.78%
2043	-	1,475,000	1,475,000	21,710,000	58.60%
2044	-	1,545,000	1,545,000	20,165,000	61.54%
2045	-	1,615,000	1,615,000	18,550,000	64.62%
2046	-	1,690,000	1,690,000	16,860,000	67.85%
2047	-	1,775,000	1,775,000	15,085,000	71.23%
2048	-	1,860,000	1,860,000	13,225,000	74.78%
2049	-	1,950,000	1,950,000	11,275,000	78.50%
2050	-	2,045,000	2,045,000	9,230,000	82.40%
2051	-	2,145,000	2,145,000	7,085,000	86.49%
2052	-	2,250,000	2,250,000	4,835,000	90.78%
2053	-	2,360,000	2,360,000	2,475,000	95.28%
2054	-	2,475,000	2,475,000	-	100.00%
	<u>\$ 12,435,000</u>	<u>\$ 40,000,000</u>	<u>\$ 52,435,000</u>		

REVENUE BOND DEBT DATA**TABLE 3****Revenue Bond Debt Principal Outstanding (As of September 15, 2023):**

Waterworks System Revenue Bonds, Series 2014	6,815,000
Waterworks System Revenue Refunding Bonds, Series 2014	2,290,000
Utility System Revenue Refunding Bonds, Series 2017	1,410,000
Utility System Revenue Bonds, Series 2023 (the "Bonds")	<u>40,000,000</u>
Total Revenue Debt Principal Outstanding Following Issuance of the Bonds	<u>\$ 50,515,000</u>

COVERAGE OF THE BONDS**TABLE 4****Based on Actual Results**

2023 Net Revenues Available for Debt Service *	\$ 6,543,695
Annual Debt Service Requirement (2023) Coverage	2.75X
Average Annual Debt Service Requirements Upon the Delivery of the Bonds (2024-2054) Coverage	\$ 2,929,978 2.23X
Maximum Debt Service Requirements Upon the Delivery of the Bonds (2024) Coverage	\$ 3,987,348 1.64X

* Based on Audited Fiscal Year Ended December 31, 2022 figures.

CUSTOMER COUNT INCREASES (DECREASES)**TABLE 5**

Fiscal Year Ended 31-Dec	Active Retail Connections	Increase (Decrease)	
		Amount	Percent
2013	6,335	106	1.70%
2014	6,515	180	2.84%
2015	6,803	288	4.42%
2016	6,981	178	2.62%
2017	7,280	299	4.28%
2018	7,706	426	5.85%
2019	8,195	489	6.35%
2020	8,698	503	6.14%
2021	9,359	661	7.60%
2022	10,057	698	7.46%
2023*	10,401	344	9.41%

*As of July 31, 2023

FUND BALANCES**TABLE 6**

(As of August 11, 2023, unaudited)

Reserve Fund	\$ 1,872,316
Interest and Sinking Fund	6,004,127
Construction Fund	<u>2,580,523</u>
Total	<u>\$ 10,456,966</u>

Source: The Issuer

CONDENSED SYSTEM OPERATING STATEMENTS
TABLE 7

	Fiscal Year Ended December 31				
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenues					
Water Sales	\$ 9,634,079	\$ 8,113,948	\$ 7,438,480	\$ 6,715,400	\$ 6,493,598
Other Revenues	2,302,735	2,075,622	1,671,647	1,582,435	590,989
Investment Income	<u>233,924</u>	<u>36,269</u>	<u>113,520</u>	<u>403,422</u>	<u>336,993</u>
Total Revenue	\$ 12,170,738	\$ 10,225,839	\$ 9,223,647	\$ 8,701,257	\$ 7,421,580
Expenses					
Water Purchased	\$ 1,487,208	\$ 1,032,351	\$ 1,008,201	\$ 909,072	\$ 906,288
Other Operating Expenses (Excluding Depreciation and Interest)	<u>4,139,835</u>	<u>3,604,759</u>	<u>2,957,010</u>	<u>2,925,111</u>	<u>2,669,462</u>
Total Expenses	\$ 5,627,043	\$ 4,637,110	\$ 3,965,211	\$ 3,834,183	\$ 3,575,750
Net Revenues Available for Debt Service	<u>\$ 6,543,695</u>	<u>\$ 5,588,729</u>	<u>\$ 5,258,436</u>	<u>\$ 4,867,074</u>	<u>\$ 3,845,830</u>
Annual Debt Service Requirements	\$ 2,929,978	\$ 2,346,756	\$ 2,326,613	\$ 2,312,209	\$ 2,287,649
Coverage per Rate Covenant	2.23X	2.38X	2.26X	2.10X	1.68X
Active Retail Connections Water	10,057	9,359	8,698	8,195	7,706

Source: The Issuer's Annual Audited Financial Statements and other information from the Issuer.

HISTORICAL PRODUCTION AND CONSUMPTION DATA
TABLE 8

	For fiscal Year ended December 31				
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Production:					
Gallons pumped into System (in 000 gallons)	1,250,587,000	984,181,000	917,768,844	832,235,000	789,726,000
Usage:					
Meter Count/Active Retail Connections	10,057	9,359	8,698	8,195	7,706
Total Gallons Billed/Authorized Consumption (in 000 gallons)	1,137,929,500	904,508,000	804,919,371	650,345,619	660,922,900
Total Water Sales	\$ 9,634,079	\$ 8,113,948	\$ 7,438,480	\$ 6,715,400	\$ 6,493,598
Average Monthly Usage Per User (Gallons)	9,429	8,054	7,712	6,613	7,147
Average Monthly Bill Per User	\$ 84.58	\$ 84.58	\$ 84.58	\$ 84.58	\$ 84.58
Percentage Water Loss in System	90.99%	91.90%	87.70%	78.14%	83.69%

Source: The Issuer's Annual Financial Report and the Issuer.

PRINCIPAL RETAIL WATER CUSTOMERS - As of December 31, 2022

TABLE 9

<u>Retail Residential Customers</u>	<u>Average Monthly Consumption (Gallons)</u>	<u>Average Monthly Bill</u>
Francine/Michael Heisler	249,917	\$ 197.30
Tracy/Carl Alvarez	199,000	157.67
LBK Homes LLC	198,333	156.18
MK Homes	188,500	147.50
Oscar Tovas	179,750	142.00
Wallace Whitworth	174,917	138.36
Bryon G Custom Homes	172,500	136.63
DP Construction	154,167	122.08
Riverside Homebuilders Ltd	150,250	118.10
Riverside Homebuilders Ltd	148,167	117.31
Total	1,815,501	\$ 1,433.13

Principal Water Customers Percentage of Total Annual Revenues .18%

<u>Retail Customers (includes oversized meters)</u>	<u>Average Monthly Consumption (Gallons)</u>	<u>Average Monthly Bill</u>
MHC Operating Ltd Partnership	4,295,333	\$ 2,978.60
Aqua Texas, Inc.	2,228,250	1,839.10
McDonald & Carroll LLC	1,491,417	1,326.40
Ingram Concrete	1,096,250	928.57
Aqual Texas, Inc.	524,417	518.87
Colt Midstream, LLC	414,333	425.59
Rocky Ridge HOA	454,667	405.90
VWMB Ind Refridgeration LLC	470,833	380.56
William Ross	323,250	361.48
Patterson-Uti Drilling Co	270,583	321.05
Total	11,569,333	\$ 9,486.12

Principal Water Customers Percentage of Total Annual Revenues 1.18%

<u>Wholesale Customers</u>	<u>Average Monthly Consumption (Gallons)</u>	<u>Average Monthly Bill</u>
City of Rhome	45,313,750	\$ 27,641.39
City of Paradise	16,398,583	10,003.14
City of Reno	7,432,500	5,202.75
West Wise SUD	7,226,083	4,407.91
City of Boyd	6,544,917	3,868.05
Total	82,915,833	\$ 51,123.24

Principal Water Customers Percentage of Total Annual Revenues 6.37%

RETAIL WATER RATES

TABLE 10

The water service rates for the District in effect at December 31, 2022 are as follows:

Residential:	
Minimum 5/8" x 3/4" meter	\$ 35.70
Minimum usage	2,000 gallons
Additional water usage (per 1,000 gallons over minimum):	
2,001 to 10,000 gallons	\$ 6.11
10,001 to 20,000 gallons	\$ 6.95
20,001 and above	\$ 7.90
Commercial:	
Minimum 5/8" x 3/4" meter	\$ 40.70
Minimum usage	2,000 gallons
Additional water usage (per 1,000 gallons over minimum):	
2,001 to 10,000 gallons	\$ 51.95
10,001 to 20,000 gallons	\$ 85.65
20,001 and above	\$ 130.70

Source: *The Issuer's Annual Financial Report.*

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APPENDIX B

SELECTED PROVISIONS OF THE RESOLUTION

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SELECTED PROVISIONS OF THE BOND RESOLUTION

ARTICLE TWO

DEFINITIONS AND INTERPRETATIONS

Section 2.01. Definitions. In this Resolution, except in Article Four, the following terms shall have the following meanings, unless the context clearly indicates otherwise:

"Act" means, collectively: Chapter 49, Texas Water Code; Chapter 65, Texas Water Code; and Art. XVI, Sec. 59, Texas Constitution.

"Additional Parity Bonds" shall mean the additional parity revenue bonds permitted to be issued by the District pursuant to Section 6.01 of this Resolution.

"Blanket Issuer Letter of Representations" means the Blanket Issuer Letter of Representations between the District and DTC.

"Bond" or "Bonds" or "Series 2023 Bonds" shall mean the \$40,000,000 Walnut Creek Special Utility District Water System Revenue Bonds, Series 2023, authorized and issued pursuant to this Resolution on a parity with the Outstanding Bonds.

"Corporation" shall mean the Walnut Creek Water Supply Corporation, of Parker and Wise Counties, Texas, and, where appropriate, the Board of Directors thereof.

"Delivery Date" shall mean the date of initial the Bonds to the Purchaser against payment therefor.

"District" shall mean Walnut Creek Special Utility District.

"DTC" means The Depository Trust Company of New York, New York, or any successor securities depository.

"DTC Participant" shall mean brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

"Exchange Bonds" shall mean the Bonds registered, authenticated and delivered by the Registrar, as provided in Section 3.10 of this Resolution.

"Fiscal Year" shall mean the twelve-month period commencing on the first day of January of any year and ending on the last day of December of such calendar year, or such other period commencing on the date designated by the District and ending one year later.

"Gross Revenues" shall mean all revenues, income and receipts of every nature derived or received by the District from the operation and ownership of the System; the interest income from the investment or deposit of money in the System Fund, the Interest and Sinking Fund, and the Reserve Fund; and any other revenues hereafter pledged to the payment of all Parity Bonds.

"Initial Bond" or "Initial Bonds" shall mean the Bond or Bonds authorized, issued, and initially delivered as provided in Sections 3.01-3.04 of this Resolution.

"Interest Payment Date", when used in connection with any Bond, shall mean January 10 and July 10 of each year, commencing the later of January 10, 2024, or the next Interest Payment Date after delivery of an Initial Bond until maturity.

"Issue Date" shall mean October 1, 2023.

"Maintenance and Operation 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 governing body of the District, are necessary to keep the System in operation and render adequate service to the District and the customers thereof, or such as might be necessary to meet some physical accident or conditions which would otherwise impair the Parity Bonds), and all payments under contracts now or hereafter defined as operating expenses by the Texas Legislature. Depreciation shall never be considered as a Maintenance and Operation Expense.

"Net Revenues" shall mean the portion of the Gross Revenues remaining after deducting the Maintenance and Operation Expenses.

"Outstanding Bond Resolutions" shall mean resolutions adopted by the Board of Directors of the Corporation and the District authorizing the issuance of the Outstanding Bonds.

"Outstanding Bonds" shall mean the remaining outstanding bonds of the Series 2014 Bonds, the Series 2015 Refunding Bonds and the 2017 Refunding Bonds and shall exclude any of such bonds that have been refunded.

"Owner" or "Registered Owner", when used with respect to any Bond, shall mean the person or entity in whose name such Bond is registered in the Register. Any reference to a particular percentage or proportion of the Owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Bonds then outstanding under this Resolution, exclusive of Bonds held by the District.

"Parity Bonds" shall mean the Outstanding Bonds, the Bonds and each series of Additional Parity Bonds from time to time hereafter issued, but only to the extent such Parity Bonds remain outstanding within the meaning of this Resolution.

"Paying Agent" shall mean the Registrar.

"Pledged Revenues" shall mean the Net Revenues of the System, and any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which, at the option of the District, hereafter may be pledged to the payment of the Bonds or the Additional Parity Bonds.

"Purchaser" means Wells Fargo Bank, National Association.

"Record Date" shall mean December 15 for interest payments due on January 10 and June 15 for interest payments due on July 10.

"Redemption Date" shall mean the date fixed for redemption of any Bond pursuant to the terms of this Resolution.

"Register" shall mean the registry system maintained on behalf of the District by the Registrar in which are listed the names and addresses of, and the principal amounts registered to, each Owner.

"Registrar" shall mean BOKF, NA, Dallas, Texas and its successors in that capacity.

"Replacement Bonds" shall mean the Bonds authorized by the District to be issued in substitution for mutilated, lost, apparently destroyed or wrongfully taken Bonds as provided in Section 3.12 of this Resolution.

"Resolution" shall mean this bond resolution and all amendments hereof and supplements hereto.

"Series 2014 Bonds" means the District's \$9,245,000 Water System Revenue Bonds, Series 2014, dated June 1, 2014, and referenced in Section 1.01 of this Resolution.

"Series 2015 Refunding Bonds" means the District's \$12,215,000 Water System Revenue Refunding Bonds, Series 2015, dated December 15, 2014, and referenced in Section 1.01 of this Resolution.

"Series 2017 Refunding Bonds" means the District's \$1,850,000 Water System Revenue Refunding Bonds, Series 2017, dated August 15, 2017, and referenced in Section 1.01 of this Resolution.

"Special Project" shall mean, to the extent permitted by law, any waterworks or property, improvement or facility declared by the District not to be part of the System and substantially all of the costs of acquisition, construction, and installation of which is paid from proceeds of a financing transaction other than the issuance of bonds payable from Pledged Revenues, and for

which all maintenance and operation expenses are payable from sources other than revenues of the System, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction and installation under such financing transaction.

"Special Project Bonds" shall mean the revenue bonds permitted to be issued by the District pursuant to Section 6.03 of this Resolution.

"Subordinate Lien Bonds" shall mean the bonds permitted to be issued by the District pursuant to Section 6.02 of this Resolution.

"System" shall mean all properties, facilities, improvements, equipment, interests and rights constituting the waterworks system of the District, including all future extensions, replacements, betterment, additions and improvements to the System. The System shall not include any Special Project, sanitary sewer system or drainage system of the District.

"TCEQ" shall mean the Texas Commission on Environmental Quality and any successor to the TCEQ.

"Term Bonds" shall mean the Bonds maturing January 10, 2054.

Section 2.02. Interpretations. All terms defined herein and all pronouns used in this Resolution shall be deemed to apply equally to singular and plural and to all genders. The titles and headings of the articles and sections of this Resolution have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Resolution and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Parity Bonds and the validity of the lien on and pledge of the Pledged Revenues to secure the payment of the Parity Bonds.

ARTICLE FIVE

SECURITY FOR AND SOURCE OF PAYMENT FOR ALL PARITY BONDS

Section 5.01. Pledge and Source of Payment. The District hereby covenants and agrees that all Pledged Revenues, including all Net Revenues of the System, shall be deposited and paid into the special funds established in connection with the issuance of the Bonds, and shall be applied in the manner hereinafter set forth, in order to provide for the payment of principal, interest and any redemption premium of the Outstanding Bonds, the Bonds and Additional Parity Bonds and all expenses of paying same, and to provide for the payment of all Maintenance and Operation Expenses. The Parity Bonds shall constitute special obligations of the District that shall be payable solely from, and shall be equally and ratably secured by a first lien on, the

Pledged Revenues, as collected and received by the District, from the operation and ownership of the System, which Pledged Revenues shall, in the manner herein provided, be set aside for and pledged to the payment of the Outstanding Bonds, the Bonds and Additional Parity Bonds in the Interest and Sinking Fund and Reserve Fund as hereinafter provided, and the Outstanding Bonds, the Bonds and Additional Parity Bonds shall be in all respects on a parity with and of equal dignity with one another. The owners of the Outstanding Bonds, the Bonds and Additional Parity Bonds shall never have the right to demand payment of either the principal of or interest on the Parity Bonds out of any funds raised or to be raised by taxation. The District has no taxing powers.

Section 5.02. Rates and Charges. So long as any Parity Bonds remain outstanding, the District shall fix, charge and collect rates and charges for the use and services of the System, which are calculated to be fully sufficient to produce Pledged Revenues of the System in each Fiscal Year at least equal to the amount required to maintain the Interest and Sinking Fund and the Reserve Fund as hereinafter provided so as to provide for the payment of principal and interest on all Parity Bonds then outstanding and to pay the Maintenance and Operation Expenses of the System.

The District will not grant or permit any free service from the System except for buildings and institutions operated by the District.

Section 5.03. Special Funds. The following special Funds are hereby re-established and renamed and shall be maintained and accounted for as hereinafter provided, so long as any of the Parity Bonds remain outstanding:

- (a) Walnut Creek Special Utility District Water System Fund (the "System Fund");
- (b) Walnut Creek Special Utility District Interest and Sinking Fund (the "Interest and Sinking Fund"); and
- (c) Walnut Creek Special Utility District Water System Revenue Bond Reserve Fund (the "Reserve Fund").

The System Fund shall be maintained at an official depository of the District separate and apart from all other funds and accounts of the District. The Interest and Sinking Fund and the Reserve Fund shall be maintained at an official depository of the District separate and apart from all other funds and accounts of the District and shall constitute trust funds which shall be held in trust for the benefit of the Owners of the Parity Bonds and the proceeds of which (except for interest income, which shall be transferred to the System Fund) shall be and are hereby pledged to the payment of the Parity Bonds. All of the Funds named above shall be used solely as provided in this Resolution so long as any Parity Bonds remain outstanding.

Section 5.04. Flow of Funds. All Pledged Revenues, including the Gross Revenues of the System, shall be deposited as collected into the System Fund. Money from time to time on deposit to the credit of the System Fund shall be applied as follows in the following order of priority:

- (a) First, to pay Maintenance and Operation Expenses;
- (b) Second, to make all deposits into the Interest and Sinking Fund required by the Outstanding Bond Resolutions, this Resolution and any resolution authorizing the issuance of Additional Parity Bonds;
- (c) Third, to make all deposits into the Reserve Fund required by the Outstanding Bond Resolutions, this Resolution and any resolutions authorizing the issuance of Additional Parity Bonds; and
- (d) Fourth, for any lawful purpose.

Whenever the total amounts on deposit to the credit of the Interest and Sinking Fund and the Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all outstanding Parity Bonds plus the aggregate amount of all interest accrued and to accrue thereon, no further payments need be made into the Interest and Sinking Fund or the Reserve Fund, and such Parity Bonds shall not be regarded as being outstanding except for the purpose of being paid with the money on deposit in such Funds.

Section 5.05. Operation and Maintenance Expenses. On or before the last business day of each month so long as any Parity Bonds remain outstanding, monies in the System Fund shall be used to pay the Operation and Maintenance Expenses of the System. Any monies remaining after such payment, shall be used as provided hereafter.

Section 5.06. Interest and Sinking Fund. On or before the last business day of each month so long as any Parity Bonds remain outstanding, after payment of the Operation and Maintenance Expenses required in the preceding section, there shall be transferred into the Interest and Sinking Fund from the System Fund the following amounts:

- (a) such amounts, in approximately equal monthly installments, as will be sufficient to accumulate the amount required to pay the interest scheduled to become due on the Parity Bonds on the next interest payment date; and
- (b) such amounts, in approximately equal monthly installments, as will be sufficient to accumulate the amount required to pay the next maturing principal of the Parity Bonds, including the principal amounts of, and any redemption premiums on, any Parity Bonds payable as a result of the exercise or operation of any optional or mandatory redemption provision contained in any resolution authorizing the issuance of Parity Bonds.

Money deposited to the credit of the Interest and Sinking Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Parity Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Parity Bonds, plus all bank charges and other costs and expenses relating to such payment. On or before each principal and/or interest payment date on the Parity Bonds, the District shall transfer from the Interest and Sinking Fund to the paying agents an amount equal to the principal, interest and redemption premiums payable on the Parity Bonds on such date, together with an amount equal to all bank charges and other costs and expenses relating to such payment. The paying agents shall totally destroy all paid Parity Bonds and shall provide the District with an appropriate certificate of destruction.

Section 5.07. Reserve Fund. Except as provided in Section 6.01(g) when the Series 2014 Bonds are no longer outstanding, unless the Reserve Fund is fully funded, on or before the last business day of each month so long as any Parity Bonds remain outstanding, after payment of the Operation and Maintenance Expenses and after making the transfers into the Interest and Sinking Fund required in the preceding sections, there shall be transferred into the Reserve Fund from the System Fund such amounts as shall be required in each resolution authorizing the issuance of Parity Bonds so that the Reserve Fund shall contain, in no more than sixty (60) months after the issuance of each such issue of Parity Bonds, money and investments in an aggregate amount at least equal to the average annual principal and interest requirements on all Parity Bonds then outstanding. After such amount has accumulated in the Reserve Fund and so long thereafter as such Fund contains such amount, no further deposits shall be required to be made into the Reserve Fund, and any excess amounts may be transferred to the System Fund. But if and whenever the balance in the Reserve Fund is reduced below such amount, monthly deposits into such Fund shall be resumed and continued in amounts at least equal to one-sixtieth (1/60th) of the average annual principal and interest requirements on the Parity Bonds until the Reserve Fund has been restored to such amount. The Reserve Fund shall be used to pay the principal of and interest on the Parity Bonds at any time when there is not sufficient money available in the Interest and Sinking Fund for such purpose and it may be used finally to pay and retire the last Parity Bonds to mature or be redeemed.

Section 5.08. Deficiencies in Funds. If in any month there shall not be deposited into any Fund maintained pursuant to this Article the full amounts required herein, amounts equivalent to such deficiency shall be set apart and paid into such Fund or Funds from the first available and unallocated money in the System Fund, and such payment shall be in addition to the amounts otherwise required to be paid into such Funds during the succeeding month or months. To the extent necessary, the rates and charges for the System shall be increased to make up for any such deficiencies.

Section 5.09. Investment of Funds; Transfer of Investment Income. Money in the System Fund, the Interest and Sinking Fund and the Reserve Fund may, at the option of the District, be invested as provided in Chapter 2256, Texas Gov't Code; provided that all such deposits and investments shall be made in such manner (which may include repurchase agreements for such investments with any national bank) that the money required to be expended from any Fund will be available at the proper time or times, and provided further that in no event shall

such deposits or investments of money in the Reserve Fund mature later than the final maturity date of the Parity Bonds. All such investments shall be valued in terms of current market value as of the last business day of the District's Fiscal Year, except for investments in direct obligations of the United States of America - State and Local Government Series, which shall be valued at their par value. Any obligation in which money is so invested shall be kept and held in the official depository bank of the District at which the Fund is maintained from which the investment was made. All such investments shall be promptly sold when necessary to prevent any default in connection with the Parity Bonds. All interest and income derived from such deposits and investments shall be transferred or credited as received to the System Fund, and shall constitute Gross Revenues of the System.

Section 5.10. Security for Uninvested Funds. So long as any Parity Bonds remain outstanding, all uninvested money on deposit in, or credited to, the Construction Fund, the System Fund, the Interest and Sinking Fund and the Reserve Fund shall be secured by the pledge of security, as provided by Chapter 2256, Texas Gov't Code, in a principal amount not less than the amount of such uninvested funds.

ARTICLE SIX

ADDITIONAL BONDS

Section 6.01. Additional Parity Bonds. The District reserves the right to issue, for any lawful purpose (including the refunding of any previously issued Parity Bonds or any other bonds or obligations of the District issued in connection with or payable from the revenues of the System), one or more series of Additional Parity Bonds payable from and secured by a first lien on the Pledged Revenues, including the Net Revenues of the System, on a parity with the Bonds and any other previously issued Additional Parity Bonds; provided, however, that no Additional Parity Bonds may be issued unless:

(a) The Additional Parity Bonds mature on, and interest is payable on, the same days of the year as the Bonds;

(b) The Interest and Sinking Fund and the Reserve Fund each contains the amount of money then required to be on deposit therein;

(c) A certificate is executed by the chief administrative officer of the District to the effect that no default exists in connection with any of the covenants or requirements of the resolutions authorizing the issuance of all then outstanding Parity Bonds and that the Interest and Sinking Fund and the Reserve Fund each contains the amount then required to be on deposit therein;

(d) An opinion of nationally recognized bond counsel is rendered to the effect that (i) such Additional Bonds are valid and binding obligations of the District 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, and (ii) such Additional Parity Bonds have been duly and validly authorized and issued in accordance with law;

(e) An independent certified public accountant or independent firm of certified public accountants, acting by and through a certified public accountant, signs 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 ninety (90) days preceding the month in which the resolution authorizing the issuance of the then proposed Additional Parity Bonds is passed, the Net Revenues were at least 1.25 times the average annual principal and interest requirements of all Parity Bonds which are scheduled to be outstanding after the delivery of the then proposed Additional Parity 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 Parity Bonds is passed, but which was not in effect during all of the entire period for which the Pledged 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; and

(f) Provision is made in the resolution authorizing the Additional Parity Bonds then proposed to be issued for (i) additional payments into the Interest and Sinking Fund sufficient to provide for any increased principal and interest requirements on the Parity Bonds resulting from the issuance of the Additional Parity Bonds and (ii) (except as permitted in subsection (g) below) payments into the Reserve Fund so that such Fund will, in not later than sixty (60) months from the date of issuance of such Additional Parity Bonds, contain a balance not less than the average annual principal and interest requirements on all Parity Bonds that will be outstanding after the issuance of such series of Additional Parity Bonds.

(g) Notwithstanding anything to the contrary contained in subsection (f) and Section 5.07, there shall no longer be a requirement to maintain and fund the Reserve Fund for such time as (i) the requirements of subsection (f) in the resolution authorizing the issuance of the Series 2014 Bonds regarding the maintenance of the Reserve Fund are no longer in effect because such 2014 Bonds have been paid, redeemed or defeased and (ii) the Pledged Revenues for the immediately preceding Fiscal Year according to the District's independent certified public accountant are equal to at least 110% of the Average Annual Debt Service Requirements; upon such determination by the certified public accountant, all moneys on deposit in the Reserve Fund may be released from the Reserve Fund and used by the District for any lawful purpose; provided, however, if the source of such funds was the proceeds of the Bonds or the proceeds any of the Parity Bonds, such bond proceeds must be deposited into the Debt Service Fund; and provided, further that once such moneys are released, an independent certified public accountant shall determine the ratio of Pledged Revenues to Average Annual Debt Service Requirements at

the beginning of each Fiscal Year; and provided, however, in the event that thereafter the Pledged Revenues for any two consecutive Fiscal Years are less than 110% (unless such percentage is below 100% in any Fiscal Year, in which case the hereinafter-specified requirements of Section 5.07 will commence after such Fiscal Year) of the Average Annual Debt Service Requirements of the then outstanding Parity Bonds, the District will be required to commence having a Reserve Fund and making the deposits to the Reserve Fund, as provided above in Section 5.07, and to continue making such deposits until the earlier of (i) such time as the Reserve Fund contains the amount required in Section 5.07 or (ii) the District's independent certified public accountant certifies that the Pledged Revenues for a Fiscal Year have been equal to not less than 110% of the Average Annual Debt Service Requirements.

For purposes of Section 6.01, the term "Net Revenues of the System" shall mean all of the Net Revenues of the System, except that in calculating Net Earnings there shall not be deducted as Maintenance and Operation Expenses any charge, disbursement or expenditure for extensions, repairs or otherwise which, under standard accounting practice, constitutes a capital expenditure.

Section 6.02. Subordinate Lien Bonds. The District reserves the right to issue, for any lawful purpose, bonds, notes or other obligations secured in whole or in part by liens on the Pledged Revenues that are junior and subordinate to the lien on Pledged Revenues securing payment of the Parity Bonds. Such subordinate lien obligations may be further secured by any other source of payment lawfully available for such purposes.

Section 6.03. Special Project Bonds. The District reserves the right to issue revenue bonds secured by liens on and pledges of revenues and proceeds derived from Special Projects or sanitary sewer system revenues.

ARTICLE SEVEN

COVENANTS AND PROVISIONS RELATING TO ALL PARITY BONDS

Section 7.01. Punctual Payment of Parity Bonds. The District will punctually pay or cause to be paid the interest on and principal of all Parity Bonds according to the terms thereof and will faithfully do and perform, and at all times fully observe, any and all covenants, undertakings, stipulations and provisions contained in this Resolution and in any resolution authorizing the issuance of such Parity Bonds.

Section 7.02. Maintenance of System. So long as any Parity Bonds remain outstanding, the District covenants that it will at all times maintain the System, or within the limits of its authority cause the same to be maintained, in good condition and working order and will operate the same, or cause the same to be operated, in an efficient and economical manner at a reasonable cost and in accordance with sound business principles. In operating and maintaining the System, the District will comply with all contractual provisions and agreements entered into by it and with all valid rules, regulations, directions or order of any governmental, administrative

or judicial body promulgating same, noncompliance with which would materially and adversely affect the operation of the System.

Section 7.03. Sale or Encumbrance of System. So long as any Parity Bonds remain outstanding, the District will not sell, dispose of or, except as permitted in Article Six, further encumber the System; provided, however, that this provision shall not prevent the District from disposing of any portion of the System which is being replaced or is deemed by the District to be obsolete, worn out, surplus or no longer needed for the proper operation of the System. Any agreement pursuant to which the District contracts with a person, corporation, municipal corporation or political subdivision to operate the System or to lease and/or operate all or part of the System shall not be considered as an encumbrance of the System.

Section 7.04. Insurance. The District further covenants and agrees that it will keep the System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that such insurance is available. The cost of all such insurance together with any additional insurance, shall be a part of the Maintenance and Operation Expenses. All net proceeds of such insurance shall be applied to repair or replace the insured property that is damaged or destroyed or to make other capital improvements to the System or to redeem Parity Bonds.

Section 7.05. Accounts, Records and Audits. So long as any Parity Bonds remain outstanding, the District covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the operation of the System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the System or the Gross Revenues or the Pledged Revenues thereof. The District shall after the close of each of its fiscal years cause an audit report of such records and accounts to be prepared by an independent certified public accountant or independent firm of certified public accountants. Each year promptly after such audit report is prepared, the District shall furnish a copy thereof without cost to the Municipal Advisory Council of Texas, the major municipal rating agencies and any holders of Parity Bonds, if any of such entities or holders request same. All expenses incurred in preparing such audits shall be Maintenance and Operation Expenses.

Section 7.06. Competition. To the extent it legally may, the District will not grant any franchise or permit for the acquisition, construction or operation of any competing facilities which might be used as a substitute for the System and will prohibit the operation of any such competing facilities.

Section 7.07. Pledge and Encumbrance of Pledged Revenues. The District covenants and represents that it has the lawful power to create a lien on and to pledge the Pledged Revenues to secure the payment of the Parity Bonds and has lawfully exercised such power under the Constitution and laws of the State of Texas. The District further covenants and represents that, other than to the payment of the Parity Bonds, the Pledged Revenues are not and will not be made subject to any other lien, pledge or encumbrance to secure the payment of any debt or

obligation of the District, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Parity Bonds.

Section 7.08. Registered Owners' Remedies. This Resolution shall constitute a contract between the District and the Owners of the Parity Bonds from time to time outstanding and this Resolution shall be and remain irrevocable until the Parity Bonds and the interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided herein. In the event of a default in the payment of the principal of or interest on any of the Parity Bonds or a default in the performance of any duty or covenant provided by law or in this Resolution, the Owner or Owners of the Bonds then outstanding may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the District to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Bonds may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the District under this Resolution, including the making and collection of reasonable and sufficient rates and charges for the use and services of the System, the deposit of the Gross Revenues thereof into the special funds herein provided, and the application of such Gross Revenues in the manner required in this Resolution.

Section 7.09. Discharge by Deposit. The District may discharge its obligation to the Owners of any or all of the Parity Bonds to pay principal, interest and redemption premium (if any) thereon by depositing with any paying agent for such Parity Bonds or with the State Treasurer of the State of Texas either: (i) cash in an amount equal to the principal amount and redemption premium, if any, of such Parity Bonds plus interest thereon to the date of maturity or redemption, or (ii) pursuant to an escrow or trust agreement, cash and/or direct obligations of, or obligations the principal and interest of which are guaranteed by, or secured by a pledge of direct obligations of, the United States of America, in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of the principal amount and redemption premium, if any, of such Parity Bonds plus interest thereon to the date of maturity or redemption; provided, however, that if any of such Parity Bonds are to be redeemed prior to their respective dates of maturity, provision shall have been made for giving notice of redemption as provided in the resolution authorizing such Parity Bonds. Upon such deposit, such Parity Bonds shall no longer be regarded to be outstanding or unpaid.

Section 7.10. Unavailability of Authorized Publication. If, because of the temporary or permanent suspension of any newspaper, journal or other publication, or, for any reason, publication of notice cannot be made meeting any requirements herein established, any notice required to be published by the provisions of this Resolution shall be given in such other manner and at such time or times as in the judgment of the District shall most effectively approximate such required publication and the giving of such notice in such manner shall for all purposes of this Resolution be deemed to be in compliance with the requirements for publication thereof.

Section 7.11. Registrar May Own Parity Bonds. The Registrar for the Parity Bonds, in their individual or any other capacity, may become holders or pledgees of the Parity Bonds with the same rights they would have if they were not the Registrar.

Section 7.12. No Recourse Against District Officials or Members. No recourse shall be had for the payment of principal of or interest on any Parity Bonds against any member, director or officer of the District or any person executing any Parity Bonds, except for fraud.

Section 7.13. Special Covenants. The District further covenants and agrees that:

(a) Encumbrance and Sale.

(1) Other than with respect to the Bonds and except as provided in this Resolution, the Pledged Revenues have not in any manner been pledged to the payment of any debt or obligation of the District, or otherwise; and while any of the Bonds are outstanding, the District will not, except with respect to the Bonds and except as provided in this Resolution, additionally encumber the Pledged Revenues unless such encumbrance is made junior and subordinate in all respects to the Bonds and all liens, pledges and covenants made in connection therewith.

(2) So long as the Bonds are outstanding, the District shall not mortgage, pledge, encumber, sell, lease, or otherwise dispose of or impair its title to the System or any significant or substantial part thereof.

(b) Title. The District lawfully owns or will own and is or will be lawfully possessed of the lands or easements upon which its System is and will be located, and has or will purchase good and indefeasible estate in such lands in fee simple, or has or will lawfully obtain any necessary easements to operate the System, and it warrants that it has or will obtain and will defend, the title to all the aforesaid lands and easements for the benefit of the owners of the Bonds against the claims and demands of all persons whomsoever, that is lawfully qualified to pledge the Pledged Revenues to the payment of the Bonds, in the manner prescribed herein, and has lawfully exercised such rights.

(c) Liens. The District will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon it, or its System, and it will pay all lawful claims for rents, royalties, labor, materials, and supplies which if unpaid might by law become a lien or charge upon its System, provided, however, that no such tax, assessment, or charge, and that no such claims which might be another lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the District.

(d) Performance. The District will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Resolution and each resolution authorizing the issuance of Bonds, and in each and every Bond and from the Pledged Revenues the principal of and interest on every Bond on the dates and in the places and manner prescribed in such resolutions and Bonds; and that it will, at the times and in the manner prescribed, deposit or cause to be deposited from the Pledged Revenues the amounts required to be deposited into the Interest and Sinking Fund and the Reserve Fund; and the Registrar and any

owner of the Bonds may require the District, its officials, agents, and employees to carry out, respect, or enforce the covenants and obligations of this Resolution or any resolution authorizing the issuance of Bonds, but without limitation, the use and filing of mandamus proceedings, in any court or competent jurisdiction, against the District, its officials, agents, and employees.

(e) Legal Authority. The District is duly authorized under the laws of the State of Texas to issue the Bonds; all action on its part for the issuance of the Bonds has been duly and effectively taken, and the Bonds in the hands of the owners thereof are and will be valid and enforceable special obligations of the District in accordance with their terms.

(f) Budget. The District 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 such items as are customarily and reasonably contained in a waterworks system budget under generally accepted accounting procedures. The District shall, at least thirty (30) days subsequent to adopting and placing into effect each Annual Budget, furnish, without cost, a copy of same to any owner of twenty-five percent (25%) or more in aggregate principal amount of outstanding Bonds who may so request.

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

ARTICLE TEN

AMENDMENTS OF THE RESOLUTION

Section 10.01. Amendments of Resolution. The Registered Owners of not less than two-thirds (2/3) in aggregate principal amount of the Bonds authorized by this Resolution then outstanding shall have the right, at any time and from time to time, to consent to and approve any amendment of this Resolution that may be deemed desirable by the District for the purpose of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in this Resolution; provided, however, that nothing in this Article shall:

(a) Affect the rights of the owners of less than all of the Bonds authorized by this Resolution then outstanding;

(b) Make any change in the maturities of the Bonds authorized by this Resolution;

(c) Reduce the rate of interest borne by any of the Bonds authorized by this Resolution;

(d) Reduce the amount of the principal payable on the Bonds authorized by this Resolution;

(e) Modify the terms of payment of principal of or interest on the Bonds authorized by this Resolution or impose any conditions with respect to such payment;

(f) Change the minimum percentage of the principal amount of Bonds authorized by this Resolution necessary for consent to such amendment.

Bonds owned or held by or for the account of or for the benefit of the District shall not be deemed to be outstanding for the purpose of amending this Resolution.

Section 10.02. Notice and Adoption of Amendment. If the District desires to amend this Resolution, it shall cause notice of the proposed amendment to be published once a week during two consecutive weeks in a financial newspaper, journal or publication published in New York, New York, or in Austin, Texas. Such notice shall briefly set forth the nature of the proposed amendment and shall state that copies thereof are on file at the District's principal office for inspection by all Registered Owners. Such notice is not required, however, if notice in writing is given to each Registered Owner. If, within thirty (30) days, or such longer period as shall be prescribed by the District, following the final publication, the Registered Owners of not less than two-thirds (2/3) in aggregate principal amount of the Bonds authorized by this Resolution then outstanding shall have consented to the amendment as herein provided, no Registered Owner shall have any right to object to any of the terms and provisions contained therein, or in any manner to question the propriety of the execution thereof, and all the rights of all Registered Owners shall thereafter be determined, exercised and enforced hereunder subject to all respects to such amendment.

Section 10.03. Revocation of Consent. Any consent given by a Registered Owner pursuant to the provisions of this Article shall be irrevocable for a period of six months from the date such consent is granted and shall be conclusive and binding on all future Registered Owners of the same Bond during such period. Such consent may be revoked at any time after six months from the date of such consent by the Registered Owner who gave such consent or by a successor in title, by filing notice thereof with the District, but such revocation shall not be effective if the Registered Owners of two-thirds (2/3) aggregate principal amount of the Bonds authorized by this Resolution then outstanding have, prior to the attempted revocation, consented to and approved the amendment.

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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.]

**WALNUT CREEK SPECIAL UTILITY DISTRICT
WATER SYSTEM REVENUE BONDS, SERIES 2023
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$40,000,000**

AS BOND COUNSEL FOR THE WALNUT CREEK SPECIAL UTILITY DISTRICT (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates as stated in the text of the Bonds, and maturing all in accordance with the terms and conditions stated in the text of the Bonds and in the Resolution Authorizing the Walnut Creek Special Utility District Water System Revenue Bonds adopted by the board of the directors of the District on September 25, 2023 authorizing the issuance of the Bonds (the "Resolution").

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, relating to the issuance of the Bonds, including the Resolution and other documents authorizing and relating to the issuance of the Bonds; and we have examined various certificates and documents executed by officers and officials of the District upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Bonds have been duly authorized, issued and delivered in accordance with law; and that said Bonds, except as the enforceability thereof may be limited by laws applicable to the District relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights, generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from and secured by, a lien on and pledge of the "Pledged Revenues" of the "System" (which is generally described as the District's waterworks system) all as provided in the Resolution.

THE DISTRICT reserves the right, subject to the restrictions stated in the Resolution, to issue Additional Parity Bonds (as defined in the Resolution) which also may be made payable from, and secured by, a lien on and pledge of the Pledged Revenues on a parity with the lien that secures the Bonds and the District's other Parity Bonds (as defined in the Resolution); other obligations of inferior liens; and such other obligations authorized by law including bonds payable from contracts with other persons, including private corporations, municipalities, and political subdivisions.



THE DISTRICT also reserves the right to amend the Resolution as provided therein and subject to the restrictions therein stated.

THE HOLDERS of the Bonds shall never have the right to demand payment thereof out of any funds raised or to be raised by taxations; and the Bonds are payable solely from sources described in the Resolution, are not payable from any other funds or resources of the District.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on the Verification Report of Barthe & Wahrman, PA, and on certain representations, the accuracy of which we have not independently verified, and assume compliance by the District with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed or refinanced therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the District to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, may be includable in a corporation's adjusted financial statement income for purposes of determining the alternative minimum tax imposed on certain corporations by section 55 of the Code

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 District as the taxpayer. We observe that the District 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.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, 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 independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, 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 certificates executed by officials of the District as to the current outstanding indebtedness of the District and sufficiency of the revenues pledged by the District to the payment of the Bonds. Our role in connection with the District'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.

Respectfully,

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APPENDIX D

**WALNUT CREEK SPECIAL UTILITY DISTRICT'S
AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2022**

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Walnut Creek Special Utility District

Annual Financial Report

December 31, 2022

Walnut Creek Special Utility District

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Hatter 8' Associates, LLP
Certified Public Accountants

Report of Independent Auditors

The Board of Directors of
Walnut Creek Special Utility District

Opinion

We have audited the accompanying financial statements of Walnut Creek Special Utility District (the "District") as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Walnut Creek Special Utility District as of December 31, 2022, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Walnut Creek Special Utility District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Walnut Creek Special Utility District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Walnut Creek Special Utility District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Walnut Creek Special Utility District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 7, and budgetary comparison information, on pages 22 - 23, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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

Management is responsible for the other information included in the annual report. The other information comprises the Texas Supplementary Information on pages 25 - 35 but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

;-/4rrt9l. tAsf'Dcl k.rE LL,

Fort Worth, Texas

May 9, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Walnut Creek 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, 2022. We encourage readers to consider the information presented here.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of the statement of net position, statement of revenues, expenses and change in net position, statement of cash flows, and notes to the financial statements. This report also contains required supplementary information, and other information in addition to the basic financial statements.

Proprietary fund. The District maintains one proprietary fund to account for its water operations. The basic financial statements consist of the following:

- *Statement of Net Position* - This statement is similar to the balance sheet for a business enterprise and presents the District's assets, liabilities, and net position on the accrual basis as of year-end.
- *Statement of Revenues, Expenses, and Changes in Net Position* - This statement is similar to the income statement for a business enterprise and presents the District's revenues and expenses during the year on the accrual basis.
- *Statement of Cash Flows* - This statement presents the District's sources of cash receipts and cash expended for operating, capital and financing, and investing activities during the year. The reconciliation of operating income to cash provided by operating activities identifies non-cash activities and changes in certain balance sheet accounts.
- *Notes to Financial Statements.* The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, and other information that further explains and supports the information in the financial statements. The budgetary comparison schedule can be found on page 22 through 23 and Texas Supplementary Information (TSI) can be found on pages 25 through 35 of this report.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities by \$49,734,992 (net position) for the current year reported. Of this amount, \$7,949,548 is unrestricted and is available to meet the District's ongoing obligation to creditors. This compares to the previous year when assets exceeded liabilities by \$41,090,996.
- The District's net position increased by \$8,643,996 during the current year compared to an increase of \$5,917,180 in the previous year.
- Total capital assets (net of accumulated depreciation) amounted to \$45,640,801 at the current year ended December 31, 2022 compared to \$41,411,592 in the previous year.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Below are summaries of the District's Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position.

Table A-1
Condensed Schedule of Net Position

	<u>2022</u>	<u>2021</u>	<u>% Change</u>
Assets:			
Current and non-current assets	\$ 23,678,306	\$ 21,307,955	11.1%
Capital assets	45,640,801	41,411,592	10.2%
Deferred outflows	139,219	172,752	-19.4%
	<u>\$ 69,458,326</u>	<u>\$ 62,892,299</u>	<u>10.4%</u>
Liabilities:			
Current liabilities	\$ 5,561,875	\$ 5,266,440	5.6%
Long-term liabilities	14,161,459	16,534,863	-14.4%
	<u>19,723,334</u>	<u>21,801,303</u>	<u>-9.5%</u>
Net position:			
Invested in capital assets, net of related debt	34,004,046	27,579,204	23.3%
Restricted for debt service (expendable)	7,781,398	7,608,180	2.3%
Unrestricted net position	7,949,548	5,903,612	34.7%
	<u>49,734,992</u>	<u>41,090,996</u>	<u>21.0%</u>
	<u>\$ 69,458,326</u>	<u>\$ 62,892,299</u>	<u>10.4%</u>

Table A-2
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	<u>2022</u>	<u>2021</u>	<u>% Change</u>
Operating revenues:			
Water sales	\$ 9,634,079	\$ 8,113,948	18.7%
Other revenues	2,302,735	2,075,622	10.9%
	<u>11,936,814</u>	<u>10,189,570</u>	<u>17.1%</u>
Operating expenses	<u>7,246,074</u>	<u>6,033,392</u>	<u>20.1%</u>
Operating income	4,690,740	4,156,178	12.9%
Non-operating revenues (expenses):			
Interest income	233,924	36,269	545.0%
Interest expense	(308,739)	(428,402)	-27.9%
System development revenue	4,028,071	2,149,738	87.4%
Gain on disposal of assets	-	3,397	100.0%
	<u>3,953,256</u>	<u>1,761,002</u>	<u>124.5%</u>
Change in net position	8,643,996	5,917,180	46.1%
Net position at beginning of year	41,090,996	35,173,816	16.8%
Net Position at End of Year	<u>\$ 49,734,992</u>	<u>\$ 41,090,996</u>	<u>21.0%</u>

See accompanying report of independent auditors.

A significant portion of the District's net position (68%) reflects its investment in capital assets (e.g. land, buildings, equipment and vehicles, furniture and water distribution system), net of any related debt. The District uses these capital assets to provide services to residents of Parker and Wise Counties; consequently, these assets are not available for future spending.

An additional portion of the District's net position (16%) represents resources that are restricted primarily for debt service and other external restrictions on how they may be used. The remaining balance of unrestricted net position (16%) represents resources that may be used to meet the District's ongoing obligations to creditors.

Revenues, compared to prior year, increased by about \$1,747,000, due primarily to an increase in volume of water sold and fees from new customers. Operating expenses increased about \$1,213,000 resulting primarily from an increase in personnel costs of about \$225,000, an increase in water purchased of about \$455,000, an increase in materials and supplies of about \$83,000, an increase in utilities of about \$174,000, an increase in repairs and maintenance of about \$71,000, an increase in depreciation of about \$223,000, and a decrease in administrative and other expenses of about \$18,000. Non-operating interest income increased by about \$198,000 due to an increase in interest rates and increase in investment balances; interest expense decreased by about \$120,000 due to maturities and lower rate on bonds; system development fees and other increased by about \$1,875,000. As a result, the District's net position increased by \$8,643,996 from the previous year.

FINANCIAL ANALYSIS OF ENTERPRISE FUND

A fund is a grouping of related accounts and is used to maintain control over resources that have been segregated for specific activities or objective. The District's primary purpose is to provide treated water to customers in its service area for a fee much like a business enterprise. Accordingly, all of the District's activities are accounted for in one proprietary fund to ensure compliance with local and state finance-related legal requirements.

There was a decrease in repairs and maintenance of about \$77,000, an increase in depreciation of about \$1,546,000, and a decrease in interest expense of about \$150,000 between the District's original and final amended budgets for 2022. Actual revenue during 2022 exceeded budget by about \$2,614,000, due primarily to an increase in water sales and fees from new customers. Operating expenses were less than budgeted during 2022 by about \$1,977,000, due primarily to lower than expected cost of materials and supplies, repairs and maintenance, professional fees, and other costs, net of higher than expected water purchased, utilities, contracted services, and depreciation. Net non-operating income exceeded budget by about \$3,352,000 due primarily to more system development revenue of about \$3,126,000, and more interest income of about \$226,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets	<u>2022</u>	<u>2021</u>
Land	\$ 349,837	\$ 281,312
Buildings	603,033	603,033
Equipment and vehicles	1,115,335	1,008,253
Office furniture and equipment	120,205	101,407
Water distribution system	55,553,159	52,068,877
Capital lease assets	2,858,631	2,793,289
Construction in progress	3,347,205	1,242,994
Water rights	1,213,237	1,213,237
Accumulated depreciation	(19,519,8412)	(17,900,8102)
	<u>\$ 45,640,801</u>	<u>\$ 41,411,592</u>

See accompanying report of independent auditors.

Major changes to capital assets during the current fiscal year are as follows:

- Purchase of land, vehicles, and equipment at a cost of \$194,405
- Improvements and extension of water distribution system and construction in progress of \$5,653,835

Long-Term Debt

The District's outstanding bond debt of \$12,825,773 represents water revenue and refunding bonds which are payable from the District's water system revenues and are secured solely by a pledge of those revenues.

	<u>2022</u>	<u>2021</u>
Refunding Bonds Series 2017	\$ 1,515,000	\$ 1,615,000
Refunding Bonds Series 2015	3,805,000	5,230,000
Revenue Bonds Series 2014	7,115,000	7,405,000
Unamortized premium	390,773	681,892
Total Long-term debt	<u>\$ 12,825,773</u>	<u>\$ 14,931,892</u>

The District acquired meters and related equipment to replace the majority of meters in the system with a capital lease during 2019. The lease liability amounted to \$1,480,646 at December 31, 2022.

Additional information on the District's long-term debt is disclosed in the notes to the financial statements.

BUDGET, ECONOMIC ENVIRONMENT, AND RATES

There were no changes to fees charged to residential and commercial customers during 2022.

The District completed expansion of the water treatment plant during 2021 with proceeds from the bonds issued in 2014. The District plans to issue revenue bonds amounting to approximately \$40,000,000 during 2023 to fund projects to expand the distribution system.

The District's 2023 water sales are budgeted to increase by about \$661,000 from actual 2022 revenue due primarily to expected increase in volume of water sales. Other revenue is budgeted to decrease by about \$521,000 due to lower anticipated customer growth. Non-operating system development revenue is expected to decrease by about \$2,753,000, interest income is budgeted to decrease by about \$154,000, and non-operating interest expense is budgeted to increase by about \$95,000.

The District's 2023 operating expenses are budgeted to increase by about \$1,809,000 from actual 2022 expenses. The increase is due primarily to expected increase in personnel cost of about \$132,000, increase in repair and maintenance of about \$208,000, increase in materials and supplies of about \$104,000, increase in professional fees of about \$355,000, increase in other operating expenses of about \$1,099,000, increase in administrative expenses of about \$41,000, increase in utilities of about \$100,000, decrease in water purchased of about \$137,000, decrease in contracted services of about \$23,000, and decrease in depreciation of about 70,000.

Request for Information

The financial report is designed to provide a general overview of Walnut Creek Special Utility District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District's General Manager, P.O. Box 657, Springtown, Texas 76082.

Walnut Creek Special Utility District
Statement of Net Position
December 31, 2022

Assets

Current assets:

Cash in banks	\$ 7,673,908
Investments	3,076,249
Accounts receivable, net of allowance for doubtful accounts of \$19,876	1,085,035
Inventory	1,302,782
	<u>13,137,974</u>

Noncurrent assets:

Restricted investments	10,540,332
Capital assets, at cost:	
Land	349,837
Buildings	603,033
Equipment and vehicles	1,115,335
Office furniture and equipment	120,205
Water distribution system	55,553,159
Capital lease asset	2,858,631
Water rights	1,213,237
Construction in progress	3,347,205
	<u>65,160,642</u>
Accumulated depreciation	<u>(19,519,841)</u>
	45,640,801

Deferred outflows:

Bond refunding costs, net	139,219
	<u>\$ 69,458,326</u>

Liabilities

Current liabilities:

Accounts payable	\$ 196,649
Accrued liabilities	228,228
Current portion of lease payable	224,960
Deferred developer revenue	1,414,153
Customer deposits payable	1,326,060

Current liabilities payable from restricted assets:

Interest payable	251,825
Current portion of revenue bonds payable	1,920,000
	<u>5,561,875</u>

Non-current liabilities:

Deferred liability	2,000,000
Lease payable, net of current portion	1,255,686
Revenue bonds payable, net of current portion	10,905,773
	<u>14,161,459</u>
	19,723,334

Net Position

Invested in capital assets, net of related debt	34,004,046
Restricted for debt service (expendable)	7,781,398
Unrestricted net position	7,949,548
	<u>49,734,992</u>
	<u>\$ 69,458,326</u>

See accompanying notes to financial statements.

Walnut Creek Special Utility District
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended December 31, 2022

Operating Revenues	
Water sales	\$ 9,634,079
Other revenues	2,302,735
	<u>11,936,814</u>
Operating Expenses	
Personnel	1,993,003
Water purchased	1,487,208
Materials and supplies	554,519
Utilities	683,434
Repair and maintenance	256,375
Contracted services	286,821
Professional fees	80,360
Other operating expenses	54,368
Administrative	230,955
Depreciation	1,619,031
	<u>7,246,074</u>
Operating Income	4,690,740
Nonoperating Revenues (Expenses)	
Interest income	233,924
Interest expense	(308,739)
System development revenue	4,028,071
	<u>3,953,256</u>
Change in Net Position	8,643,996
Net position, beginning of year	<u>41,090,996</u>
Net Position, End of Year	<u>\$ 49,734,992</u>

See accompanying notes to financial statements.

Walnut Creek Special Utility District
Statement of Cash Flows
For the Year Ended December 31, 2022

Cash Flows From Operating Activities:

Cash received from customers	\$ 12,138,648
Cash payments to suppliers for goods and services	(4,133,160)
Cash paid to employees	(1,993,003)
Net cash provided by operating activities	<u>6,012,485</u>

Cash Flows From Capital And Related Financing Activities:

Purchases of capital assets	(5,848,240)
System development receipts	3,891,649
Debt service prepayment	2,109,163
Net principal payments on long-term debt and capital lease	(2,031,950)
Interest paid on long-term debt and capital lease	(608,663)
Net cash used in capital and related financing activities	<u>(2,488,041)</u>

Cash Flows From Investing Activities:

Interest income received	<u>233,924</u>
Net cash provided by investing activities	<u>233,924</u>
Net change in cash and cash equivalents	3,758,368
Cash and cash equivalents, beginning of year	17,532,121
Cash and Cash Equivalents, End of Year	<u>\$ 21,290,489</u>

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities:

Operating income	\$ 4,690,740
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,619,031
Change in:	
Accounts receivable	57,148
Inventory	(641,872)
Accounts payable	(4,715)
Accrued liabilities	147,467
Deferred developer revenue	40,552
Customer deposits payable	104,134
Net Cash Provided by Operating Activities	<u>\$ 6,012,485</u>

Reconciliation of Cash and Cash Equivalents to Statement of Net Position

Cash in banks	\$ 7,673,908
Investments	3,076,249
Restricted investments	10,540,332
Total Cash and Cash Equivalents	<u>\$ 21,290,489</u>

Supplemental Cash Flow Information:

Amortization of bond premium	\$ 291,119
Amortization of bond refunding costs	33,533

See accompanying notes to financial statements.

Walnut Creek Special Utility District

Notes to Financial Statements

1. History and Summary of Significant Accounting Policies

Creation of District

Walnut Creek Special Utility District (the "District") was created on July 8, 1992, by an order of the Texas Water Commission in accordance with the Texas Water Code, Chapter 65. The Board of Directors held its first meeting on July 8, 1992. The District acquired all of the existing assets, property and equipment of the predecessor water supply corporation and assumed all of the related contracts, obligations, and indebtedness as of August 25, 1992.

Reporting Entity

The accompanying financial statements include all accounts maintained by the District and subject to oversight and control by the publicly elected Board of Directors. No other entity, component unit, or fiduciary fund exists that should be considered for inclusion as a component unit in accordance with criteria adopted by the Governmental Accounting Standards Board, and the District has no oversight responsibility for any other governmental entity.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles and statements issued by the Governmental Accounting Standards Board. The financial statements are derived from a set of self-balancing accounts maintained in a single proprietary enterprise fund, which is comprised of the assets, liabilities, net position, revenues, and expenses of the District. The District's proprietary fund distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses of the District consist of charges for services (including tap fees) and the cost of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.

Measurement Focus and Basis of Accounting

The focus of proprietary fund measurement is on determination of operating income, changes in net assets, financial position, and cash flow. The applicable generally accepted accounting principles are those similar to businesses in the private sector. The proprietary fund financial statements are reported using the economics resources measurement focus and the accrual basis of accounting. Fees and charges are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Use of Estimates

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

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Amounts invested in Local Government Investment Cooperative (LOGIC), which is an external public funds investment pool, are considered cash and cash equivalents.

Inventory

Parts and supplies inventories are carried at cost using the first-in-first-out method.

Walnut Creek Special Utility District

Notes to Financial Statements

1. History and Summary of Significant Accounting Policies (continued)

Investments

The District's investment policy allows investments that are consistent with the State Public Funds Investment Act which may include, obligations of the U.S. Treasury, obligations of states, agencies, counties, cities and other political subdivisions, secured certificates of deposit, repurchase agreements, banker's acceptance, commercial paper, mutual funds, guaranteed investment contracts and investment pools. During the year ended December 31, 2022, the District did not own any types of securities other than those permitted by statute.

Accounts Receivable and Revenue Recognition

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is estimated based on historical collection experience and management's judgment.

Revenues are recognized when earned. Metered water accounts are read and billed during the month on a monthly cycle by zone. Unbilled water charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to \$223,405 at December 31, 2022.

Capital Assets

The District's capital assets consist of property, plant and equipment, which are recorded at historical cost, or if donated, the estimated fair value at the date of donation. The District capitalizes items greater than \$2,500 that have a useful life of more than one year. 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.

Property, plant and equipment, and water rights are depreciated using the straight-line method over the following estimated useful lives:

Water distribution system	5 – 50 years
Water rights	40 years
Buildings	15 – 30 years
Equipment and vehicles	3 – 10 years
Capital lease asset	10 years
Office furniture and equipment	3 – 7 years

Deferred Charges

The difference in costs incurred and the carrying value of bonds advance refunded is reported as a deferred outflow and is amortized as a component of interest expense using the straight-line method over the shorter of the remaining life of the old debt or life of the new bond issue.

Use of Restricted Resources

Certain resources set aside for repayment of loans, as well as certain resources set aside for construction of water facilities, are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants and other legal restrictions. 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.

Walnut Creek Special Utility District

Notes to Financial Statements

1. History and Summary of Significant Accounting Policies (continued)

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bonds payable are reported net of the applicable bond premiums and discounts, which are deferred and amortized as a component of interest expense over the life of the bonds. Bond issuance costs are expensed as incurred.

Proprietary Fund Net Position

Proprietary fund net position is comprised of the following three components:

- Invested in capital assets, net of related debt – consist of the historical cost of capital assets less accumulated depreciation, plus any unspent debt proceeds for capital projects, less any debt that remains outstanding that was used to finance those assets.
- Restricted for debt service – consist of net assets 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 assets are reported in this category.

2. Cash Deposits and Investments

Deposits

The District’s cash deposits are maintained at financial institutions with FDIC insurance coverage and amounted to \$7,673,908 at December 31, 2022.

Custodial Credit Risk for Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The District’s funds are required to be deposited and invested under the terms of a depository contract. The District’s deposits are required to be collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name. 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. At December 31, 2022, the District’s deposits were entirely covered by FDIC insurance or collateralized with securities held by the bank’s agent in the District’s name.

Interest Rate Risk-Investments

The District’s investments in LOGIC have a weighted average maturity of 17 days at December 31, 2022. These investments can generally be redeemed daily and are considered relatively low risk investments.

Investments are reported in the statement of net position as follows at December 31, 2022:

Investments	\$ 3,076,249
Restricted investments	10,540,332
	<u>\$ 13,616,581</u>

Credit Risk and Concentration of Credit Risk for Investments

The District’s investments in LOGIC was rated “AAAm” by Standard and Poor’s and represents 100% of the District’s investment portfolio at December 31, 2022.

Walnut Creek Special Utility District

Notes to Financial Statements

2. Cash Deposits and Investments (continued)

Investments

The District invests in the Local Government Investment Cooperative (LOGIC), which is an external public funds investment pool with investment objectives to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. Investments in LOGIC are carried at amortized cost measured at net asset value and are exempt from fair value reporting.

3. Restricted Assets

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or other legal restrictions. Restricted assets amounted to the following at December 31, 2022:

	<u>Investments</u>
Interest and sinking funds	\$ 6,214,174
Revenue bond reserve	1,819,050
Bond funds for capital projects	<u>2,507,108</u>
	<u>\$ 10,540,332</u>

4. Bond Refunding Costs

Bond refunding costs are related to issuance of the 2017 and 2015 series refunding bonds, and consist of the advance refunding costs to retire the prior bonds, which is reported as a deferred outflow. These costs are amortized over the 10 – 17 year term of the bonds. Amortization of advance refunding costs is included in interest expense and amounted to \$33,533 during 2022.

Bond refunding costs consisted of the following at December 31, 2022:

Advance refunding costs	\$ 391,448
Less accumulated amortization	<u>(252,229)</u>
	<u>\$ 139,219</u>

Amortization is expected as follows for the years ending December 31:

2023	\$ 33,533
2024	33,533
2025	8,017
2026	8,017
2027	8,017
Thereafter	<u>48,102</u>
	<u>\$ 139,219</u>

Walnut Creek Special Utility District

Notes to Financial Statements

5. Capital Assets

Capital asset activity for the year ended December 31, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets:				
Land	\$ 281,312	\$ 68,525	\$ -	\$ 349,837
Construction in progress	1,242,994	2,104,211	-	3,347,205
	<u>1,524,306</u>	<u>2,172,736</u>	<u>-</u>	<u>3,697,042</u>
Depreciable Assets:				
Buildings	603,033	-	-	603,033
Equipment and vehicles	1,008,253	107,082	-	1,115,335
Office furniture and equipment	101,407	18,798	-	120,205
Water distribution system	52,068,877	3,484,282	-	55,553,159
Capital lease asset	2,793,289	65,342	-	2,858,631
Water rights	1,213,237	-	-	1,213,237
	<u>57,788,096</u>	<u>3,675,504</u>	<u>-</u>	<u>61,463,600</u>
Accumulated Depreciation:				
Buildings	(221,727)	(19,662)	-	(241,389)
Equipment and vehicles	(710,167)	(114,474)	-	(824,641)
Office furniture and equipment	(73,192)	(10,031)	-	(83,223)
Water distribution system	(16,150,255)	(1,161,937)	-	(17,312,192)
Capital lease asset	(682,280)	(282,596)	-	(964,876)
Water rights	(63,189)	(30,331)	-	(93,520)
	<u>(17,900,810)</u>	<u>(1,619,031)</u>	<u>-</u>	<u>(19,519,841)</u>
Capital assets, net	<u>\$ 41,411,592</u>	<u>\$ 4,229,209</u>	<u>\$ -</u>	<u>\$ 45,640,801</u>

Depreciation expense amounted to \$1,619,031 during 2022.

6. Long-Term Debt

Revenue and Refunding Bonds

On September 20, 2017, the District issued \$1,850,000 in Water System Revenue Refunding Bonds, Series 2017 to partially refund \$1,640,000 of the District's outstanding Series 2009 Water System Revenue Bonds in order to lower the overall debt service requirements and to pay costs associated with issuance of the bonds. The bonds will mature semi-annually beginning January 10, 2018 through January 10, 2034. The debt is payable from the pledged revenues from operation of the District's water system.

On January 13, 2015, the District issued Water Revenue Refunding Bonds, Series 2015, in the amount of \$12,215,000. The bonds will mature semi-annually beginning January 10, 2016 through January 10, 2031. Proceeds from the sale of the bonds were used to refund \$10,885,000 of the District's outstanding Series 2005 Refunding Bonds and \$2,155,000 of the outstanding Series 2006 Bonds in order to lower the overall debt service requirements of the District and to pay the cost associated with the issuance of the bonds. The debt is payable from the pledged revenues from operation of the District's water system.

Walnut Creek Special Utility District

Notes to Financial Statements

6. Long-Term Debt (continued)

On July 17, 2014, the District issued Water System Revenue Bonds, Series 2014, in the amount of \$9,245,000 to construct major improvements to its distribution system. The bonds will mature semi-annually beginning January 10, 2015 through January 10, 2039. The debt is payable from the pledged revenues from operation of the District's water system.

In prior years, the District defeased various bond issues by placing the proceeds of the new bonds in irrevocable trusts, which are invested in U.S. Government Securities, and are designed to meet all future debt service payments on the refunded debt. Accordingly, the trust assets and the liability for the defeased bonds are not included in the District's financial statements. At December 31, 2022, \$5,985,000 of bonds outstanding are considered defeased.

Long-term debt consisted of the following at December 31, 2022:

Water System Revenue Refunding Bonds, Series 2017, interest rate ranges from 3.00% - 4.00%, issued on September 20, 2017. Due in installments beginning January 10, 2018 through January 10, 2034	\$ 1,515,000
Water System Revenue Refunding Bonds, Series 2015, interest rate ranges from 3.00% - 5.00%, issued on January 13, 2015. Due in installments beginning January 10, 2016 through January 10, 2031	3,805,000
Water System Revenue Bonds, Series 2014, interest rate ranges from 3.25% - 4.00%, issued on July 17, 2014. Due in installments beginning January 10, 2015 through January 10, 2039	<u>7,115,000</u>
	12,435,000
Unamortized premium	<u>390,773</u>
Total debt	12,825,773
Current maturities	<u>(1,920,000)</u>
Long-term debt net of current maturities	<u>\$ 10,905,773</u>

Long-term debt activity consists of the following for the year ended December 31, 2022:

Description	January 1, 2022	Additions	Retirements Refunding and Amortization	December 31, 2022	Due within one year
Refunding Bonds Series 2017	\$ 1,615,000	\$ -	\$ 100,000	\$ 1,515,000	\$ 105,000
Refunding Bonds Series 2015	5,230,000	-	1,425,000	3,805,000	1,515,000
Revenue Bonds Series 2014	7,405,000	-	290,000	7,115,000	300,000
Unamortized premium	681,892	-	291,119	390,773	
Total Long-term debt	<u>\$ 14,931,892</u>	<u>\$ -</u>	<u>\$ 2,106,119</u>	<u>\$ 12,825,773</u>	<u>\$ 1,920,000</u>

Walnut Creek Special Utility District
Notes to Financial Statements

6. Long-Term Debt (continued)

Bond debt service requirements are as follows for the years ending December 31:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 1,920,000	\$ 458,425	\$ 2,378,425
2024	2,040,000	365,113	2,405,113
2025	555,000	307,887	862,887
2026	570,000	288,944	858,944
2027	555,000	269,393	824,393
2028-2032	2,980,000	1,025,800	4,005,800
2033-2037	2,710,000	479,700	3,189,700
2038-2039	1,105,000	44,700	1,149,700
Total Debt Service Requirement	<u>\$ 12,435,000</u>	<u>\$ 3,239,962</u>	<u>\$ 15,674,962</u>

Compliance with Debt Service Requirements

Provisions of the Bond Resolutions require the District to collect rates and charges which will be sufficient to produce Pledge Revenues of the System in each year at least equal to the amount required to maintain the Interest and Sinking Fund and the Reserve Fund so as to provide for the payment of principal and interest on all bonds then outstanding and to pay the maintenance and operating expenses of the District.

Provisions of the Bond Resolutions require the District to establish an Interest and Sinking Fund in order to pay the scheduled interest and principal on the bonds. At December 31, 2022, the District had \$6,214,174 in the interest and sinking fund accounts and the next scheduled principal and interest payment is \$2,171,825 for all bonds. The District is in compliance with these requirements.

Provisions of the Bond Resolutions require the District to establish a Reserve Fund equal to the average annual debt service requirement. The Reserve Fund shall be used to pay principal and interest on the Revenue Bonds at any time when there is not sufficient money available in the Interest and Sinking Fund. At December 31, 2022, the District had \$1,819,050 in reserve fund accounts, which exceeds the average annual debt service requirement. The District is in compliance with these requirements.

The District is in compliance with the required debt service coverage ratio at December 31, 2022 as follows:

Operating revenues	\$ 11,936,814
Operating expenses excluding depreciation	<u>5,627,043</u>
Net revenues available for debt service	<u>\$ 6,309,771</u>
Average annual debt service requirements	\$ 922,057
Debt coverage ratio (net revenues available for debt service divided by average annual debt service)	6.84
Debt Coverage Ratio Required	1.25

Walnut Creek Special Utility District
Notes to Financial Statements

6. Long-Term Debt (continued)

Capital Lease

The District has a long-term lease agreement to finance the purchase, installation, and retrofit of certain water meters and related cellular connections in the distribution system with a total cost of \$2,903,190. The District made a down payment of \$600,000 on September 27, 2018, with the remaining liability due in 10 annual installments of principal and interest of \$279,625 at 3.692% interest. The District has the option to purchase the water meters for \$1 at the end of the lease in 2028.

Long-term lease activity consists of the following for the year ended December 31, 2022:

Description	January 1, 2022	Additions	Principal Payments	December 31, 2022	Due within one year
Capital lease	\$ 1,697,596	\$ -	\$ 216,950	\$ 1,480,646	\$ 224,960

The lease is collateralized by capital lease assets of \$1,893,755 (net of accumulated amortization of \$964,876). Amortization expense of \$282,596 is included in depreciation expense.

The following is a schedule of future payments required under the lease as of December 31, 2022:

Years ending December 31:	Interest	Principal
2023	\$ 54,665	\$ 224,960
2024	46,360	233,265
2025	37,748	241,877
2026	28,818	250,807
2027	19,558	260,067
Thereafter	9,956	269,670
	<u>\$ 197,105</u>	<u>\$ 1,480,646</u>

Interest expense on long-term debt amounted to \$308,739 during the year ended December 31, 2022.

7. Change in Accounting Principle

In June 2017, the GASB issued GASB Statement No. 87, Leases (GASB 87). Under GASB 87, lessees are required to recognize assets and liabilities on the statement of net position for most leases and provide enhanced disclosures. The District adopted GASB 87 effective January 1, 2022. No cumulative effect adjustment to net position as of January 1, 2022, was necessary. Adoption of GASB 87 had no significant net effect on the statements of net position, revenues, expenses and change in net position, or cash flows for the year ended December 31, 2022.

8. Compensated Absences

Full-time employees accrue five days of vacation credits after completing one year of employment. After one year, vacation leave credits vary depending on length of tenure with the District. Vacation leave credits cannot be taken, nor will it be paid, upon separation during the one-year period.

Employees accrue sick leave benefits each year. Unused sick leave benefits will carry over to the subsequent year not to exceed fifteen days. Unused sick leave is not paid upon separation. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Walnut Creek Special Utility District

Notes to Financial Statements

9. Retirement Plan

The District currently maintains a Savings Incentive Matching Plan (Simple IRA) for its qualifying employees, which is administered by Edward Jones. The District will match up to 3% of compensation contributed by employees to the plan each year and retains the right to amend the plan. Participants are 100% vested in contributions to the plan. The District's cost for this defined contribution plan amounted to \$24,059 during 2022.

10. Water Service Rates

The District's water service rates in effect at December 31, 2022 are as follows:

Residential:

Minimum 5/8" x 3/4" meter	\$ 35.70
Minimum usage	2,000 gallons
Additional water usage (per 1,000 gallons over minimum):	
2,001 to 10,000 gallons	\$ 6.11
10,001 to 20,000 gallons	\$ 6.95
20,001 and above	\$ 7.90

Commercial:

Minimums:

5/8" x 3/4" meter	\$ 40.70
1" meter	\$ 51.95
1 1/2" meter	\$ 85.65
2" meter	\$ 130.70
3" meter	\$ 395.70
4" meter	\$ 530.70

Additional water usage (per 1,000 gallons over minimum):

2,001 to 10,000 gallons	\$ 6.35
10,001 to 20,000 gallons	\$ 7.05
20,001 and above	\$ 8.00

Water service rates charged to municipalities range from \$5.91 to \$7.08 per 1,000 gallons.

11. Purchase of Water and Economic Dependency

On May 14, 1992, the District signed an agreement with Tarrant Regional Water District to purchase up to 2,200 acre-feet of raw water per year. During 2019, the District paid \$1,213,237 to purchase rights to an additional 1,120 acre-feet per year. The amount paid for purchased water under the agreement for the year ended December 31, 2022, was \$1,487,208.

12. Commitments and Contingent Liabilities

The production of treated water requires the use of chemicals. Some of the chemicals are classified as hazardous. The District actively monitors the use of these chemicals. The District complies with all laws and regulations concerning the use of these chemicals for the production of treated water.

Walnut Creek Special Utility District

Notes to Financial Statements

13. Risk Management

The District is exposed to various risk of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchased insurance coverage from Texas Municipal League Intergovernmental Risk Pool (contract number 3480, term through December 31, 2022) to cover general liabilities and mitigate certain other risks. There were no significant reductions in coverage in the past year and there were no settlements exceeding insurance coverage for each of the past two years.

Property and liability insurance coverage is as follows for the year ended December 31, 2022:

<u>Type</u>		<u>Contract Number</u>
General liability	\$ 2,000,000	Each occurrence
	\$ 4,000,000	Annual aggregate
Errors and omissions	\$ 2,000,000	Each occurrence
	\$ 4,000,000	Annual aggregate
Automobile liability	\$ 1,000,000	Each occurrence
	\$ 25,000	Each person
Real and personal property	\$ 17,670,824	Limit
Boiler and machinery	\$ 100,000	Per accident
Mobile equipment	\$ 434,481	Limit
Public employee dishonesty	\$ 100,000	Per occurrence
Forgery or alteration	\$ 25,000	Per occurrence
Cyber liability and data breach	\$ 2,000,000	Annual aggregate

14. Deferred Liability

In 1997, the District entered into an agreement with Mitchell Energy Corporation, (subsequently acquired by Devon Energy Corporation) whereby Devon Energy Corporation would assist the District in the cost of constructing certain improvements and extensions to its water system in Wise County, Texas. Under the terms of the agreement, Devon Energy Corporation conveyed \$3,000,000 to the District. In prior years, \$1,000,000 of this amount was converted to a grant from Devon Energy Corporation and reported as income. The remainder of the funds was expended for the design, construction, and acquisition of the capital improvements to the water system. The remaining \$2,000,000 will be converted to subordinated revenue bonds at a future date when the District reaches certain customer levels.

15. Evaluation of Subsequent Events

Subsequent events were evaluated through May 9, 2023, which is the date the financial statements were available to be issued.

Budgetary Comparison Schedule

**Walnut Creek Special Utility District
Budgetary Comparison Schedule – Proprietary Fund
For the Year Ended December 31, 2022**

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative)
Revenues				
Water sales	\$ 7,488,250	\$ 7,488,250	\$ 9,634,079	\$ 2,145,829
Other revenues	1,834,690	1,834,690	2,302,735	468,045
	<u>9,322,940</u>	<u>9,322,940</u>	<u>11,936,814</u>	<u>2,613,874</u>
Expenses				
Personnel	1,981,300	1,981,300	1,993,003	(11,703)
Water purchased	995,500	995,500	1,487,208	(491,708)
Materials and supplies	859,100	859,100	554,519	304,581
Utilities	540,250	540,250	683,434	(143,184)
Repairs and maintenance	1,100,150	1,023,250	256,375	766,875
Contracted services	246,520	246,520	286,821	(40,301)
Professional fees	475,000	475,000	80,360	394,640
Other operating expenses	1,276,670	1,276,670	54,368	1,222,302
Administrative	276,300	276,300	230,955	45,345
Depreciation and amortization	3,647	1,549,400	1,619,031	(69,631)
	<u>7,754,437</u>	<u>9,223,290</u>	<u>7,246,074</u>	<u>1,977,216</u>
Operating income	1,568,503	99,650	4,690,740	4,591,090
Non-operating Revenues and Expenses				
Interest income	7,500	7,500	233,924	226,424
Interest expense	(458,425)	(308,739)	(308,739)	-
System development revenue	901,700	901,700	4,028,071	3,126,371
	<u>450,775</u>	<u>600,461</u>	<u>3,953,256</u>	<u>3,352,795</u>
Change in net position	2,019,278	700,111	8,643,996	7,943,885
Net position beginning of year	41,090,996	41,090,996	41,090,996	
Net Position End of Year	<u>\$ 43,110,274</u>	<u>\$ 41,791,107</u>	<u>\$ 49,734,992</u>	

See notes to the budgetary comparison schedule – proprietary fund, and report of independent auditors.

Walnut Creek Special Utility District
Notes to the Budgetary Comparison Schedule - Proprietary Fund
For the Year Ended December 31, 2022

Budget Policies

The annual operating budget is adopted on a basis consistent with generally accepted accounting principles for the proprietary fund. All annual appropriations lapse at fiscal year-end.

The Board of Directors follow the following procedures in establishing budgetary data reflected in the financial statements:

- a. Prior to the beginning of the fiscal year, proposed operating budget is submitted by the General Manager to the Board for the fiscal year commencing the following January 1. The operating budget includes proposed expenses and the means of financing them for the proprietary fund.
- b. The budget may be amended with the approval of the Board of Directors.
- c. Budgetary control is maintained at the line-item level, subject to adjustments permitted as described above.

Analysis of Significant Budget Variances

During 2022, actual operating revenue exceeded budget by about \$2,614,000 due primarily to an increase in water sales of about \$2,146,000, and an increase in other revenues of about \$468,000. Actual operating expenses were less than budget during 2022 by about \$1,977,000 due primarily to more personnel cost of about \$12,000, more water purchased of about \$492,000, less materials and supplies of about \$305,000, more utilities of about \$143,000, more contracted services of about \$40,000, less repairs and maintenance of about \$767,000, less professional fees of about \$395,000, less other operating expenses of about \$1,222,000, less administrative expenses of about \$45,000, and more depreciation expense of about 70,000. Non-operating revenues and expenses exceeded budget by about \$3,352,000 due primarily to more interest income of about \$226,000 and more system development revenue of about \$3,126,000. The significant variance in repair and maintenance, and other operating expenses is due primarily to capitalization of certain expenditures budgeted as expenses.

Texas Supplementary Information

**Walnut Creek Special Utility District
TSI-1. Schedule of Services and Rates
December 31, 2022**

1. Services Provided by the District during the Fiscal Year:

- | | | |
|--|---|-------------------------------------|
| <input checked="" type="checkbox"/> Retail Water | <input checked="" type="checkbox"/> Wholesale Water | <input type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Security |
| <input type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Roads |
| <input type="checkbox"/> Participates in joint venture, regional system, and/or wastewater services
(other than emergency interconnect) | | |

2. Retail Service Providers

a. Retail Rates for a 5/8" - 3/4" meter:

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rates per 1,000 Gallons Over Minimum Use	Usage Levels (gallons)
Water:	\$ 35.70	2,000	N	\$ 6.11	2,001 to 10,000
				\$ 6.95	10,001 to 20,000
				\$ 7.90	Above 20,000

Total charges per 10,000 gallons usage:

Water: \$ 84.58

b. Water Connections:

Meter Size	Total Connections	Active Connections
<= 3/4"	10,176	9,937
1"	52	50
1 1/2"	8	8
2"	34	33
3"	19	14
4"	10	10
6"	5	5
8"	0	0
10"	0	0
Total	10,304	10,057

**Walnut Creek Special Utility District
TSI-1. Schedule of Services and Rates (Continued)
December 31, 2022**

3. Total Water Consumption during the Fiscal Year (rounded to the nearest thousand):

Gallons pumped into system:	1,250,587,000
Gallons billed to customers:	1,137,929,500
Water Accountability Ratio: (Gallons billed/Gallons pumped)	0.90991670

4. Location of District:

County(ies) in which District is located: Parker and Wise

Is the District located entirely within one county? No

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

City(ies) in which the District is located: N/A

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely Partly Not at all

ETJs in which the District is located: Springtown, Boyd, Paradise, and Reno

Are Board members appointed by an office outside the District?

If yes, by whom? No

**Walnut Creek Special Utility District
TSI-2. Schedule of Proprietary Fund Expenses
For the Year Ended December 31, 2022**

Operating Expenses

Personnel Expenses (including benefits)*:

Wages	\$ 1,591,564
Payroll taxes	120,820
Health Insurance	256,560
Retirement expense	24,059
	<u>1,993,003</u>

Water purchased 1,487,208

Materials and supplies 554,519

Utilities 683,434

Repairs and maintenance 256,375

Contracted services 286,821

Professional fees:

Audit	38,700
Legal	28,459
Engineer/consultant	13,201
	<u>80,360</u>

Other operating expenses 54,368

Administrative:

Insurance	113,134
Postage	60,685
Office supplies	9,408
Other administrative expenses	47,728
	<u>230,955</u>

Depreciation 1,619,031

Total operating expenses \$ 7,246,074

* Number of persons employed by the District at year-end: 30

Walnut Creek Special Utility District
 TSI-3. Schedule of Temporary Investments
 December 31, 2022

Identification or Certificate Number	Interest Rate	Maturity Date	Balance At End of Year	Accrued Interest Receivable At End of Year
Proprietary Fund:				
LOGIC Savings	4.5424%	none	\$ 3,076,249	-
LOGIC Construction	4.5424%	none	2,507,108	-
LOGIC Interest & Sinking	4.5424%	none	6,214,174	-
LOGIC Reserve Fund	4.5424%	none	1,819,050	-
			<u>\$ 13,616,581</u>	<u>\$ -</u>

See report of independent auditors.

**Walnut Creek Special Utility District
TSI-4. Taxes Levied and Receivable
December 31, 2022**

The District does not levy or receive any tax monies.

Walnut Creek Special Utility District
TSI-5 Long-Term Debt Service Requirements by Years
December 31, 2022

Due During Fiscal Years Ending	Water Revenue Bonds, Series 2014		
	Principal Due Januar 10	Interest Due January 10,	
		Jul 10	Total
2023	\$ 300,000	\$ 272,938	\$ 572,938
2024	315,000	262,175	577,175
2025	325,000	250,975	575,975
2026	335,000	239,006	574,006
2027	350,000	226,162	576,162
2028	360,000	212,400	572,400
2029	375,000	197,700	572,700
2030	395,000	182,300	577,300
2031	410,000	166,200	576,200
2032	425,000	149,500	574,500
2033	440,000	132,200	572,200
2034	460,000	114,200	574,200
2035	500,000	95,000	595,000
2036	500,000	75,000	575,000
2037	520,000	54,600	574,600
2038	540,000	33,400	573,400
2039	565,000	11,300	576,300
	<u>\$ 7,115,000</u>	<u>\$ 2,675,056</u>	<u>\$ 9,790,056</u>

Due During Fiscal Years Ending	Refunding Bonds, Series 2015		
	Principal Due Januar 10	Interest Due January 10,	
		Jul 10	Total
2023	\$ 1,515,000	\$ 139,987	\$ 1,654,987
2024	1,615,000	61,738	1,676,738
2025	115,000	19,637	134,637
2026	115,000	16,188	131,188
2027	85,000	13,081	98,081
2028	85,000	10,319	95,319
2029	90,000	7,475	97,475
2030	95,000	4,469	99,469
2031	90,000	1,462	91,462
	<u>\$ 3,805,000</u>	<u>\$ 274,356</u>	<u>\$ 4,079,356</u>

See report of independent auditors.

Walnut Creek Special Utility District
TSI-5 Long-Term Debt Service Requirements by Years (continued)
December 31, 2022

Due During Fiscal Years Ending	Water Revenue Bonds, Series 2017		
	Principal Due January 10	Interest Due	
		January 10	July 10
2023	\$ 105,000	\$ 45,500	\$ 150,500
2024	110,000	41,200	151,200
2025	115,000	37,275	152,275
2026	120,000	33,750	153,750
2027	120,000	30,150	150,150
2028	120,000	26,550	146,550
2029	130,000	22,800	152,800
2030	130,000	18,900	148,900
2031	135,000	14,925	149,925
2032	140,000	10,800	150,800
2033	145,000	6,525	151,525
2034	145,000	2,175	147,175
	<u>\$ 1,515,000</u>	<u>\$ 290,550</u>	<u>\$ 1,805,550</u>

See report of independent auditors.

Walnut Creek Special Utility District
TSI-5 Long-Term Debt Service Requirements by Years (continued)
December 31, 2022

Due During Fiscal Years Ending	Annual Requirement for All Series		
	Principal Due January 10	Interest Due	
		January 10	July 10
2023	\$ 1,920,000	\$ 458,425	\$ 2,378,425
2024	2,040,000	365,113	2,405,113
2025	555,000	307,887	862,887
2026	570,000	288,944	858,944
2027	555,000	269,393	824,393
2028	565,000	249,269	814,269
2029	595,000	227,975	822,975
2030	620,000	205,669	825,669
2031	635,000	182,587	817,587
2032	565,000	160,300	725,300
2033	585,000	138,725	723,725
2034	605,000	116,375	721,375
2035	500,000	95,000	595,000
2036	500,000	75,000	575,000
2037	520,000	54,600	574,600
2038	540,000	33,400	573,400
2039	565,000	11,300	576,300
	<u>\$ 12,435,000</u>	<u>\$ 3,239,962</u>	<u>\$ 15,674,962</u>

See report of independent auditors.

Walnut Creek Special Utility District
TSI-6. Analysis of Change in Long-Term Bonded Debt
December 31, 2022

	Bond Issues			Total
	Series 2014	Series 2015	Series 2017	
Interest rate	3.50% - 4.00%	3.00% - 5.00%	3.00% - 4.00%	
Dates interest payable	1/10, 7/10	1/10, 7/10	1/10, 7/10	
Maturity date	1/10/2039	1/10/2031	1/10/2034	
Beginning bonds outstanding	\$ 7,405,000	\$ 5,230,000	\$ 1,615,000	\$ 14,250,000
Bonds sold during 2022	-	-	-	-
Bonds retired during 2022	(290,000)	(1,425,000)	(100,000)	(1,815,000)
Ending Bonds Outstanding	<u>\$ 7,115,000</u>	<u>\$ 3,805,000</u>	<u>\$ 1,515,000</u>	<u>\$ 12,435,000</u>
Interest expense during 2022	\$ 260,107	\$ (57,460)	\$ 43,417	\$ 246,064
Paying Agent's Name and City:	(a)	(a)	(a)	
(a) BOKF, N.A. dba Bank of Texas, Austin Texas				
Bond Authority:	Revenue Bonds*	Refunding Bonds**		
Amount authorized	\$ 9,245,000	\$ 14,065,000		
Amount issued	9,245,000	14,065,000		
Remaining To Be Issued	<u>\$ -</u>	<u>\$ -</u>		
Debt service fund cash and temporary investments balances at year end				<u>\$ 1,819,050</u>
Average annual debt service (principal and interest) for remaining term of all bonds				<u>\$ 922,057</u>

* Includes bonds series 2014 secured with pledged revenues of the water system.

** Includes bonds series 2015 and 2017, secured with pledged revenues of the water system.

**Walnut Creek Special Utility District
TSI-7. Comparative Schedule of Revenues and Expenses - Proprietary Fund
For Each of the Five Years Ended December 31:**

	Amounts					Percent of Total Revenues				
	2022	2021	2020	2019	2018	2022	2021	2020	2019	2018
Operating Revenues										
Water sales	\$ 9,634,079	\$ 8,113,948	\$ 7,438,480	\$ 6,715,400	\$ 6,493,598	80.71%	79.63%	81.65%	80.93%	86.96%
Other revenues	2,302,735	2,075,622	1,671,647	1,582,435	973,714	19.29	20.37	18.35	19.07	13.04
	<u>11,936,814</u>	<u>10,189,570</u>	<u>9,110,127</u>	<u>8,297,835</u>	<u>7,467,312</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
Operating Expenses										
Personnel	1,993,003	1,768,385	1,644,623	1,436,234	1,275,609	16.70	17.35	18.05	17.31	17.08
Water purchased	1,487,208	1,032,351	1,008,201	909,072	906,288	12.46	10.13	11.07	10.96	12.14
Materials and supplies	554,519	471,202	355,112	358,060	431,352	4.65	4.62	3.90	4.32	5.78
Utilities	683,434	509,611	329,617	360,876	316,864	5.73	5.00	3.62	4.35	4.24
Repairs and maintenance	256,375	184,996	190,924	176,121	171,730	2.15	1.82	2.10	2.12	2.30
Contracted services	286,821	262,995	199,697	219,339	139,022	2.40	2.58	2.19	2.64	1.86
Professional fees	80,360	103,109	42,013	168,483	81,240	0.67	1.01	0.46	2.03	1.09
Other operating expenses	54,368	79,960	25,788	37,374	40,415	0.46	0.78	0.28	0.45	0.54
Administrative	230,955	224,501	169,236	168,624	213,230	1.93	2.20	1.86	2.03	2.86
Depreciation and amortization	1,619,031	1,396,282	1,313,430	1,076,801	909,855	13.56	13.70	14.42	12.98	12.18
	<u>7,246,074</u>	<u>6,033,392</u>	<u>5,278,641</u>	<u>4,910,984</u>	<u>4,485,605</u>	<u>60.71</u>	<u>59.19</u>	<u>57.95</u>	<u>59.19</u>	<u>60.07</u>
Operating Income	4,690,740	4,156,178	3,831,486	3,386,851	2,981,707	39.29	40.81	42.05	40.81	39.93
Nonoperating Revenues (Expenses)										
Interest income	233,924	36,269	113,520	403,422	336,993	1.96	0.36	1.25	4.86	4.51
Interest expense	(308,739)	(428,402)	(605,781)	(685,819)	(687,338)	(2.59)	(4.20)	(6.65)	(8.27)	(9.20)
Bond issue costs	-	-	-	-	-	-	-	-	-	-
Gain (loss) on disposal of assets	-	3,397	18,700	-	(1,310,267)	-	0.03	0.21	-	(17.55)
System development revenue	4,028,071	2,149,738	2,084,337	1,436,128	1,511,871	33.74	21.10	22.88	17.31	20.25
	<u>3,953,256</u>	<u>1,761,002</u>	<u>1,610,776</u>	<u>1,153,731</u>	<u>(148,741)</u>	<u>33.11</u>	<u>17.29</u>	<u>17.69</u>	<u>13.90</u>	<u>(1.99)</u>
Change in net position	\$ 8,643,996	\$ 5,917,180	\$ 5,442,262	\$ 4,540,582	\$ 2,832,966	72.40%	58.10%	59.74%	54.71%	37.94%
Total Active Retail Water Connections	10,057	9,359	8,698	8,195	7,706					

See report of independent auditors.

Walnut Creek Special Utility District
TSI-8. Board Members, Key Personnel, and Consultants
December 31, 2022

Names	Term of Office (Elected or Appointed or Date Hired	Fees of Office Paid 2022	Expense Reimbursements 2022	Title at Year End
Board Members:				
Mike Gilley	(Elected) 5/2022-5/2025	\$ 1,700	\$ -	President
Al Garrett	(Appointed) 1/2021-5/2024	\$ 1,600	\$ -	Vice President
Beth Correll	(Elected) 5/2022-5/2025	\$ 1,400	\$ -	Secretary/ Treasurer
Jim Cox	(Elected) 5/2022-5/2025	\$ 1,300	\$ -	Director
Andy Deskins Died in office	(Elected) 5/2021- 12/2022	\$ 1,400	\$ -	Director
Key Administrative Personnel:				General Manager
Steve Harris	10/1/2014	\$ 144,811		
Consultants:				
Taylor, Olson, Adkins, Sralla, Elam, LLP	1/1/2015	\$ 566		Attorney
Ronald J Freeman	4/15/2017	\$ 8,885		Attorney
Richards, Elder & Gibson, PLLC	5/31/2022	\$ 2,072		Attorney
Hatter & Associates, LLP	10/15/2012	\$ 38,700		Auditor
E.S. & C.M., Inc.	5/1/2003	\$ 850,075		Engineer/ Consultant
John K. Swaim, CPA	1/1/2021	\$ 13,838		FinanciaV Consultant

See report of independent auditors.

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APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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

Financial Advisory Services
Provided By:

