

PRELIMINARY OFFICIAL STATEMENT

Dated February 13, 2026

Ratings:

S&P: "A"

(See "OTHER INFORMATION - Ratings" herein)

NEW ISSUE - Book-Entry-Only

DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF BOND COUNSEL AS TO THE VALIDITY OF THE BONDS AND THE OPINION OF SPECIAL TAX COUNSEL TO THE EFFECT THAT INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE THEREOF, SUBJECT TO THE MATTERS DESCRIBED UNDER "TAX MATTERS" HEREIN, INCLUDING THE ALTERNATIVE MINIMUM TAX ON CERTAIN CORPORATIONS.

THE BONDS WILL BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.



\$4,280,000*

CASH SPECIAL UTILITY DISTRICT (Hunt, Hopkins, Rockwall, and Rains Counties, Texas) REVENUE BONDS, SERIES 2026

Dated Date: February 15, 2026;

Due: September 1, as shown on page 2

Interest to Accrue from the Date of Initial Delivery

PAYMENT TERMS . . . Interest on the \$4,280,000* Cash Special Utility District Revenue Bonds, Series 2026 (the "Bonds") will accrue from the date of initial delivery of the Bonds, will be payable September 1 and March 1 of each year commencing September 1, 2026, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is UMB, NA, Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE...The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Article XI, Section 59 of the Texas Constitution and Chapters 49 and 65, Texas Water Code, as amended, and the resolution (the "Resolution") to be passed by the Board of Directors of the Cash Special Utility District (the "District") on February 23, 2026. The Bonds, together with the District's outstanding parity revenue bonds and any additional parity obligations that may be issued from time to time in accordance with the Resolution (collectively, the "Prior Lien Obligations"), are payable, both as to principal and interest, solely from and secured by a lien on and pledge of the Pledged Revenues of the District's water system (the "System"). The Pledged Revenues consist of the net revenues of the System that remain after payment of all costs of operating and maintaining the System, plus any additional payment sources that may be pledged to secure the Prior Lien Obligations. **The District has no taxing powers and has not covenanted or obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "THE BONDS - Authority for Issuance", "SECURITY FOR THE BONDS" and "SELECTED PROVISIONS OF THE RESOLUTION").

PURPOSE . . . Proceeds of the Bonds will be used (i) for construction of a 12-inch water transmission line along FM 2947 and other improvements to the District's water system; (ii) to fund a debt service reserve fund; and (iii) to pay certain other costs related to the issuance of the Bonds. See "THE BONDS - Purpose".

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

LEGALITY...The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things, to the approval of the Initial Bond by the Attorney General of Texas and Armbrust & Brown, PLLC, Bond Counsel, Austin, Texas, and McCall, Parkhurst and Horton L.L.P., Dallas, Texas, Special Tax Counsel (see "APPENDIX C - Form of Bond Counsel's Opinion" and "APPENDIX D - Form of Special Tax Counsel's Opinion").

DELIVERY...The Bonds are expected to be available for delivery through DTC on March 23, 2026.

BIDS DUE MONDAY, FEBRUARY 23, 2026 AT 9:30 AM, CENTRAL TIME

* Preliminary, subject to change. See "CONDITIONS OF THE SALE - Post Bid Modification of Principal Amounts" in the NOTICE OF SALE AND BIDDING INSTRUCTIONS.

MATURITY SCHEDULE*

Principal Amount	September 1 Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$ 70,000	2026			
75,000	2027			
75,000	2028			
80,000	2029			
80,000	2030			
85,000	2031			
90,000	2032			
90,000	2033			
95,000	2034			
100,000	2035			
105,000	2036			
110,000	2037			
115,000	2038			
120,000	2039			
125,000	2040			
135,000	2041			
140,000	2042			
145,000	2043			
155,000	2044			
160,000	2045			
170,000	2046			
180,000	2047			
185,000	2048			
195,000	2049			
205,000	2050			
215,000	2051			
225,000	2052			
240,000	2053			
250,000	2054			
265,000	2055			

(Interest accrues from date of initial delivery)

* Preliminary, subject to change. See “CONDITIONS OF THE SALE – Advance Modification of Principal Amounts” and “- Post Bid Modification of Principal Amounts” in the NOTICE OF SALE AND BIDDING INSTRUCTIONS.

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OPTIONAL REDEMPTION. . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2036, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS - Optional Redemption”).

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, as amended and in effect on the date hereof, this document constitutes a Preliminary Official Statement of the District with respect to the Bonds that has been “deemed final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

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

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

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

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

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

PRELIMINARY OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT	At an election held on May 3, 2003, the voters within the Cash Special Utility District (the “District”) confirmed the creation of the District and the conversion of Cash Water Supply Corporation into the District, which dissolved the Water Supply Corporation and transferred all assets, liabilities and equity of that entity to the District effective July 1, 2003. The District is a conservation and reclamation district created under the terms and conditions of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 65 of the Texas Water Code (see “INTRODUCTION - Description of District”).
THE BONDS	The \$4,280,000* Cash Special Utility District Revenue Bonds, Series 2026 are issued as serial bonds maturing September 1, 2026 through September 1, 2055, unless the purchaser designates one or more maturities as one or more Term Bonds (see “THE BONDS - Description of the Bonds”).
PAYMENT OF INTEREST	Interest on the Bonds accrues from the date of initial delivery, and is payable September 1, 2026, and each March 1 and September 1 thereafter until maturity or prior redemption (see “THE BONDS - Description of the Bonds” and “THE BONDS - Optional Redemption”).
AUTHORITY FOR ISSUANCE	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 65, Texas Water Code, as amended, and the resolution (the “Resolution”) to be passed by the Board of Directors of the District on February 23, 2026. The Bonds are special obligations of the District (see “THE BONDS - Authority for Issuance”).
SECURITY FOR THE BONDS	The Bonds constitute special obligations of the District, and together with the District’s outstanding parity revenue bonds and any additional parity obligations that may be issued from time to time in accordance with the Resolution (collectively, with the Bonds, the “Prior Lien Obligations”), are payable, both as to principal and interest, from and secured by a lien on and pledge of the Pledged Revenues of the District’s water system (the “System”). The Pledged Revenues consist of the net revenues of the System that remain after payment of all costs of operating and maintaining the System, plus any additional payment sources that may be pledged to secure the Prior Lien Obligations. The District has not covenanted or obligated itself to pay the Bonds from monies raised or to be raised from taxation (see “SECURITY FOR THE BONDS” and “SELECTED PROVISIONS OF THE RESOLUTION”).
REDEMPTION	The District reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2036, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption”).
TAX EXEMPTION	In the opinion of Special Tax Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption “TAX MATTERS” herein.
USE OF PROCEEDS	Proceeds of the Bonds will be used (i) for construction of a 12-inch water transmission line along FM 2947 and other improvements to the District’s water system; (ii) to fund a debt service reserve fund; and (iii) to pay certain other costs related to the issuance of the Bonds. See “THE BONDS - Purpose”.
QUALIFIED TAX-EXEMPT OBLIGATIONS	The District expects to designate the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and will represent that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2026 is not reasonably expected to exceed \$10,000,000. See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.”

* Preliminary, subject to change. See “CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts” in the NOTICE OF SALE AND BIDDING INSTRUCTIONS.

RATINGS The Bonds are rated “A” (positive outlook) by S&P Global Ratings (“S&P”). The presently outstanding revenue debt of the District is rated “A” by S&P (see “OTHER INFORMATION - Ratings”).

BOOK-ENTRY-ONLY

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

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

For additional information regarding the District, please contact:

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

or

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

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DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Directors</u>	<u>Term Expires</u>	<u>Occupation</u>
Staley J. Cash President	May, 2027	Financial Consultant
Gary Pendergrass Vice-President	May, 2026	L3 Harris Communications
Bill F. Watkins Secretary/Treasurer	May, 2027	Retired Chief of Police, Rockwall
Craig Driggers Director	May, 2028	Director, L3 Communications
Bryan C. Delgado Director	May, 2028	Retired Electrical Engineer
Micah Fry Director	May, 2028	School Teacher
Dee Hart Director	May, 2026	Registered Dental Assistant
David Lindsey Director	May, 2026	Retired U.S. Postal Service
Norris R. Mayberry Director	May, 2027	Retired Verizon Technician

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service to the District</u>
Heath McGee ⁽¹⁾	General Manager	6 Months
Amanda Collins	Director of Finance	4 Years

(1) Mr. McGee has been with the District for twelve years.

CONSULTANTS AND ADVISORS

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

**PRELIMINARY OFFICIAL STATEMENT
RELATING TO**

**\$4,280,000*
CASH SPECIAL UTILITY DISTRICT
REVENUE BONDS, SERIES 2026**

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$4,280,000* Cash Special Utility District Revenue Bonds, Series 2026 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution (as hereinafter defined), except as otherwise indicated herein (see "SELECTED PROVISIONS OF THE RESOLUTION").

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

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

THE BONDS

PURPOSE . . . Proceeds of the Bonds will be used (i) for construction of a 12-inch water transmission line along FM 2947 and other improvements to the District's water system; (ii) to fund a debt service reserve fund; and (iii) to pay certain other costs related to the issuance of the Bonds. See "THE BONDS - Purpose".

DESCRIPTION OF THE BONDS . . . The Bonds are dated February 15, 2026, and mature on September 1 in each of the years and in the amounts shown on page two hereof. Interest will accrue from the date of initial delivery of the Bonds, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on March 1 and September 1, commencing September 1, 2026, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

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

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 65, Texas Water Code, as amended, and the Resolution to be passed by the Board of Directors of the District on February 23, 2026.

* Preliminary, subject to change.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2036, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of the Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds will be printed and delivered to the beneficial owners thereof and, thereafter, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of

an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. The Paying Agent/Registrar shall not be required to make any such transfer or exchange during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or, with respect to any Bond or any portion thereof called for redemption prior to maturity, within 30 days prior to its redemption date; provided, however, such limitation on transfer shall not be applicable to an exchange by the Registered Owner of an unredeemed balance of a Bond called for redemption in part.

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

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

BONDHOLDERS' REMEDIES . . . The Resolution establishes specific events of default with respect to the Bonds. If the District (i) defaults in the payment of the principal, premium, if any, or interest on the Bonds, (ii) defaults in the deposits and credits required to be made to the Interest and Sinking Fund or 2017 Reserve Fund, (iii) declares bankruptcy, or (iv) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in the Resolution, the Resolution and Chapter 65 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Resolution and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Resolution does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Resolution, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, including the Bonds, permits the District to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, the District has not waived sovereign immunity, as permitted by Chapter 1371. As a result, Bondholders may not be able to bring such a suit against the District for breach of the Bond or Resolution covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as the Pledged Revenues, such provisions are subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, governmental immunity, and by principles of equity which permit the exercise of judicial discretion.

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

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

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

<u>Construction Costs</u>	<u>District's Share</u>
A. Developer Contribution Items	
Total Developer Contribution Items	None
B. District Items	
1. Lone Oak 12" transmission line in FM 2947	
2. Contingencies Items	
3. Engineering Expense Items	
Total District Items	_____
Total Construction Costs (87.59% of BIR)	
<u>Non-Construction Costs</u>	
A. Legal Fees	
B. Fiscal Agent Fees	
C. Debt Service Reserve Fund	
D. Bond Discount (3.0%)	
E. Bond Issuance Expenses	
F. Bond Rating Fee	
G. Bond Application Report	
H. Attorney General Fee (0.10% or \$9,500 max.)	
I. TCEQ 0.25% Bond Issuance Fee	_____
Total Non-Construction Costs (12.41% of BIR)	
Total Bond Issue Requirement	_____ =====

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BOND INSURANCE

The District has applied for municipal bond insurance on the Bonds and will consider the purchase of such insurance after an analysis of bids from such companies has been made. The District shall notify the Purchaser upon obtaining a commitment from a municipal bond insurance company (the “Bond Insurer”) concerning the Bonds. The final Official Statement shall disclose, to the extent necessary, any relevant information relating to any such municipal bond insurance policy (the “Policy”).

BOND INSURANCE RISKS

The District has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds. The District has yet to determine whether any insurance will be purchased with the Bonds. If an insurance policy is purchased, the following are risk factors relating to bond insurance.

GENERAL . . . The District has submitted applications to municipal bond insurance companies to have the payment of the principal of and interest on the Bonds insured by a municipal bond insurance policy. If the District obtains a commitment from a bond insurance company (the “Insurer”) and the Purchaser elects to purchase a municipal bond insurance policy relating to the Bonds (the “Policy”), the final Official Statement shall disclose certain information regarding the Insurer and the Policy. If the Purchaser chooses to purchase the Policy, the following risk factors related to municipal bond insurance policies generally apply.

In the event of default of the scheduled payment of principal of or interest on the Bonds when all or a portion thereof becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the District (unless the Insurer chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the Bonds will not be subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see “THE BONDS - Bondholders’ 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 Bondholders.

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

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

The obligations of the Insurer under a Policy are general obligations of the Insurer and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law. None of the District, the Financial Advisor or the Purchaser has made independent investigation into the claims-paying ability of any potential Insurer and no assurance or representation regarding the financial strength or projected financial strength of any potential 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 (the “Rating Agencies”) have downgraded and/or placed on negative watch the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Bonds. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims-paying ability of any such bond insurer, particularly over the life of the Bonds.

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SECURITY FOR THE BONDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

THE UTILITY SYSTEM

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

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

The water supply contract with SRA expires on October 1, 2049.

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

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

The District currently owns the following facilities:

<u>Facility</u>	<u>Capacity of Facilities</u>
Fate Pump Station	1,405,000 Gallon G.S. Booster Pumps 2 @ 1,800 GPM and 1 @ 1,000 GPM
Union Valley Elevated Tower	200,000 Gallon Elevated Tower
Union Valley Pump Station	1,000,000 Gallon GS., Booster Pumps 3 @ 2,000 GPM
Quinlan Elevated Tower	250,000 Gallon Elevated Tower
Cash Water Treatment Plant	4.2 MGD, 800,000 Gallon G.S., Booster Pumps 5 @ 1,130 GPM
Cash Office Elevated Tower & Pump Station	300,000 Gallon Elevated Tower, Booster Pumps 3 @ 1,500 GPM
Dixon Elevated Tower	200,000 Gallon Elevated Tower
Greenville Elevated Tower	200,000 Gallon Elevated Tower
Cumby Elevated Tower	200,000 Gallon Elevated Tower
Lone Oak Elevated Tower & Pump Station	200,000 Gallon Elevated Tower, 500,000 Gallon G.S., Booster Pumps 4 @ 700 GPM

TABLE 1 – HISTORICAL WATER CONSUMPTION

Fiscal Year Ended 12/31	Water Usage in Gallons (rounded to the nearest 1,000)			Number of Water Customers
	Average	Total		
	Daily Usage	Usage		
2020	1,450,020	529,257,277		7,585
2021	1,730,137	631,500,000		7,829
2022	2,153,734	786,113,000		8,115
2023	2,075,757	757,651,446		8,300
2024	1,990,757	726,626,567		8,625

TABLE 2 – LARGEST WATER CUSTOMERS (AS OF DECEMBER 31, 2024)

Customer	Water Usage (in Million Gallons)	% of Total Water Usage
City of Quinlan	62.0	8.5%
City of Lone Oak	22.4	3.1%
Aqua Texas	13.6	1.9%
Boles Home	9.4	1.3%
Nnew	3.3	0.5%
Wind Point Park	2.8	0.4%
Boles ISD	2.8	0.4%
Total	116.3	16.0%

TABLE 3 – WATER RATES (EFFECTIVE JANUARY 1, 2026)

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

Standard Residential Service Rates		
Monthly Minimum	\$	39.69

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

Gallonage Charge		
0-10,000	\$ 5.47	per 1,000 gallons
10,001-20,000	6.83	per 1,000 gallons
20,001-30,000	8.52	per 1,000 gallons
Over 30,000	10.64	per 1,000 gallons

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

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DEBT INFORMATION

TABLE 4 - PROFORMA REVENUE DEBT SERVICE REQUIREMENTS

Year Ending 12/31	Outstanding Debt			The Bonds ⁽¹⁾			Total Debt Service
	Principal	Interest	Total	Principal	Interest	Total	
2026	\$ 255,000	\$ 553,631	\$ 808,631	\$ 70,000	\$ 90,236	\$ 160,236	\$ 968,867
2027	270,000	540,881	810,881	75,000	202,800	277,800	1,088,681
2028	280,000	527,381	807,381	75,000	199,800	274,800	1,082,181
2029	295,000	515,181	810,181	80,000	196,800	276,800	1,086,981
2030	310,000	502,331	812,331	80,000	193,600	273,600	1,085,931
2031	325,000	488,831	813,831	85,000	190,400	275,400	1,089,231
2032	345,000	474,581	819,581	90,000	187,000	277,000	1,096,581
2033	360,000	459,300	819,300	90,000	183,400	273,400	1,092,700
2034	380,000	443,363	823,363	95,000	179,800	274,800	1,098,163
2035	405,000	429,025	834,025	100,000	176,000	276,000	1,110,025
2036	420,000	413,725	833,725	105,000	172,000	277,000	1,110,725
2037	445,000	397,675	842,675	110,000	166,750	276,750	1,119,425
2038	470,000	380,656	850,656	115,000	161,250	276,250	1,126,906
2039	495,000	362,506	857,506	120,000	155,500	275,500	1,133,006
2040	525,000	343,381	868,381	125,000	149,500	274,500	1,142,881
2041	550,000	323,106	873,106	135,000	143,250	278,250	1,151,356
2042	580,000	301,856	881,856	140,000	136,500	276,500	1,158,356
2043	450,000	279,431	729,431	145,000	129,500	274,500	1,003,931
2044	480,000	261,431	741,431	155,000	122,250	277,250	1,018,681
2045	510,000	242,231	752,231	160,000	114,500	274,500	1,026,731
2046	540,000	221,831	761,831	170,000	106,500	276,500	1,038,331
2047	570,000	199,556	769,556	180,000	98,000	278,000	1,047,556
2048	605,000	176,044	781,044	185,000	89,000	274,000	1,055,044
2049	640,000	151,088	791,088	195,000	79,750	274,750	1,065,838
2050	680,000	124,688	804,688	205,000	70,000	275,000	1,079,688
2051	720,000	96,638	816,638	215,000	59,750	274,750	1,091,388
2052	765,000	66,938	831,938	225,000	49,000	274,000	1,105,938
2053	810,000	34,425	844,425	240,000	37,750	277,750	1,122,175
2054	-	-	-	250,000	25,750	275,750	275,750
2055	-	-	-	265,000	13,250	278,250	278,250
	<u>\$ 13,480,000</u>	<u>\$ 9,311,712</u>	<u>\$ 22,791,712</u>	<u>\$ 4,280,000</u>	<u>\$ 3,879,586</u>	<u>\$ 8,159,586</u>	<u>\$ 30,951,298</u>

(1) Interest on the Bonds has been calculated at an assumed rate as of the posted date of the Preliminary Official Statement for purposes of illustration. Preliminary, subject to change.

ANTICIPATED ISSUANCE OF REVENUE BONDS . . . The District anticipates issuing additional revenue bonds within the next twelve months.

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FINANCIAL INFORMATION

TABLE 5 - CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ended December 31,				
	2024	2023	2022	2021	2020
Revenue:					
Water Sales	\$ 8,010,097	\$ 7,085,134	\$ 7,135,137	\$ 5,700,893	\$ 5,805,788
Customer Charges/Fees	1,012,083	890,584	1,155,641	868,997	750,727
Interest Income	740,076	318,517	71,683	(3,100)	65,189
Total Revenue	<u>\$ 9,762,256</u>	<u>\$ 8,294,235</u>	<u>\$ 8,362,461</u>	<u>\$ 6,566,790</u>	<u>\$ 6,621,704</u>
Expenses ⁽¹⁾:					
Payroll and Benefits	\$ 1,781,387	\$ 1,733,602	\$ 1,751,200	\$ 1,514,220	\$ 1,405,762
Water Purchased	1,596,635	1,499,276	1,407,642	1,228,188	1,187,299
Repairs and Maintenance	632,000	487,313	769,465	419,573	523,048
Supplies	630,830	764,641	426,954	428,122	212,823
Professional Fees	49,676	18,279	66,022	62,324	68,162
Insurance	345,448	338,752	309,955	321,451	246,668
Other	421,542	401,084	372,663	313,306	520,551
Total Expenses	<u>\$ 5,457,518</u>	<u>\$ 5,242,947</u>	<u>\$ 5,103,901</u>	<u>\$ 4,287,184</u>	<u>\$ 4,164,313</u>
Net Revenues	<u><u>\$ 4,304,738</u></u>	<u><u>\$ 3,051,288</u></u>	<u><u>\$ 3,258,560</u></u>	<u><u>\$ 2,279,606</u></u>	<u><u>\$ 2,457,391</u></u>
Annual Total Debt Service Requirements	\$ 1,409,634	\$ 1,126,457	\$ 1,117,340	\$ 1,124,404	\$ 1,131,148
Coverage Annual Total Debt Service Requirements (Net Revenues)	3.05	2.71	2.92	2.03	2.17
Customer Count	8,442	8,074	8,115	7,829	7,585

(1) Excludes Depreciation.

TABLE 6 - COVERAGE AND FUND BALANCES ⁽¹⁾

Net Revenues, Fiscal Year ended 12/31/2024	\$1,409,634
Annual Principal and Interest Requirement, 2026	\$ 968,867
Coverage (2024 Net Revenues)	1.45 x
Average Annual Principal and Interest Requirement, 2026-2055	\$1,031,710
Coverage (2024 Net Revenues)	1.37 x
Maximum Principal and Interest Requirement, 2042	\$1,158,356
Coverage (2024 Net Revenues)	1.22 x

(1) Projected, includes the Bonds. Preliminary, subject to change.

PENSION PLANS

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

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

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is unconditionally guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund, or their respective successors; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3; (9) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office 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 (8) or in any other manner and amount provided by law for District deposits; or (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the value of 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 (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) 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; (13) 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; (14) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that comply with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.) and that provide the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934; (15) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, and either: (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (16) aggregate repurchase agreement transactions entered into by an investing entity in conformity with the provisions of subsections (a-1), (f) and (g) of Section 2256.011 of the PFIA.

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, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or with a third party selected and approved by the District.

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.

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

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

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

TABLE 7 - CURRENT INVESTMENTS

As of December 31, 2025 the District's investable funds were invested in the following categories:

Description	Market Value	% of Portfolio
TexStar	\$ 10,537,499	98%
Edward Jones	197,640	2%
	<u>\$ 10,735,139</u>	<u>100.00%</u>

SELECTED PROVISIONS OF THE RESOLUTION

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

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

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

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

"Bonds" shall mean the Cash Special Utility District Revenue Bonds, Series 2024 issued and delivered pursuant to this Resolution and all substitute Bonds and Bonds exchanged therefor, as well as all other substitute bonds and replacement bonds issued pursuant hereto, and the term "Bond" shall mean any of the Bonds.

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

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

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

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

"Commission" means the Texas Commission on Environmental Quality.

"Construction Fund" means the Cash Special Utility District Revenue Bonds, Series 2024 Construction Fund established by Section 9.1 of this Resolution.

"Dated Date" shall mean February 15, 2026.

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

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

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

"District" shall mean Cash Special Utility District.

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

"Existing Obligations" means the Outstanding Series 2014 Bonds and the Outstanding Series 2018 Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Prior Lien Obligations” means, collectively, the Series 2014 Bonds, the Series 2018 Bonds, the Bonds, and any Additional Prior Lien Obligations.

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

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

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

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

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

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

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

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

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

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

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

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

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

“Series 2018 Bonds” shall mean the \$2,560,000 Cash Special Utility District Water System Revenue Bonds, Series 2018.

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

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

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

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

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

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

Section 9.1 Creation of Funds.

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

- (i) “Cash Special Utility District Revenue Fund” (herein called the “Revenue Fund”) is hereby affirmed;
- (ii) “Cash Special Utility District Revenue Bonds, Series 2024 Reserve Fund” (herein called the “Reserve Fund”) is hereby created; and
- (iii) “Cash Special Utility District Water System Bonds, Series 2024 Interest and Sinking Fund” (herein called the “Interest and Sinking Fund”) is hereby created for the purpose of providing funds to pay the principal of, premium, if any, and interest on the Prior Lien Obligations as the same become due and payable; and
- (iv) “Cash Special Utility District Revenue Bonds, Series 2024 Construction Fund” (herein called the “Construction Fund”) is hereby created.

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

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

Section 9.3 Interest and Sinking Fund.

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

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

Section 9.4 Reserve Fund.

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

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

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

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

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

Section 9.5 Construction Fund.

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

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

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

Section 9.6 Deficiencies; Excess Revenues.

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

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

Section 9.7 Investments- Security of Funds.

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

(b) Investments.

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

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

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

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

Section 10.1 Additional Prior Lien Obligations.

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

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

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

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

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

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

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

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

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

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

Section 11.1 Pledge of Revenues.

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

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

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

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

Section 12.1 Pledge.

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

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

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

Section 12.3 Rates and Charges.

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

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

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

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

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

- (i) A statement of the income and expenses of the System for such Fiscal Year.
- (ii) A balance sheet for the System as of the end of such Fiscal Year.
- (iii) A statement describing the sources and application of funds of the System for such Fiscal Year.
- (iv) The accountant's comments regarding the manner in which the District has carried out the requirements of this Resolution and any other order or resolution authorizing the issuance of Prior Lien Obligations and his recommendations for any changes or improvements in the operations, records and accounts of the System.

- (v) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the System, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

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

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

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

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

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

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

Section 15.2 Remedies for Default.

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

Section 15.3 Remedies Not Exclusive.

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

Section 17.1 Defeasance.

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

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

Section 18.5 Amendments.

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

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

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

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

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

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TAX MATTERS

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

In rendering its opinion, Special Tax Counsel to the District will rely upon (a) the District’s federal tax certificate, (b) the Sufficiency Certificate and (c) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the District to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified

small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to Federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a “bank,” as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The District expects that the Bonds will be designated, or deemed designated, as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as “qualified tax-exempt obligations.”

Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be “qualified tax-exempt obligations.”

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (“MSRB”). This information will be available via the MSRB’s Electronic Municipal Market Access (“EMMA”) system at www.emma.msrb.org.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 7 and in APPENDIX B, which is the District’s audited financial statement. The District will update and provide the information in the numbered tables within six months after the end of each fiscal year ending in and after 2026 and, if not submitted as part of such annual financial information, the District will provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

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

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB’s Internet Web site or filed with the Securities and Exchange Commission (the “SEC”), as permitted by SEC Rule 15c2-12 (the “Rule”).

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

an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the District or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the Financial Obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with its agreement described above under “Annual Reports.” Neither the Bonds nor the Order provide for debt service reserves, liquidity enhancement or credit enhancement.

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

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

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

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

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

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

LEGAL MATTERS

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

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

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

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

President
Cash Special Utility District

ATTEST:

Secretary/Treasurer
Cash Special Utility District

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

THE DISTRICT

GENERAL

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

HUNT COUNTY CHARACTERISTICS

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

POPULATION

The Hunt County census population for 2025 was 118,729 and the census population for 2020 was 99,956.

Source: United States Census Bureau.

ECONOMIC BASE

Mineral: white rock, sand, oil and gas.

Industry: varied manufacturing, education and agribusiness.

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

EMPLOYMENT STATISTICS

Employment figures for Hunt County are as follows:

	November	Average Annual			
	2025	2024	2023	2022	2021
Total Civilian Labor Force	56,907	55,627	54,319	51,358	48,062
Total Employment	54,488	53,343	52,213	49,429	45,692
Total Unemployment	2,419	2,284	2,136	1,929	2,370
% Unemployed	4.3%	4.1%	3.9%	3.8%	4.9%

Source: Texas Labor Market Information.

APPENDIX B

**EXCERPTS FROM THE
CASH SPECIAL UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
For the Year Ended December 31, 2024**

The information contained in this Appendix consists of excerpts from the Cash Special Utility District Annual Financial Report for the Year Ended December 31, 2024, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

**RUTHERFORD,
TAYLOR &
COMPANY, P.C.**
Certified Public Accountants

3500 Joe Ramsey Blvd.

Greenville, Texas 75401

(903) 455-6252

Fax (903) 455-6667

INDEPENDENT AUDITOR'S REPORT

Members of the Board

Opinion

We have audited the accompanying financial statements of the business-type activities, which are the proprietary funds of the Cash Special Utility District (District), as of and for the year ended December 31, 2024, 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 the business-type activities, which are the proprietary funds of the Cash Special Utility District, as of December 31, 2024, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the 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 the 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 Responsibility 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 there is not a guarantee that an audit conducted in accordance with GAAS 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- exercise professional judgement 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 the 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 management's discussion and analysis 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 Government 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 schedules identified as Texas Supplementary Information (TSI) 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 information exists, we are required to describe it in our report.

Rutherford, Taylor & Company PC

March 20, 2025
Greenville, Texas

**CASH SPECIAL UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2024**

**Schedule
Reference
Number**

Findings

NONE

**CASH SPECIAL UTILITY DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2024**

**Schedule
Reference
Number**

Prior Findings

NONE

CASH SPECIAL UTILITY DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED DECEMBER 31, 2024

Schedule
Reference
Number

Actions Planned

NONE

**CASH SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2024**

This section of Cash Special Utility District's annual financial report presents our discussion and analysis of the District's financial performance during the year ended December 31, 2024. Please read it in conjunction with the District's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position was \$ 30,099,952 at December 31, 2024.
- During the year, the District's expenses were \$ 3,692,040, less than the \$ 11,570,334 generated from charges in services and other revenues for business-type activities.
- The District issued Series 2024 bonds during the year totaling \$ 11,925,000 for improvements to the system.
- The District completed enhanced transmission line projects during the year which provides improved water delivery infrastructure for current and future customers.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The basic financial statements also include notes to the financial statements that explain some of the information in the basic financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the basic financial statements. Special schedules as required by the Texas Commission on Environmental Quality (TCEQ) are included following the required supplementary information section.

FINANCIAL ANALYSIS OF THE DISTRICT

Statement of Net Position

Net position may serve over time as a useful indicator of an entity's financial position. The District's fund net position increased \$ 3,692,040 during the year to \$ 30,099,952.

A significant portion of the net position reflects its investment in capital assets. Capital assets are land, water production and distribution infrastructure, equipment, vehicles, and other physical assets. The value of capital assets is reduced by accumulated depreciation to arrive at net capital assets. The investment in capital assets reflected in the net position section of the financial statement reflects the net value of the capital assets reduced by any debt used to construct or acquire the assets. The net investment in capital assets increased 74.49% during the year as the District used bond proceeds to complete construction projects for the system.

The unrestricted net position \$ 7,753,133 is available for recurring operating expenses or other capital investments.

**CASH SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2024**

FINANCIAL ANALYSIS OF THE DISTRICT (Continued)

The following Table A-1 presents condensed financial information on the District's Net Position for comparative purposes:

District's Net Position			Table A-1
	2024	2023	Total Percentage Change 2023 - 2024
Assets			
Cash and Cash Equivalents	\$ 458,539	\$ 257,033	77.82%
Other Assets	1,354,198	957,412	41.44%
Restricted Assets	14,766,419	5,096,690	189.73%
Capital Assets, net of depreciation	30,193,459	24,716,115	22.16%
Non-Current Assets	76,974	87,946	-12.48%
Total Assets	\$ 46,847,589	\$ 31,115,196	50.56%
Liabilities			
Current Liabilities	\$ 3,431,910	\$ 2,700,673	27.08%
Long-term Liabilities	13,315,727	1,998,550	566.27%
Total Liabilities	\$ 16,747,637	\$ 4,699,223	256.39%
Deferred Inflows of Resources	\$ -	\$ 8,061	-100.00%
Net Position			
Net Investment in Capital Assets	\$ 22,346,819	\$ 21,486,765	4.00%
Unrestricted	7,753,133	4,921,147	57.55%
Total Net Position	\$ 30,099,952	\$ 26,407,912	13.98%

Statement of Revenues Expenses and Changes in Fund Net Position

The Statement of Revenues, Expenses and Changes in Fund Net Position presents information showing how the District's net position changed during the year. Operating revenues consists of water sales, and other fees related to the delivery of potable water. Operating expenses include salaries and related benefits; water production and delivery expenses including repairs, chemicals, supplies, and materials; and other operating costs including depreciation and amortization. The non-operating revenues include sources of funds that are not dependent on the delivery of water to the District's customers and includes investment earnings and contributions. Non-operating expenses are limited to interest paid on debt issued by the District.

The net position of the District increased \$ 3,692,040 from the prior year due to better than anticipated revenues as well as managed costs. Contributions from developers and customers also contributed to the annual increase.

Operating revenues totaled \$ 9,022,180. This represents an increase of \$ 1,046,462 from the prior year operating revenues of \$ 7,975,718 or 13.12%.

Operating expenses totaled \$ 7,046,753. This represents an increase of \$ 403,372 from the prior year expenses of \$ 6,643,381. The change represents costs related to increased service connections in addition to the general increase of costs related to the operations of the District including water purchase costs and payroll and related benefits.

Non-operating revenues decreased as expanding projects from outside sources were lower in the current year. Interest earnings increased because of additional restricted cash balances (bond proceeds), while debt (revenue bonds) interest expense increased \$ 426,089 from the prior year amounts.

**CASH SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2024**

The following Table A-2 presents condensed financial information on the District's Changes in Net Position for comparative purposes:

Changes in the District's Net Position			Table A-2
	2024	2023	Total Percentage Change 2023 - 2024
Operating Revenues:			
Charges for Services	\$ 9,022,180	\$ 7,975,718	13.12%
Total Operating Revenues	\$ 9,022,180	\$ 7,975,718	13.12%
Operating Expenses:			
Water Utilities	\$ 7,046,753	\$ 6,543,381	6.07%
Total Operating Expenses	\$ 7,046,753	\$ 6,543,381	6.07%
Non-operating Revenues (Expenses):			
Tower Rental Income	\$ -	\$ 58,644	-100.00%
Interest Income	740,076	318,517	132.35%
Interest Expense	(521,300)	(95,211)	447.52%
Gain (Loss) on Disposal of Fixed Assets	(26,068)	5,042	-617.02%
Debt Issuance Costs	(284,173)	-	100.00%
Customer/Developer Contributions	1,808,076	2,629,320	-31.23%
Total Non-operating Revenues (Expenses)	\$ 1,716,613	\$ 2,916,312	-41.14%
Increase (Decrease) in Net Position	\$ 3,692,040	\$ 4,248,649	-13.10%
Net Position - Beginning	26,407,912	22,159,263	19.17%
Net Position - Ending	\$ 30,099,952	\$ 26,407,912	13.98%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District invested \$ 49,125,288 in a broad range of capital assets, including land, water distribution systems, buildings, equipment, and vehicles.

The following Table A-3 presents the breakdown of the capital assets of the District. Additional information on the capital asset activities occurring during the year are included in the notes to the financial statement.

District's Capital Assets			Table A-3
	2024	2023	Total Percentage Change 2023 - 2024
Land and Improvements	\$ 534,713	\$ 500,868	6.76%
Construction in Progress	6,211,393	2,290,686	171.16%
Buildings and Improvements	715,600	715,600	0.00%
Water Distribution System	40,121,547	37,414,490	7.24%
Vehicles and Equipment	1,440,216	1,366,902	5.36%
Office Equipment	101,819	101,819	0.00%
Totals at Historical Cost	\$ 49,125,288	\$ 42,390,365	15.89%
Total Accumulated Depreciation	(18,931,829)	(17,674,250)	7.12%
Net Capital Assets	\$ 30,193,459	\$ 24,716,115	22.16%

**CASH SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2024**

Long Term Debt

The District had \$ 13,965,000 in debt outstanding as shown in Table A-4. More detailed information about the District's debt is presented in the notes to the basic financial statements.

District's Long Term Debt			Table A-4
	2024	2023	Total Percentage Change 2023 - 2024
Bonds Payable	\$ 13,965,000	\$ 3,090,000	351.94%
Total Debt Payable	\$ 13,965,000	\$ 3,090,000	351.94%

BUDGET, ECONOMIC ENVIRONMENT AND RATES

At this time, Cash Special Utility District is not aware of any conditions that would impact on the District's operations through 2025. Rates will be reviewed for adjustment as has been completed in the past. Water purchasing costs continue to escalate as in prior years and the District has calculated increased water revenue in 2025 budget.

The service area of the District continues to present opportunities for development of residential housing as well as commercial properties. The outlook for the area located in northeast Texas is for continued real estate development. The District continues to work with its water supply sources to ensure an uninterrupted supply which requires the continued evaluation, planning, and overview of the infrastructure in place.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CASH SPECIAL UTILITY DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2024

	Enterprise Fund Water Utilities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 456,539
Accounts Receivable	833,674
Prepaid Expenses - Supplies and Materials	458,773
Prepaid Expenses - Other	61,751
Total Current Assets	<u>\$ 1,810,737</u>
Restricted Assets:	
Cash and Cash Equivalents - Debt Service	\$ 1,518,062
Cash and Cash Equivalents - Construction	11,298,068
Cash and Cash Equivalents - Developer Capacity Fee	525,642
Cash and Cash Equivalents - Customer Deposits	1,424,647
Total Restricted Assets	<u>\$ 14,766,419</u>
Capital Assets, Net	<u>\$ 30,193,459</u>
Non Current Assets:	
Tower Rental Receivable	\$ 76,974
Total Non Current Assets	<u>\$ 76,974</u>
Total Assets	<u>\$ 46,847,589</u>

The accompanying notes are an integral part of this statement.

CASH SPECIAL UTILITY DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2024

	Enterprise Fund Water Utilities
LIABILITIES	
Current Liabilities:	
Accrued Wages Payable	\$ 29,520
Payroll Liabilities Payable	(328)
Accounts Payable	288,492
TCEQ Assessment Payable	38,010
Total Current Liabilities	<u>\$ 355,694</u>
Current Liabilities (Payable from Restricted Assets):	
Construction Retainage Payable	\$ 529,302
Accrued Interest Payable	193,394
Bonds Payable (Current Portion)	485,000
Customer Deposits	1,360,052
Developer Capacity Fee Escrow	508,468
Total Current Liabilities (Payable from Restricted Assets)	<u>\$ 3,076,216</u>
Non-Current Liabilities:	
Bonds Payable	\$ 13,480,000
Bond Issue Discounts	(164,273)
Total Non-Current Liabilities	<u>\$ 13,315,727</u>
Total Liabilities	<u>\$ 16,747,637</u>
NET POSITION	
Net Investment in Capital Assets	\$ 22,346,819
Unrestricted	<u>7,753,133</u>
Total Net Position	<u>\$ 30,099,952</u>

The accompanying notes are an integral part of this statement.

CASH SPECIAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2024

	Enterprise Fund Water Utilities
OPERATING REVENUES	
Water/Sales	\$ 8,010,097
Customer Charges/Fees	<u>1,012,083</u>
Total Operating Revenues	<u>\$ 9,022,180</u>
OPERATING EXPENSES	
Payroll and Benefits	\$ 1,781,387
Water Purchases	1,596,635
Repairs and Maintenance	632,000
Supplies	630,830
Professional and Legal Fees	49,676
Insurance	345,448
Other Operating Costs	421,542
Amortization and Depreciation	<u>1,589,235</u>
Total Operating Expenses	<u>\$ 7,046,753</u>
Net Operating Revenue (Expenses)	<u>\$ 1,975,427</u>
NON-OPERATING REVENUE (EXPENSES)	
Interest Income	\$ 740,076
Interest Expense	(521,300)
Debt Issuance Costs	(284,173)
Gain (Loss) on Disposal of Fixed Assets	(26,068)
Customer/Developer Contributions	<u>1,808,078</u>
Net Non-Operating Revenue (Expenses)	<u>\$ 1,716,613</u>
Change in Net Position	\$ 3,692,040
Total Net Position - Beginning (January 1)	<u>26,407,912</u>
Total Net Position - Ending (December 31)	<u>\$ 30,099,952</u>

The accompanying notes are an integral part of this statement.

CASH SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2024

	Enterprise Fund Water Utilities
Cash Flows Provided by (Used for) Operating Activities:	
Cash Received from Customers	\$ 8,775,786
Cash Payments for Goods and Services	(3,583,365)
Cash Payments to Employees	(1,783,452)
Net Cash Provided by (Used for) Operating Activities	\$ 3,408,969
Cash Flows Provided by (Used for) Capital and Other Related Financing Activities:	
Bond Proceeds Received	\$ 11,925,000
Principal Paid on Bonds	(1,050,000)
Interest Paid on Bonds	(359,634)
Acquisition and Construction of Capital Assets	(6,831,477)
Debt Issuance Costs	(284,173)
Net Cash Provided by (Used for) Capital and Other Related Financing Activities	\$ 3,399,716
Net Cash Provided by (Used for) Noncapital Financing Activities	
Change in Customer Deposits	\$ 24,953
Developer Capacity Fee Escrow	476,471
Customer/Developer Contributions	1,808,078
Net Cash Provided by (Used for) Noncapital Financing Activities	\$ 2,309,502
Cash Flows Provided by (Used for) Investing Activities:	
Interest Received	\$ 740,076
Tower Rental Receipts	10,972
Net Cash Provided by (Used for) Investing Activities	\$ 751,048
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 9,869,235
Cash and Cash Equivalents - Beginning (January 1)	5,353,723
Cash and Cash Equivalents - Ending (December 31)	\$ 15,222,958
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Cash and Cash Equivalents in Current Assets	\$ 456,539
Restricted Cash and Cash Equivalents	14,766,419
Total Cash and Cash Equivalents	\$ 15,222,958

The accompanying notes are an integral part of this statement.

**CASH SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2024**

**Reconciliation of Change in Equity to Net Cash
Provided by (Used for) Operating Activities**

Net Operating Revenue (Expenses)	\$ 1,975,427
Adjustments to Reconcile Operating Income to Net Cash	
Provided by (Used for) Operating Activities:	
Amortization and Depreciation	1,589,235
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivables	(246,394)
(Increase) Decrease in Prepaid Expenses, Supplies and Materials	(150,033)
(Increase) Decrease in Prepaid Expenses - Other	(359)
Increase (Decrease) in Accounts Payable	213,224
Increase (Decrease) in Payroll Liabilities	(1,409)
Increase (Decrease) in TCEQ Assessment Payable	29,278
Net Cash Provided by (Used for) Operating Activities	\$ 3,408,969

The accompanying notes are an integral part of this statement.

**CASH SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2024**

A. Summary of Significant Accounting Policies

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

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

1. Reporting Entity

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

2. Basis of Presentation

The District is a special purpose government engaged in only business-type activities. In accordance with GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the District is required to present only financial statements for enterprise funds, along with management's discussion and analysis (MD&A), notes of the financial statements and other required supplementary information (RSI).

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

The *Enterprise Fund* is used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) the governing body has decided periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Basis of Accounting

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

4. Budget

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

**CASH SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2024**

A. Summary of Significant Accounting Policies (Continued)

5. Capital Assets

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

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

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

6. Right of Use Assets and Liabilities

GASB Statement 87, *Leases* created new financial statement accounts "Right of Use" assets and similar offsetting liabilities. A "right of use" asset accounts for the net present value of future payments attached to a leased asset. Common examples of "Right of Use" assets are copiers, printers, and other types of equipment that the District does not take ownership of but use under the lease agreement. The asset value will be amortized over the life of the lease using a straight-line method. The liability offsetting the "Right of Use" asset is presented as lease payable.

GASB Statement 87 also impacts on the District's rental agreements (leases) related to property and equipment. Rental agreements that extend beyond a twelve (12) month period are recognized as earned when executed with an offsetting long term receivable. Future collection are offset against the receivable.

7. Prepaid Expenses - Supplies and Materials

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

8. Prepaid Expenses

Prepaid expenses consist of services or fees paid for in the correct period that relate to use in the following period. Typical prepayments include annual licensing fees as well as future travel events requiring advance payment.

9. Cash and Cash Equivalents

Cash and Cash Equivalents are comprised of deposits in financial institutions, including time deposits. For the purpose of the statement of cash flows, a cash equivalent is considered any highly liquid investment with a maturity of ninety days or less.

10. Contributions from Customers / Developers

The District requires customers and developers to provide funds to make distribution system storage and line improvements. These funds are collected prior to the improvement planning or construction. Major improvements require engineering and other costs to determine the impact on the existing system. Upon completion of the engineering services, cost estimates are provided to the customer/developer. The customer/developer places funds with the District and the District completes the expansion of the required infrastructure. Upon completion of the expansion, excess funds are returned to the customer/ developer. The District recognizes the funds collected for the project as other non-operating revenues.

**CASH SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2024**

A. Summary of Significant Accounting Policies (Continued)

11. Compensated Absences

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

12. Subscription-Based Information Technology Arrangements (SBITA)

GASB Statement 96, *Subscription-Based Information Technology Arrangements* created new financial statement assets and offsetting liabilities. A SBITA asset accounts for the net present value of future payments required for right of use of subscription assets. To the extent relevant, the standards for SIBTA's are based on the standards established by GASB Statement 87, *Leases*. A SBITA is defined as a contract that conveys control of the right of use of another party's information technology (software) as specified in the contract for a period of time in an exchange or exchange-like transaction. The asset will be amortized over the life of the contract allowing the use of the information technology over a straight line method. The asset is included in the financial statement caption right of use asset with the offsetting liability identified as SBITA payable.

B. Capital Assets

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

	Beginning Balances	Additions and Reclassifications	Disposals	Ending Balances
Land	\$ 500,868	\$ 33,845	\$ -	\$ 534,713
Construction in Progress	2,290,685	6,745,725	2,825,017	6,211,393
Water Distribution System	37,414,490	3,064,781	357,724	40,121,547
Buildings and Improvements	715,600	-	-	715,600
Vehicles and Equipment	1,366,902	73,314	-	1,440,216
Office Equipment	101,819	-	-	101,819
Totals at Historical Cost	\$ 42,390,364	\$ 9,917,665	\$ 3,182,741	\$ 49,125,288
Less Accumulated Depreciation for:				
Water Distribution System	\$ 16,459,164	\$ 1,493,081	\$ 399,236	\$ 17,553,009
Buildings and Improvements	351,530	21,766	-	373,296
Vehicles and Equipment	797,287	135,861	-	933,148
Office Equipment	66,269	6,107	-	72,376
Total Accumulated Depreciation	\$ 17,674,250	\$ 1,656,815	\$ 399,236	\$ 18,931,829
Net Capital Assets	\$ 24,716,114	\$ 8,260,850	\$ 2,783,505	\$ 30,193,459

C. Deposits, Securities, and Investments

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

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

**CASH SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2024**

C. Deposits, Securities, and Investments (Continued)

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

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

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

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

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

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

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

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

	<u>Credit Rating</u>	<u>Interest Rate</u>	<u>Fair Value</u>
TexSTAR	AAAm	4.39%	\$ 14,524,350
Edward Jones	AAA	.01 - 6.50%	242,066
Total			<u>\$ 14,766,416</u>

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

a. Credit Risk

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

b. Custodial Credit Risk

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

**CASH SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2024**

C. Deposits, Securities, and Investments (Continued)

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

D. Long - Term Obligations

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

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds Payable	\$ 3,090,000	\$ 11,925,000	\$ 1,050,000	\$ 13,965,000	\$ 485,000
Unamortized Discount	(56,451)	(114,070)	(6,248)	(164,273)	-
Totals	<u>\$ 3,033,549</u>	<u>\$ 11,810,930</u>	<u>\$ 1,043,752</u>	<u>\$ 13,800,727</u>	<u>\$ 485,000</u>

Bonds

The District issued revenue and refunding bonds to finance infrastructure improvements and expansions. These bonds mature annually with semiannual interest payments. The bonds will fully mature in the 2053 fiscal year. Bonds incur various rate of interest over the life of the debt. As revenue bonds, the District is required to generate debt retirement funds from the revenues of the system.

The District issued "Cash Special Utility District Revenue Bonds, Series 2024," totaling \$ 11,925,000 for water system improvements including pump stations, storage facilities and related underground lines. The bonds require annual principal payments along with semiannual interest payments of an average interest rate of 4.24%. The bonds will fully mature in 2053.

The following schedule presents outstanding bonded debt at year end:

Description	Maturity Date	Interest Rate	Outstanding Amount
Revenue Bonds, Series 2018	9/1/2042	4.21%	\$ 2,055,000
Revenue Bonds, Series 2024	9/1/2053	4.24%	<u>11,910,000</u>
Totals			<u>\$ 13,965,000</u>

**CASH SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2024**

D. Long - Term Obligations (Continued)

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

Year Ending December 31	Principal	Interest	Total Requirements
2025	\$ 485,000	\$ 580,181	\$ 1,065,181
2026	255,000	553,830	808,830
2027	270,000	540,880	810,880
2028	280,000	527,381	807,381
2029	295,000	515,181	810,181
2030-2034	1,720,000	2,368,409	4,088,409
2035-2039	2,235,000	1,883,588	4,218,588
2040-2044	2,585,000	1,509,206	4,094,206
2045-2049	2,865,000	990,750	3,855,750
2050-2053	2,975,000	322,668	3,297,668
Totals	\$ 13,965,000	\$ 9,891,894	\$ 23,856,894

E. Customer Deposits

The District requires each new customer to pay \$ 200, which is held as a refundable deposit to secure payment of the customer's final water bill. At year end, the District's obligation for refundable deposits owed to water customers totaled \$ 1,360,052.

F. Litigation

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

G. Joint Agreements

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

H. Risk Management

The District is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2024, the District purchased commercial insurance to cover these liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance for each of the past three fiscal years.

I. Subsequent Events

The District's management has evaluated subsequent events through March 20, 2025, the date on which the financial statements were available for issue.

J. Pension Plans

457(b) Deferred Compensation Plan

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

Cash Special Utility District Profit Sharing Plan

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

**CASH SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2024**

J. Pension Plans (Continued)

Employees are eligible for contributions after attaining 500 hours of work and are employed full time. The Plan has a vesting schedule in place as follows:

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 1	-0-
1	-0-
2	20%
3	40%
4	60%
5	80%
6 or more	100%

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

There is no liability at year end to the Plan.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

ARMBRUST & BROWN, PLLC

100 CONGRESS AVENUE, SUITE 1300

AUSTIN, TEXAS 78701

(512) 435-2300

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

March 23, 2026

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

CASH SPECIAL UTILITY DISTRICT REVENUE BONDS, SERIES 2026, dated February 15, 2026, in the aggregate principal amount of \$4,280,000, bearing interest at the rate set forth in the resolution authorizing the issuance of the bonds (the “Bond Resolution”), with such interest payable on March 1 and September 1 of each year, commencing September 1, 2026 until maturity or prior redemption, and maturing serially on September 1 in each year from 2026 through 2055.

The Bonds are redeemable, in whole or in part, maturing on or after September 1, 2036 are subject to optional redemption prior to stated maturity on September 1, 2035 or on any date thereafter, at a price of the par value thereof plus accrued interest to the date of redemption, in the manner provided in the Bond Resolution. [Additionally, the Bonds maturing on September 1, _____ are subject to mandatory redemption prior to maturity at the times and in the amounts provided in the Bond Resolution.] The Bonds are registered as to both principal and interest and are transferable, registrable, and payable in the manner provided in the Bond Resolution.

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

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

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the District has been validly created and organized and that the transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of

the State of Texas presently effective; and that therefore the Bonds are valid and legally binding obligations of the District. The Bonds, together with the outstanding and unpaid Prior Lien Obligations (identified and defined in the Bond Resolution), are also secured by and payable from a pledge of and lien on certain net revenues of the District's water system (the "Pledged Revenues") as provided in the Bond Resolution.

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

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

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

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

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

Respectfully yours,

APPENDIX D

SPECIAL TAX COUNSEL'S OPINION

March 23, 2026

We have acted as Special Tax Counsel in connection with the issuance and sale by the Cash Special Utility District (the "Issuer") of \$4,280,000 aggregate principal amount of its Revenue Bonds, Series 2026 (the "Bonds").

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

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

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

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

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.

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

Respectfully yours,