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**Dated April 22, 2026**

**Rating:**  
**S&P: "AA"**  
(See "OTHER INFORMATION -  
Ratings" herein)

**NEW ISSUE - Book-Entry-Only**

*In the opinion of Co-Bond Counsel, under existing law, interest on the Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations.*

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



**\$39,055,000\***  
**UPPER TRINITY REGIONAL WATER DISTRICT**  
**NORTHEAST REGIONAL WATER RECLAMATION SYSTEM**  
**REVENUE BONDS, SERIES 2026**

**Dated Date: April 15, 2026**

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

**Interest Accrues from Delivery Date (defined below)**

**PAYMENT TERMS** . . . Interest on the \$39,055,000\* Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Bonds, Series 2026 (the "Bonds") will accrue from the Delivery Date (defined below), will be payable August 1 and February 1 of each year commencing August 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 within a maturity. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is BOKF, 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"), particularly Chapter 1053, Acts of the 71st Legislature of Texas, Regular Session, 1989, as amended, Article XVI, Chapter 59, Texas Constitution, Chapter 54, Texas Water Code, as amended, Chapter 1371, Texas Government Code, as amended, and a resolution (the "Bond Resolution") adopted by the Board of Directors (the "Board") of the District on February 5, 2026 in which the Board delegated pricing of the Bonds to a "Pricing Committee" who will approve a "Pricing Certificate" (the Bond Resolution and the Pricing Certificate are jointly referred to as the "Resolution") and are special obligations of the Upper Trinity Regional Water District (the "District"), payable, both as to principal and interest, solely from and secured by, together with Outstanding Parity Bonds and any Additional Bonds (as defined herein), a first lien on and pledge of the Pledged Revenues of the District's Northeast Regional Water Reclamation System (the "Northeast System"). The District does not have taxing power and has not covenanted or obligated itself to pay the Bonds from monies raised or to be raised by taxation (see "THE BONDS - Authority for Issuance" and "THE BONDS - Security and Source of Payment").

**PURPOSE** . . . Proceeds from the sale of the Bonds will be used for (i) providing a portion of the funds to acquire, construct, improve and extend the Northeast System, including the expansion of the Doe Branch Water Reclamation Plant; (ii) making a deposit to the Reserve Fund to the extent necessary; and (iii) paying the costs and expenses of issuing said Bonds.

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**MATURITY SCHEDULE**

**See page 2**

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**LEGALITY** . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinions of Bracewell LLP, Dallas, Texas, and Boyle & Lowry, L.L.P., Irving, Texas, Co-Bond Counsel (see APPENDIX D, "Form of Co-Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Norton Rose Fulbright US LLP, Dallas Texas, Counsel for the Underwriters.

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through DTC on May 27, 2026 (the "Delivery Date").

**WELLS FARGO SECURITIES**

**TEXAS CAPITAL SECURITIES**

\* Preliminary, subject to change.

MATURITY SCHEDULE\*

CUSIP Prefix: 916675 <sup>(1)</sup>

<u>Principal Amount</u>	<u>Maturity August 1</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix <sup>(1)</sup></u>	<u>Principal Amount</u>	<u>Maturity August 1</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix <sup>(1)</sup></u>
\$ 820,000	2031				\$ 1,545,000	2044			
860,000	2032				1,620,000	2045			
900,000	2033				1,700,000	2046			
945,000	2034				1,785,000	2047			
995,000	2035				1,875,000	2048			
1,045,000	2036				1,970,000	2049			
1,095,000	2037				2,065,000	2050			
1,150,000	2038				2,170,000	2051			
1,210,000	2039				2,280,000	2052			
1,270,000	2040				2,395,000	2053			
1,335,000	2041				2,515,000	2054			
1,400,000	2042				2,640,000	2055			
1,470,000	2043								

(1) CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services (“CGS”) managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the District, the Municipal Advisor, or the Underwriters of the Bonds shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

**REDEMPTION . . .** The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 1, 2036, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption"). If two or more consecutive serial maturities of the Bonds are grouped into a single maturity (the “Term Bonds”) by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Resolution and will be described in the final Official Statement (see "THE BONDS – Mandatory Sinking Fund Redemption").

\* Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), this document constitutes an "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 the Rule.

This Preliminary Official Statement, which includes the cover page, 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 representation, promise, or guarantee of the Municipal Advisor or the Underwriters. 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. Any information and expressions of opinion herein contained 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 herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

The Underwriters have provided the following sentence for inclusion in this Preliminary Official Statement. The Underwriters have reviewed the information in the Preliminary Official Statement in accordance with, and as part of their respective responsibilities to investors under federal securities laws as applied to the facts and circumstance of this transaction but the Underwriters do not guarantee the accuracy or completeness of such information.

None of the District, the District's Municipal Advisor or the Underwriters make any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Preliminary Official Statement.

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

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

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

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

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

UPPER TRINITY REGIONAL WATER DISTRICT

BOARD OF DIRECTORS

BOARD OF DIRECTORS

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>	<u>Appointing Entity</u>
Lyle Dresher	President	May 31, 2029	Denton County At-Large
Greg Scott	Vice President	May 31, 2029	City of Justin
Allen McCracken	Treasurer	May 31, 2027	City of Pilot Point
Kimberly Brawner	Secretary	May 31, 2029	City of Celina
Robert Pegg	Director	May 31, 2027	Town of Flower Mound
Aaron Russell	Director	May 31, 2029	City of Lewisville
Richard A. Lubke	Director	May 31, 2027	City of Highland Village
VACANT	Director	May 31, 2029	Town of Argyle
Brian Roberson	Director	May 31, 2027	City of Aubrey
Del Knowler	Director	May 31, 2029	Town of Bartonville
Mark Pape	Director	May 31, 2029	Town of Copper Canyon
Glenn Barker	Director	May 31, 2029	City of Corinth
Kevin Mercer	Director	May 31, 2027	Denton County Fresh Water Supply District No. 7
Kyle Pedigo	Director	May 31, 2029	City of Denton
Jody Gonzalez	Director	May 31, 2027	Denton County
Dave Nelson	Director	May 31, 2029	Town of Double Oak
Orlando Sanchez	Director	May 31, 2029	City of Irving
Nate Winchester	Director	May 31, 2027	City of Krum
Mike Fairfield	Director	May 31, 2027	Lake Cities Municipal Utility Authority
Chris Boyd	Director	May 31, 2027	Mustang Special Utility District
Drew Corn	Director	May 31, 2029	Town of Northlake
Mike Anderson	Director	May 31, 2027	Town of Ponder
George Dupont	Director	May 31, 2027	Town of Prosper
Jim Bolz	Director	May 31, 2027	City of Sanger

**MANAGEMENT OFFICERS**

<u>Name</u>	<u>Position</u>
Larry N. Patterson, P.E.	Executive Director
Lester Harris	Chief Financial Officer
Kurt Staller, PE	Director/Engineering and Construction

**INDEPENDENT AUDITORS, CONSULTANTS AND ADVISORS**

Independent Auditors.....Deloitte & Touche LLP  
Dallas, Texas

General Counsel and Co-Bond Counsel ..... Boyle & Lowry, L.L.P.  
Irving, Texas

Co-Bond Counsel..... Bracewell LLP  
Dallas, Texas

Municipal Advisor .....Hilltop Securities Inc.  
Fort Worth, Texas

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(469) 635-8167

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Fort Worth, Texas 76102  
(817) 332-9710

**PRELIMINARY OFFICIAL STATEMENT**

**RELATING TO**

**\$39,055,000\***  
**UPPER TRINITY REGIONAL WATER DISTRICT**  
**NORTHEAST REGIONAL WATER RECLAMATION SYSTEM**  
**REVENUE BONDS, SERIES 2026**

**INTRODUCTION**

This Preliminary Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance by the Upper Trinity Regional Water District (the "District" or the "Issuer") of \$39,055,000\* Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Bonds, Series 2026 (the "Bonds"). In the Bond Resolution adopted on February 5, 2026 (the "Bond Resolution"), the Board of Directors of the District (the "Board") delegated authority to certain District officials (the "Pricing Committee") to establish the terms and provisions of the Bonds and to effect the sale of the Bonds pursuant to the Pricing Certificate (the Bond Resolution and the Pricing Certificate are referred to collectively as the "Resolution"). Capitalized terms used in this Preliminary Official Statement have the same meanings assigned to such terms in the Resolution except as otherwise indicated herein (see "CERTAIN PROVISIONS OF THE RESOLUTION").

There follows in this Preliminary Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Municipal Advisor, Hilltop Securities Inc. ("HilltopSecurities"), Fort Worth, Texas.

**DESCRIPTION OF THE DISTRICT** . . . The District is a political subdivision of the State of Texas and a body politic and corporate, created as a conservation and reclamation district under Article XVI, Section 59 of the Constitution of the State of Texas (the "Constitution") and Chapter 1053, Acts of the 71<sup>st</sup> Legislature of Texas, Regular Session, 1989, as amended (the "Act"). Under the Constitution, the Act, Chapter 54 of Texas Water Code, as amended, the District has broad powers for water conservation and use, for all beneficial purposes of storm and flood waters and unappropriated flow waters. As a necessary aid to these purposes, the District has specific authority to construct, own and operate water supply, treatment and distribution facilities and wastewater gathering, treatment and disposal or reuse facilities, to charge for such services, and to make contracts in reference thereto with municipalities and others.

The District includes all of Denton County, plus limited portions of Collin and Dallas Counties. The District is composed of 24 public entities ("Members") – including 19 towns and cities, Denton County, Denton County at-large, one utility authority and two special districts. Each Member appoints one director to the Board, except that Denton County appoints two directors – one for Denton County "at-large" and one to represent the Denton County Commissioners Court. Concerning administrative, policy and planning matters, each director has one vote – with one ex officio director not having a vote. For capital expenditures, voting is weighted generally based on level of system participation. The Board appoints an Executive Director who manages the District, its employees and the services and programs offered. The District has constructed and operates separate and distinct treated water systems and wastewater systems serving various portions of the District's service area. The District's Northeast Regional Water Reclamation System (the "Northeast System") became fully operational in 2007. The Members and customers of the District that participate in the Northeast System receive service under specified contract terms with respect to the Northeast System (see "THE DISTRICT – The Northeast System", "Northeast System Contracts", and "SCHEDULE I – Northeast Regional Water Reclamation System Participating Member and Participating Customers Contract").

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\* Preliminary, subject to change.

**PLAN OF FINANCING**

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used for (i) providing a portion of the funds to acquire, construct, improve and extend the Northeast System, including the expansion of the Doe Branch Water Reclamation Plant; (ii) making a deposit to the Reserve Fund to the extent necessary; and (iii) paying the costs and expenses of issuing said Bonds.

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

Sources of Funds	
Principal Amount of Bonds	\$ -
Net Original Issue Premium	-
Total Sources of Funds	<u>\$ -</u>
Uses of Funds	
Deposit to Construction Fund	\$ -
Deposit to Debt Service Reserve Fund	-
Costs of Issuance <sup>(1)</sup>	-
Total Uses of Funds	<u>\$ -</u>

<sup>(1)</sup> Includes Underwriters' Discount.

*[REMAINDER OF THIS PAGE LEFT BLANK INTENTIONALLY]*

**THE BONDS**

**DESCRIPTION OF THE BONDS . . .** The Bonds are dated April 15, 2026 and mature on August 1 in each of the years and in the amounts shown on page 2 of this Preliminary Official Statement. Interest accrues from the date of delivery of the Bonds and will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 1 and February 1, commencing August 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 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.

**AUTHORITY FOR ISSUANCE . . .** The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, (the "State"), particularly the Act, Article XVI, Chapter 59 of the Texas Constitution, Chapter 54, Texas Water Code, as amended, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), and the Resolution, and constitute special obligations of the District.

**SECURITY AND SOURCE OF PAYMENT . . .** The Bonds, together with the Outstanding Parity Bonds and any Additional Bonds (collectively, the "Parity Bonds") are special obligations of the District payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Pledged Revenues of the Northeast System. Pledged Revenues consist of (i) Net Revenues and (ii) any additional revenues, income, receipts or other resources, including grants, donations, or income received or to be received from the United States Government or any other public or private source which may, at the option of the District, be pledged to the payment of the Parity Bonds. Net Revenues include the fees and charges received by the District under and pursuant to certain Participating Customer Contracts and Participating Member Contracts (collectively, the "Northeast System Contracts") between the District and the respective Participating Members and Participating Customers (collectively, the "Northeast System Participants"). Payments by the Northeast System Participants under the Northeast System Contracts constitute reasonable and necessary operating expenses of the individual water and sewer systems operated by each of the Northeast System Participants. Under the Northeast System Contracts, each Northeast System Participant is obligated to make payment to the District in an amount sufficient to pay its respective share of Operation and Maintenance Expenses and Debt Service on the Bonds when due. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "- Pledge," "THE DISTRICT – Northeast System Contracts" and "SCHEDULE I – Northeast Regional Water Reclamation System Participating Member and Participating Customers Contract - Northeast Regional Water Reclamation System" for a description and identification, respectively, of the Northeast System Contracts. In addition, Elm Ridge Water Control Improvement District ("Elm Ridge WCID") (formerly Denton County Fresh Water Supply District No. 10) has additionally levied a contract tax (the "Contract Tax"), unlimited as to rate or amount, on all property within its boundaries in an amount sufficient to satisfy its obligations under its Northeast System Contract (see "THE DISTRICT - Northeast System Contracts" for a more detailed discussion). There is no assurance that once levied, the Contract Tax will remain in place for so long as the Bonds are outstanding, in which event tax revenues may not be available to meet its obligations under the Northeast System Contract (see "THE DISTRICT – Northeast System Contracts" for a more detailed discussion). The District does not have taxing powers and has not covenanted or obligated itself to pay the Bonds from monies raised or to be raised by taxation.

The Parity Bonds are additionally secured by a Reserve Fund which is required, pursuant to the Resolution, to be maintained at an amount at least equal to the average annual debt service requirements of the Parity Bonds (see "CERTAIN PROVISION OF THE RESOLUTION - Reserve Fund Requirements").

The District has Outstanding Parity Bonds, as follows:

Dated Date	Outstanding Debt <sup>(1)</sup>	Issue Description
9/13/2016	\$ 10,835,000	Northeast Regional Water Reclamation System Revenue Bonds, Series 2016
6/29/2017	22,790,000	Northeast Regional Water Reclamation System Revenue Bonds, Series 2017
12/15/2018	23,055,000	Northeast Regional Water Reclamation System Revenue and Refunding Bonds, Series 2019
7/15/2022	10,435,000	Northeast Regional Water Reclamation System Revenue Bonds, Series 2022
5/15/2024	27,340,000	Northeast Regional Water Reclamation System Revenue Bonds, Series 2024
2/1/2025	10,720,000	Northeast Regional Water Reclamation System Revenue Bonds, Series 2025
	<u>\$ 105,175,000</u>	

(1) As of April 1, 2026. Does not include the Bonds or subordinate lien State Participation debt. See "THE DISTRICT – State Participation Program".

**RATE COVENANT . . .** The Resolution provides that the District will fix, establish, maintain, and collect, in accordance with the Northeast System Contracts, such rentals, rates, charges, and fees for the use and availability of the Northeast System as are necessary to produce Gross Revenues sufficient (a) to pay all Operation and Maintenance Expenses, (b) to produce Net Revenues necessary to make all payments and deposits required to be made to the Interest and Sinking Fund and to maintain the Reserve Fund when and as required by the Resolution and all resolutions authorizing the issuance of Parity Bonds, and (c) to pay all other legal obligations of the District pertaining to the Northeast System, including those required under any Master Agreement with the Texas Water Development Board.

**RESERVE FUND REQUIREMENTS . . .** As additional security, the District has established a Debt Service Reserve Fund which is required to be maintained in an amount at least equal to the average annual debt service requirements of the Bonds, the Outstanding Parity Bonds, and any Additional Bonds issued hereafter. Any additional amount required to be accumulated in the Reserve Fund by reason of the issuance of Additional Bonds may be funded over a period of not more than sixty months in accordance with the provisions of the Resolution (see "CERTAIN PROVISIONS OF THE RESOLUTION"). Upon the issuance of the Bonds, the District will immediately deposit available funds of the District, to the extent necessary, including Bond proceeds, which together with funds currently on deposit in the Debt Service Reserve Fund, will equal the average annual debt service requirements on the Bonds and the Outstanding Parity Bonds. The District is further authorized to substitute a credit facility, to the extent permitted by and in accordance with applicable law, for cash or investment securities in the Debt Service Reserve Fund (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Reserve Fund Requirements").

**ADDITIONAL BONDS . . .** The District may issue additional parity obligations ("Additional Bonds") payable from the Pledged Revenues which together with the Bonds and the Outstanding Parity Bonds shall be equally and ratably secured by a parity lien on and pledge of the Pledged Revenues, subject, however, to complying with certain conditions in the Resolution including the additional bonds test. (See the subheading "Additional Bonds" and "Further Requirements for Additional Bonds" under the heading "CERTAIN PROVISIONS OF THE RESOLUTION" herein.)

**OPTIONAL REDEMPTION . . .** The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 1, 2036, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof within a maturity, on August 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 amounts and maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**MANDATORY SINKING FUND REDEMPTION . . .** If two or more consecutive serial maturities of the Bonds are grouped into a single maturity by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Resolution, and will be described in the final Official Statement.

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

**CONDITIONAL NOTICE OF REDEMPTION . . .** The District reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (1) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (2) that the District retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain Outstanding and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the District to make moneys and or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

**DEFEASANCE . . .** The Resolution provides that the District may discharge its obligations to the registered owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or date of redemption or (ii) by depositing with an eligible place of payment (paying agent) for obligations of the District or an authorized escrow agent amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (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, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, 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 the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. The Bond Resolution provides that the Pricing Committee may limit the eligible defeasance securities as deemed necessary in connection with the sale of the Bonds, and if so, the final Official Statement will include the final list of the eligible defeasance securities.

There is no assurance that current Texas 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 Bond 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 Texas law. There is no assurance that the ratings for U.S. Treasury securities used as defeasance securities or those for any other defeasance security will be maintained at any particular rating category.

Upon making such a deposit described above, such Bonds shall no longer be deemed outstanding obligations payable from the Pledged Revenues of the System, but will be payable solely from the cash and securities deposited in escrow and will not be considered outstanding debt of the District for purposes of applying any limitation on the District's ability to issue debt or for any other purpose. Provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the District: (i) in the proceedings providing for 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 arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

**BOOK-ENTRY-ONLY SYSTEM . . .** *This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC") while the Bonds are registered in its nominee name. **The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Preliminary Official Statement.** The District and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

*The District and the Underwriters cannot and do 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 Preliminary Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

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

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

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 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).

Payment of principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or 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 Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

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

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

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

**Effect of Termination of Book-Entry-Only System.** In the event the Book-Entry-Only System with respect to the Bonds is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Bonds is discontinued by the District, printed certificates will be issued to the respective holders of the Bonds, as the case may be, and the respective Bonds will be subject to transfer, exchange, and registration provisions as set forth in the Resolution, summarized under "THE BONDS - Transfer, Exchange, and Registration" below.

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar is BOKF, 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, printed bond certificates will be delivered to the owners of the Bonds 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 designated 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. Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

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

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the 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 provides that (i) the failure to make payment of principal of, redemption premium, if any, or interest on any of the Bonds when the same becomes due and payable, or (ii) default in the performance or observance of any other covenant, agreement or obligation of the District, which default materially and adversely affects the rights of the Owners, including but not limited to, their prospect or ability to be repaid in accordance with the Resolution, and the continuation thereof for a period of 60 days after notice of such default is given by any Owner to the District, shall constitute an Event of Default under the Resolution. If an Event of Default occurs, the registered owners of the Bonds may seek a writ of mandamus to compel the District or District officials to carry out the legally imposed duties with respect to the applicable Bonds if there is no other available remedy at law to compel performance of the Bonds or the Resolution and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Resolution does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the District to perform in accordance with the terms of the Resolution, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On July 30, 2006, the Texas Supreme Court ruled in *Tooke v. District of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Resolution covenants in the absence of District action. Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, 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. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as the Pledged Revenues, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or 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 opinions of Co-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.

## THE DISTRICT

### GENERAL

The District is a political subdivision of the State of Texas and a body politic and corporate, created as a conservation and reclamation district under Article XVI, Section 59 of the Constitution and pursuant to Chapter 1053, Acts of the 71<sup>st</sup> Legislature of Texas, Regular Session, 1989, as amended. Under the Constitution, the Act and Chapter 54 of the Texas Water Code, as amended, the District has broad powers for water conservation and use for all beneficial purposes of storm and flood waters and unappropriated flow waters. As a necessary aid to these purposes, the District has specific authority to construct, own and operate water supply, treatment and distribution facilities and wastewater gathering, treatment and disposal facilities, to charge for such services, and to make contracts in reference thereto with municipalities and others.

The District includes all of Denton County, plus limited portions of Collin and Dallas Counties. The District is composed of 24 Members – including 19 towns and cities, Denton County, Denton County at-large, one utility authority and two special districts. Each Member appoints one director to the Board, except that Denton County appoints two directors – one for Denton County "at-large" and one to represent the Denton County Commissioners Court. Concerning administrative, policy and planning matters, each director has one vote -- with one ex officio director not having a vote. For capital expenditures, voting is weighted generally based on level of System participation. The Board appoints an Executive Director who manages the District, its employees and the services and programs offered. The District has constructed and operates separate and distinct treated water systems and wastewater systems serving various portions of the District's service area.

In addition to its Northeast System, the District has established and implemented the Regional Treated Water System, the Lakeview Regional Water Reclamation System, the Peninsula Water Reclamation Plant, and the Regional Non-Potable Water Supply System wherein the District, pursuant to contracts and other agreements, has accepted the responsibility to design, acquire, construct, complete, operate, maintain, and from time to time enlarge, improve and expand the systems to provide facilities to adequately receive, transport, treat or dispose of water and wastewater and for Members and customers. These systems and plants were created, exist and operate as completely separate and independent regional systems and plants, and, except for certain cost-sharing activities (or arrangements), the financial transactions and other activities associated with the operation and maintenance of each system are kept separate and apart, and are not in any manner commingled or connected with any of the other systems or plants.

### THE NORTHEAST SYSTEM

The District's Northeast System consists of the Doe Branch Water Reclamation Plant (the "Doe Branch WRP") to be expanded in part with the proceeds of the Bonds, and Riverbend Water Reclamation Plant (the "Riverbend WRP"), a lift station and associated force mains, and a regional system of wastewater collection interceptors.

The Riverbend WRP was constructed in 2003 to serve the portion of northeastern Denton County generally north of U.S. Highway 380 and east of U.S. Highway 377. The Riverbend WRP currently has a treatment capacity of 4 mgd. It is currently permitted to treat up to 20 mgd as needed to handle future growth. The Riverbend WRP has been awarded the Platinum Peak Performance Award by the National Association of Clean Water Agencies, recognizing the facility for perfect compliance with its TPDES discharge permit for 16 consecutive years.

The Doe Branch WRP current treatment capacity is 4 mgd and serves the portion of northeastern Denton County generally north of U.S. Highway 380 and along and east of Farm-to-Market Road (FM) 1385. Proceeds from the Bonds and future Additional Bonds, along with contributions from Northeast System Participants, will provide funding for all necessary related capital expenditures to expand the Doe Branch WRP treatment capacity to 12 mgd (the "Doe Branch WRP Expansion") to accommodate growth in the service area. The Doe Branch WRP Expansion is currently projected to cost approximately \$254,500,000. The District is also planning to construct a trunk main (the "Doe Branch Parallel Trunk Main") parallel to the existing Doe Branch Phase 1 trunk main to accommodate additional wastewater flow. The Doe Branch Parallel Trunk Main is currently expected to cost approximately \$19,400,000. The Doe Branch Parallel Trunk Main is currently expected to be completed in 2027 and the Doe Branch WRP Expansion project is currently expected to be completed in 2028.

The City of Celina and the Town of Prosper have subscribed for 4 mgd and 3 mgd, respectively, from the 8 mgd increase to the Doe Branch WRP. The Town of Prosper has contractually elected to fund approximately \$68.6 million of the Town's total portion, based on the Town's subscribed capacity, of the Doe Branch WRP Expansion and the Doe Branch Parallel Trunk Main costs from available cash and future debt issues by the Town. If the Town of Prosper determines in the future not to fund its remaining \$34.1 million portion of the projects from available cash or future debt issues by the Town, the District expects to issue additional Northeast System Bonds as necessary to complete their portion of the projects. The City of Celina has currently elected to have the District issue Northeast System Bonds for the City's portion, based on the City's subscribed capacity, of the Doe Branch WRP Expansion and the Doe Branch Parallel Trunk Main costs in a total amount of approximately \$137 million. The remaining approximately \$34.2 million of the total \$273.9 million will be shared based on subscribed capacity.

The Doe Branch WRP has been awarded the Platinum Peak Performance Award by the National Association of Clean Water Agencies, recognizing the facility for perfect compliance with its TPDES discharge permit for 8 consecutive years (since it began operations).

## NORTHEAST SYSTEM CONTRACTS

The District has entered into Northeast System Contracts with the Northeast System Participants as set forth on Schedule I. Under the Northeast System Contracts, the District is obligated to use its best efforts to furnish and remain in a position to furnish wastewater treatment services for each Northeast System Participant. Each of the Northeast System Participants is required to pay for its maximum contracted capacity (with respect to each Northeast System Participant's subscribed amount (or actual demand amount, if greater), the "Demand"). The Northeast System Contracts require the District to determine for each fiscal year the amount required by the District to (i) pay all operation and maintenance expenses of the Northeast System, (ii) pay debt service on outstanding bonds secured by payments received under the Northeast System Contracts (including the Parity Bonds), and (iii) pay or restore amounts required to be on deposit in any special or reserve funds pursuant to the terms of applicable bond resolutions (the "Annual Requirement"). Each Northeast System Participant is unconditionally obligated to pay, without offset or counterclaim, its proportionate share of the Annual Requirement, whether or not the District actually acquires, constructs or completes the Northeast System or is actually delivering services of the Northeast System to such Northeast System Participant, or whether or not the Northeast System Participant actually receives or uses services of the Northeast System (whether due to *Force Majeure* or any other reason whatsoever), regardless of any other provisions of the Northeast System Contract or any other contract or agreement. In addition, the Northeast System Contracts provide that if any Northeast System Participant becomes delinquent in payments to the District under the Contract for a period of 120 days, such delinquent Participant's Demand shall be deemed to have been zero (0.0) gallons during all periods of such delinquency for the purpose of calculating and redetermining the percentage of each Annual Requirement to be paid by the non-delinquent Participants so that the non-delinquent Participants shall be required to pay all of the Annual Requirement. See "APPENDIX C - Example of Northeast System Contract" for the terms and provisions of a sample Northeast System Contract and the rights and obligations of the District and each of the Northeast System Participants under such Contracts, including Sections 3.09 and 4.10.

All payments made by the Northeast System Participants under the Northeast System Contracts constitute reasonable and necessary operating expenses of their respective water and sewer systems. In addition, Elm Ridge WCID (formerly Denton County Fresh Water Supply District No. 10) levied the Contract Tax, unlimited as to rate or amount, on all property within its boundaries in an amount sufficient to satisfy its obligations under its Northeast System Contract.

In addition, the District previously entered into Northeast System Contracts with Denton County Fresh Water Supply District No. 8-A ("District No. 8-A") and Denton County Fresh Water Supply District No. 11-A ("District No. 11-A") pursuant to which District No. 8-A and District No. 11-A each also agreed to levy a Contract Tax, unlimited as to rate or amount, on all property within their respective boundaries in an amount sufficient to satisfy their obligations under their respective Northeast System Contracts. District No. 8-A and District No. 11-A each also entered into agreements with another Northeast System Member, Mustang Special Utility District ("MSUD"), for MSUD to operate the respective districts' water and sewer systems. Pursuant to the terms of such agreements, MSUD reserved the right, and has now exercised such right, to purchase the water and sewer systems of both District No. 8-A and District No. 11-A. MSUD assumed all of District No. 8-A's and District 11-A's respective obligations under their Northeast System Contract pursuant to separate amendments to MSUD's Northeast System Contract with the District, dated September 22, 2025; provided MSUD does not have authority to levy a Contract Tax.

The District has reserved the right under the Northeast System Contracts to enter into Northeast System Contracts with additional Members or customers of the District; provided, that such contracts comply with the general requirements of the Northeast System Contracts, substantially restate the essential provisions of the Northeast System Contracts and do not jeopardize the District's ability to meet its obligations to the current Northeast System Members and Customers.

## STATE PARTICIPATION PROGRAM

The District entered into a Master Agreement (the "Master Agreement") with the Texas Water Development Board (TWDB) pursuant to the State Participation Program on February 20, 2002. Under the Master Agreement, TWDB purchased a 49.19% interest at a cost of \$2,100,000 for the Districts interceptor pipelines and related appurtenances constructed as part of the District's Northeast System. Pursuant to the Master Agreement, the District is obligated to repurchase the TWDB's ownership interest in the project in accordance with a contractual payment schedule set for in the Master Agreement. Under the payment schedule, deferred interest payments concluded in 2021. Principal payments began in 2022. The District has the option to purchase the capacity in the project and prepay the purchase price more quickly if demand so warrants. The District's contractual payments to the TWDB pursuant to the State Participation Program are subordinate to the District's Parity Bonds.

**TABLE 1 – NORTHEAST SYSTEM PARTICIPANTS**

Customer Name	Subscribed Capacity (mgd)	Subscribed Capacity (mgd)	Subscribed Capacity (mgd)
	Riverbend WRP	Doe Branch WRP	Total
City of Celina	0.00000	1.51000	1.51000
Denton County Fresh Water Supply District No. 8-A <sup>(1)</sup>	0.00000	0.00000	0.00000
Town of Providence Village	0.55000	0.00000	0.55000
Elm Ridge Water Control Improvement District <sup>(2)</sup>	0.02100	0.36500	0.38600
Denton County Fresh Water Supply District No. 11-A <sup>(1)</sup>	0.00000	0.00000	0.00000
Mustang Special Utility District <sup>(3)</sup>	2.91100	1.00000	3.91100
Town of Prosper	0.00000	1.12500	1.12500
Other <sup>(4)</sup>	0.51800	0.00000	0.51800
	<u>4.00000</u>	<u>4.00000</u>	<u>8.00000</u>

(1) Assumes subscribed capacity for District No. 8-A and District No. 11-A is now included in MSUD’s subscribed capacity. See discussion of MSUD’s assumption of District No. 8-A’s and District No. 11-A’s Northeast System contracts under “THE DISTRICT – Northeast System Contracts”.

(2) Formerly Denton County Fresh Water Supply District No. 10. Name changed pursuant to an order of the TCEQ dated April 20, 2022.

(3) MSUD’s subscribed capacity includes prior subscribed capacity for District No. 8-A and District No. 11-A. See discussion of MSUD’s assumption of District No. 8-A’s and District No. 11-A’s Northeast System contracts under “THE DISTRICT – Northeast System Contracts”.

(4) “Other” includes unsubscribed capacity. These costs are shared on a prorated basis contingent on existing subscribed capacity.

**TABLE 2 - SCHEDULE OF REVENUES - EXISTING NORTHEAST SYSTEM CONTRACTS**

Member City	Fiscal Year Ended September 30,					
	2025		2024		2023	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
City of Celina	\$ 5,760,001	34.55%	\$ 3,886,151	29.37%	\$ 3,272,464	28.20%
Denton County Fresh Water Supply District No. 8-A <sup>(1)</sup>	864,864	5.19%	854,848	6.46%	770,086	6.64%
Town of Providence Village	1,446,555	8.68%	1,170,152	8.84%	1,068,640	9.21%
Elm Ridge Water Control Improvement District <sup>(2)</sup>	400,300	2.40%	387,612	2.93%	408,655	3.52%
Denton County Fresh Water Supply District No. 11-A <sup>(1)</sup>	1,503,632	9.02%	1,486,503	11.24%	1,338,732	11.54%
Mustang Special Utility District <sup>(1)</sup>	4,718,809	28.30%	3,696,850	27.94%	3,405,812	29.35%
Town of Prosper	1,977,900	11.86%	1,748,719	13.22%	1,338,450	11.54%
Other <sup>(3)</sup>	-	0.00%	-	0.00%	-	0.00%
Total	<u>\$ 16,672,060</u>	<u>100.00%</u>	<u>\$ 13,230,835</u>	<u>100.00%</u>	<u>\$ 11,602,839</u>	<u>100.00%</u>

Member City	Fiscal Year Ended September 30,			
	2022		2021	
	Amount	% of Total	Amount	% of Total
City of Celina	\$ 2,736,601	27.08%	\$ 2,773,577	29.64%
Denton County Fresh Water Supply District No. 8-A <sup>(1)</sup>	723,507	7.16%	699,998	7.48%
Town of Providence Village	611,705	6.05%	961,921	10.28%
Elm Ridge Water Control Improvement District <sup>(2)</sup>	612,628	6.06%	385,146	4.12%
Denton County Fresh Water Supply District No. 11-A <sup>(1)</sup>	1,660,953	16.43%	1,128,886	12.06%
Mustang Special Utility District <sup>(1)</sup>	2,943,206	29.12%	2,384,932	25.49%
Town of Prosper	818,017	8.09%	933,846	9.98%
Other <sup>(3)</sup>	-	0.00%	89,390	0.96%
Total	<u>\$ 10,106,617</u>	<u>100.00%</u>	<u>\$ 9,357,696</u>	<u>100.00%</u>

(1) MSUD has assumed all of District No. 8-A’s and District No. 11-A’s obligations under their respective Northeast System Contracts pursuant to amendments to MSUD’s Northeast System Contract with the District dated September 22, 2025. See discussion of MSUD’s assumption of District No. 8-A’s and District No. 11-A’s Northeast System contracts under “THE DISTRICT – Northeast System Contracts”.

(2) Formerly Denton County Fresh Water Supply District No. 10. Name changed pursuant to an order of the TCEQ dated April 20, 2022.

(3) “Other” includes unsubscribed capacity. These costs are shared on a prorated basis contingent on existing subscribed capacity.

**FINANCIAL INFORMATION**

**TABLE 3 - SYSTEM OPERATING STATEMENT – NORTHEAST SYSTEM**

<u>Revenues</u> <sup>(1)</sup>	Fiscal Year Ended September 30,				
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating Revenue	\$ 16,681,760	\$ 13,262,113	\$ 11,643,771	\$ 10,131,602	\$ 9,371,559
Interest Income	4,083,582	2,013,311	1,393,338	180,281	32,257
Gross Revenues	<u>\$ 20,765,342</u>	<u>\$ 15,275,424</u>	<u>\$ 13,037,109</u>	<u>\$ 10,311,883</u>	<u>\$ 9,403,816</u>
<u>Operating Expenses</u> <sup>(2)</sup>	<u>7,130,337</u>	<u>6,418,210</u>	<u>6,081,585</u>	<u>5,067,996</u>	<u>4,030,752</u>
Net Available for Debt Service	<u><u>\$ 13,635,005</u></u>	<u><u>\$ 8,857,214</u></u>	<u><u>\$ 6,955,524</u></u>	<u><u>\$ 5,243,887</u></u>	<u><u>\$ 5,373,064</u></u>

(1) Gross Revenues include operating revenue and interest income.

(2) Operating Expenses not including depreciation.

**TABLE 4 - COVERAGE AND REQUIRED FUND BALANCES**

Average Annual Principal and Interest Requirements, on Parity Debt 2026-2055 <sup>(1)</sup> . . . . .	\$ 8,254,015 <sup>(1)</sup>
Coverage of Average Annual Requirements by 9/30/25 Net Available for Debt Service . . . . .	1.65x
Northeast System Revenue Bonds Outstanding, 3/1/26 . . . . .	\$ 144,230,000 <sup>(1)</sup>
Interest and Sinking Fund, 3/1/26 . . . . .	\$ 808,527
Reserve Fund, 3/1/26 . . . . .	\$ 6,031,310

(1) Includes the Bonds. Preliminary, subject to change. Does not include Subordinate Lien State Participation debt.

**DEBT INFORMATION**

**TABLE 5 - DEBT SERVICE REQUIREMENTS – NORTHEAST SYSTEM**

Fiscal Year Ended	Outstanding Parity Debt		The Bonds <sup>(1)</sup>		Total Outstanding Parity Debt	Outstanding Subordinate Lien State Participation Debt <sup>(2)</sup>	Total Outstanding Debt Service Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest				
	9/30							
2026	\$ 2,405,000	\$ 4,564,717	\$ -	\$ 347,156	\$ 7,316,873	\$ 219,999	\$ 7,536,872	
2027	2,535,000	4,470,597	-	1,952,750	8,958,347	222,899	9,181,246	
2028	2,845,000	4,369,550	-	1,952,750	9,167,300	225,231	9,392,531	
2029	2,960,000	4,255,613	-	1,952,750	9,168,363	221,923	9,390,286	
2030	3,680,000	4,133,990	-	1,952,750	9,766,740	223,328	9,990,068	10.00%
2031	3,840,000	3,974,959	820,000	1,952,750	10,587,709	219,160	10,806,869	
2032	4,035,000	3,806,787	860,000	1,911,750	10,613,537	224,705	10,838,242	
2033	3,955,000	3,628,043	900,000	1,868,750	10,351,793	224,391	10,576,184	
2034	4,140,000	3,452,327	945,000	1,823,750	10,361,077	218,409	10,579,486	
2035	4,330,000	3,283,976	995,000	1,776,500	10,385,476	222,138	10,607,614	27.21%
2036	4,520,000	3,100,539	1,045,000	1,726,750	10,392,289	-	10,392,289	
2037	4,745,000	2,896,911	1,095,000	1,674,500	10,411,411	-	10,411,411	
2038	4,970,000	2,681,513	1,150,000	1,619,750	10,421,263	-	10,421,263	
2039	4,430,000	2,464,985	1,210,000	1,562,250	9,667,235	-	9,667,235	
2040	4,635,000	2,262,755	1,270,000	1,501,750	9,669,505	-	9,669,505	50.74%
2041	4,865,000	2,051,197	1,335,000	1,438,250	9,689,447	-	9,689,447	
2042	5,105,000	1,829,027	1,400,000	1,371,500	9,705,527	-	9,705,527	
2043	5,350,000	1,595,271	1,470,000	1,301,500	9,716,771	-	9,716,771	
2044	5,590,000	1,365,535	1,545,000	1,228,000	9,728,535	-	9,728,535	
2045	5,840,000	1,133,618	1,620,000	1,150,750	9,744,368	-	9,744,368	71.02%
2046	3,485,000	884,550	1,700,000	1,069,750	7,139,300	-	7,139,300	
2047	3,640,000	730,125	1,785,000	984,750	7,139,875	-	7,139,875	
2048	3,005,000	568,788	1,875,000	895,500	6,344,288	-	6,344,288	
2049	2,145,000	440,050	1,970,000	801,750	5,356,800	-	5,356,800	
2050	1,495,000	345,313	2,065,000	703,250	4,608,563	-	4,608,563	87.08%
2051	1,555,000	281,775	2,170,000	600,000	4,606,775	-	4,606,775	
2052	1,620,000	215,688	2,280,000	491,500	4,607,188	-	4,607,188	
2053	1,690,000	146,838	2,395,000	377,500	4,609,338	-	4,609,338	
2054	1,765,000	75,013	2,515,000	257,750	4,612,763	-	4,612,763	
2055	-	-	2,640,000	132,000	2,772,000	-	2,772,000	100.00%
	<u>\$ 105,175,000</u>	<u>\$ 65,010,048</u>	<u>\$ 39,055,000</u>	<u>\$ 38,380,406</u>	<u>\$ 247,620,453</u>	<u>\$ 2,222,183</u>	<u>\$ 249,842,636</u>	

(1) Average life of the issue – 19.655 years. Interest on the Bonds has been calculated at the average rate of 5.00% for purposes of illustration. Preliminary, subject to change.

(2) See "THE DISTRICT – State Participation Program" herein.

**ISSUANCE OF ADDITIONAL DEBT . . .** The District anticipates the issuance of approximately \$56.95 million of additional Northeast System revenue bonds within the next twelve months for the Doe Branch WRP Expansion and the Doe Branch Parallel Trunk Main projects. Additionally, the District anticipates the issuance of approximately \$7.5 million of additional Northeast System revenue bonds within the next twelve months for the Riverbend West Influent Lift Station.

**EMPLOYEE'S RETIREMENT PLANS . . .** A retirement plan is provided for all regular employees of the District and is administered by Mission Square (formerly ICMA Retirement Corporation). It is a single-employer defined contribution retirement plan created in accordance with Internal Revenue Code Section 401(a), which provides retirement benefits for all regular employees. The retirement plan is established by the District's Board, which may periodically amend the plan and its respective contributions. The District's employer contribution to the 401(a) plan is 10% of the employees' gross compensation.

Employees hired before October 1, 2000, become fully vested after five years of employment or upon attaining age 60, whichever occurs first, and are eligible to receive benefits upon retirement. Full vesting for employees hired after September 30, 2000, occurs at seven years of employment or upon reaching age 62, whichever occurs first.

During fiscal year 2025, the District contributed the required employer contribution of 10% of the employees' gross compensation. The District also contributed the required employees' contribution of 6.2% of the employees' gross compensation pursuant to the IRC Section 414(h)(2) Pick-Up Election under the Plan. Under the Pick-Up Election, any plan established by a governmental unit can have its employees tax defer the required employee contribution since the employer "picks-up" the required contribution from the employee and makes the payment to the Plan on behalf of the employee. The employer and employee contributions were \$1,378,109 and \$732,237 respectively, based on a covered payroll of \$11,810,268. Total payroll for the District was \$12,765,897.

The District makes contributions to the 401(a) plan by matching, dollar-for-dollar, employees' contributions to the deferred compensation plan, discussed below, up to 2% of each employee's gross income. The District contributed \$198,152 to the 401(a) plan as a result of employee contributions into the deferred compensation plan.

The market value of the balance in the District's forfeiture account on September 30, 2025 was \$30,197.

***Deferred Compensation Plan***— The District also offers its regular employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits participants to defer a portion of their salary until future years. Any withdrawal requires a penalty, except upon termination, retirement, death or an unforeseeable emergency. The District does not make any contribution to the deferred compensation plan.

All amounts of compensation deferred under the plan are placed into a trust for the benefit of participants. The plan is administered by Mission Square. These deferred amounts, all property and rights with those amounts, and all income attributable to those amounts are solely the property and rights of the employees. As such, these assets are not included in the financial statements of the District as of September 30, 2025.

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## CERTAIN PROVISIONS OF THE RESOLUTION

The following statements summarize certain portions of the Resolution, and do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the Resolution.

### DEFINITIONS

Unless otherwise expressly provided or unless the context clearly requires otherwise, in the Resolution, the following terms shall have the meanings specified below:

“Act” means Chapter 1053, Acts of the 71st Legislature of Texas, Regular Session, 1989, as amended.

“Additional Bonds” means additional parity revenue bonds permitted to be issued pursuant to the Resolution.

“Board” means the Board of Directors of the District, being the duly authorized and governing body of the District. .

“Bond” means any of the Bonds.

“Bond Date” means the date designated in the Resolution.

“Bonds” mean the District’s Northeast Regional Water Reclamation System Revenue Bonds, Series 2026.

“Closing Date” means the date of the initial delivery of and payment for the Bonds.

“Code” means the Internal Revenue Code of 1986, as amended, and, with respect to a specific section thereof, such reference shall be deemed to include (a) the Regulations promulgated under such section, (b) any successor provision of similar import hereafter enacted, (c) any corresponding provision of any subsequent Internal Revenue Code and (d) the regulations promulgated under the provisions described in (b) and (c).

“Credit Facility” means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a rating agency having an outstanding rating on such obligations would rate such obligations which are fully insured by a standard policy issued by the issuer in its two highest generic rating categories for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a rating agency having an outstanding rating on the Bonds would rate the Bonds in its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Bonds and the interest thereon.

“Debt Service” means the principal of, premium, if any, and interest on the Parity Bonds, when due, whether at stated maturity or upon the prior redemption of all or a portion of the Parity Bonds.

“Designated Payment/Transfer Office” means (i) with respect to the initial Paying Agent/Registrar named in this Resolution, the Designated Payment/Transfer Office as designated in the Paying Agent/Registrar Agreement, or at such other location designated by the Paying Agent/Registrar and (ii) with respect to any successor Paying Agent/Registrar, the office of such successor designated and located as may be agreed upon by the District and such successor.

“District” means the Upper Trinity Regional Water District.

“Doe Branch Service Area” means that portion of the Northeast Service Area located generally northeast of Lewisville Lake, including an area which naturally drains to Doe Branch.

“Fiscal Year” or “Year” means the fiscal year used by the District in connection with the operation of the System.

“Gross Revenues” means all revenues and income of the System, including specifically all payments and amounts received by or on behalf of the System under the System Contracts, of every nature derived or received by the District from the operation and ownership of the System, including the interest income from the investment or deposit of money in any special fund created by the resolution or resolutions authorizing the issuance of the Parity Bonds.

“Interest Payment Date” means the date or dates upon which interest on the Bonds is scheduled to be paid until their respective dates of maturity or prior redemption, such dates being February 1 and August 1 of each year, commencing on the February 1 or August 1 designated in the Pricing Certificate.

“Interest and Sinking Fund” means the fund by that name established with respect to the Parity Bonds in the Resolution.

“Master Agreement” means the Master Agreement dated February 20, 2002 and any future agreements between the District and the Texas Water Development Board pursuant to the State Participation Program and similar programs administered by the Texas Water Development Board whereby the District may receive funds from the State for a portion of the cost of the System.

“Net Revenues” mean the Gross Revenues less the Operation and Maintenance Expenses.

“Northeast Service Area” means the combined service area of the Riverbend Service Area and the Doe Branch Service Area and any additional service area which may be added to the Northeast Service Area by official action of the Board.

“Operation and Maintenance Expenses” mean all reasonable and necessary costs of operation and maintenance of the System including, but not limited to, repairs and replacements, operating personnel, the cost of utilities, supervision, engineering, accounting, auditing, legal services, insurance premiums, paying agent’s and registrar’s fees, and any other supplies, services, administrative costs, and equipment necessary for proper operation and maintenance of the System, regulatory agency fees, charges, and costs, and payments made by the District in satisfaction of judgments, claims, or other liabilities not covered by the District’s insurance. Depreciation shall not be considered an item of Operation and Maintenance Expenses.

“Outstanding Parity Bonds” means the series of outstanding and unpaid bonds designated, respectively:

- (a) “Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Bonds, Series 2016,” dated September 13, 2016, issued in the original principal amount of \$11,560,000;
- (b) “Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Bonds, Series 2017,” dated June 29, 2017, issued in the original principal amount of \$23,990,000; and
- (c) “Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue and Refunding Bonds, Series 2019,” dated December 15, 2018, issued in the original principal amount of \$28,390,000.
- (d) “Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Bonds, Series 2022,” dated July 15, 2022, issued in the original principal amount of \$10,690,000.
- (e) “Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Bonds, Series 2024,” dated May 15, 2024, issued in the original principal amount of \$27,340,000.
- (f) “Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Bonds, Series 2025,” dated February 1, 2025, issued in the original principal amount of \$11,260,000.

“Owner” means the person who is the registered owner of a Bond or Bonds.

“Parity Bonds” means collectively, the Outstanding Parity Bonds, the Bonds and any Additional Bonds as the same may be from time to time outstanding.

“Participating Customer” means Denton County Fresh Water Supply District No. 8-A (“FWSD 8-A”); the Town of Providence Village (formerly Providence Village Water Control and Improvement District of Denton County/Denton County Fresh Water Supply District No. 9); Elm Ridge Water Control Improvement District (“Elm Ridge WCID”)(formerly Denton County Fresh Water Supply District No. 10); and Denton County Fresh Water Supply District No. 11-A (“FWSD 11-A”); and any such additional customer that provides retail and utility services within its boundaries and with whom the District has entered into a System Contract for wastewater treatment services of the System.

“Participating Member” means Mustang Special Utility District, the City of Celina, the Town of Prosper, and any such additional governmental entity that has been approved as a member of the District, that provides retail utility service to customers within its boundaries and with whom the District has entered into a System Contract for wastewater treatment services of the System.

“Paying Agent/Registrar” means initially BOKF, NA, or any successor thereto as provided in this Resolution.

“Pledged Revenues” means (i) the Net Revenues, and (ii) any additional revenues, income, receipts, or other resources, including without limitations, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which in the future may, at the option of the District, be pledged to the payment of the Parity Bonds.

“Pricing Certificate” means a certificate or certificates to be signed by the Pricing Committee, upon recommendation of the Municipal Advisor.

“Pricing Committee” means the Executive Director of the District (or his absence, the Chief Financial Officer) and the Treasurer of the Board (or in his absence, any other officer of the Board).

“Project Fund” means the fund by that name established in the Resolution.

“Purchase Contract” means the Purchase Contract between the District and the Underwriters.

“Record Date” means the fifteenth day of the month next preceding an Interest Payment Date.

“Regulations” means the applicable proposed, temporary or final Treasury Regulations promulgated under the Code or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

“Required Reserve Amount” has the meaning set forth in the Resolution.

“Reserve Fund” means the fund by that name established with respect to the Parity Bonds and confirmed by the Resolution.

“Revenue Fund” means the fund by that name established with respect to the Parity Bonds and confirmed pursuant to the Resolution.

“Riverbend Service Area” means that portion of the Northeast Service Area located generally north of Lewisville Lake, including the area which naturally drains to Little Elm Creek.

“Special Facilities Bonds” mean obligations of the District which are not secured by or payable from payments made with respect to the System or System Contracts, and which are payable solely from sources other than the Gross Revenues of the System.

“Special Record Date” means the Special Record Date as prescribed in the Resolution.

“State” means the State of Texas.

“System” means the District’s wastewater treatment system designated as the Northeast Regional Water Reclamation System, which includes the Riverbend Water Reclamation Plant and Doe Branch Water Reclamation Plant, together with all future improvements, enlargements, extensions, and additions thereto which are deemed necessary and feasible by the District to provide wastewater treatment services to the District’s members and customers, including those that have executed System Contracts, and any and all additional facilities which are acquired or constructed with a portion of the proceeds from the sale of Parity Bonds or from the revenues of the System, and any wastewater treatment facilities which are, at the option of the District, made a part of the System by official action of the Board, and all repairs to or replacements of the System. “System” does not include any District facilities which provide treated water supply and related services, or solid waste disposal services, of any kind or any facilities acquired or constructed by the District with the proceeds from the issuance of Special Facilities Bonds.

“System Contracts” mean collectively (i) the contracts among the District and the Participating Members and Participating Customers identified in the Resolution and (ii) such other similar contracts as the District may enter into from time to time with additional Participating Members and Participating Customers.

“TWDB” means the Texas Water Development Board, a state agency, or its successors and assigns.

## **PLEDGE**

Payment of Debt Service shall be secured by and payable from a first lien on and pledge of the Pledged Revenues. The Pledged Revenues are further pledged to the establishment and maintenance of the funds established by this Resolution and by any resolution authorizing the issuance of Parity Bonds or Additional Bonds. The Parity Bonds are not and will not be secured by or payable from a mortgage or deed of trust on any real, personal, or mixed properties constituting the System. The Parity Bonds are secured on an equal and ratable basis without priority of one over the other.

## **PARITY BONDS AS SPECIAL OBLIGATIONS**

The Parity Bonds are special obligations of the District payable solely from the Pledged Revenues, and the Owners thereof shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation, other than certain amounts payable under certain of the System Contracts.

## **SECURITY INTEREST**

The District represents that, under Chapter 1208.002, Texas Government Code, a security interest in property, other than real property, that is created by the District is valid and effective according to the terms of the security agreement and is perfected from the time the security agreement is entered into or adopted continuously through the termination of the security interest, without physical delivery or transfer of control of the property, filing of a document, or another act. The District covenants that if Chapter 1208.002 is amended at any time while the Parity Bonds are outstanding and unpaid, the District shall take all actions required in order to preserve for the Owners of the Parity Bonds a perfected security interest in the property in which such security interest is granted pursuant to Section 2.01 of the Resolution.

## **REVENUE FUND**

The Resolution confirms the creation and establishment, and, so long as any Parity Bonds are outstanding, shall maintain the “Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Fund” (the “Revenue Fund”), which Fund shall be maintained on the books of the District and accounted for separate and apart from all other funds of the District for so long as any Parity Bonds are outstanding. All Gross Revenues (except investment interest and income from the Interest and Sinking Fund and the Reserve Fund) shall be credited to the Revenue Fund immediately upon receipt. All Operation and Maintenance Expenses shall be paid from such amounts credited to the Revenue Fund as a first charge against the Revenue Fund.

## **INTEREST AND SINKING FUND**

The Resolution confirms the creation and establishment, and, so long as any Parity Bonds are outstanding, shall maintain the “Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Bonds Interest and Sinking Fund” (the “Interest and Sinking Fund”), which Interest and Sinking Fund shall be maintained on the books of the District and accounted for separate and apart from all other funds of the District for so long as any Parity Bonds are outstanding. Monies on deposit in the Interest and Sinking Fund shall be applied solely to the payment of Debt Service.

## **RESERVE FUND**

The Resolution confirms the creation and establishment, and, so long as the any Parity Bonds are outstanding, shall maintain the “Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Bonds Reserve Fund” (the “Reserve Fund”), which Reserve Fund shall be maintained on the books of the District and accounted for separate and apart from all other funds of the District for so long as any Parity Bonds are outstanding. The Reserve Fund shall be used solely to pay the principal of and interest on any Parity Bonds when and to the extent the amounts in the Interest and Sinking Fund available for such payment are insufficient for such purpose, and may be used for the purpose of finally retiring the last of any Parity Bonds.

## **PROJECT FUND**

The Resolution establishes a separate fund entitled “Upper Trinity Regional Water District Northeast Regional Water Reclamation System Revenue Bonds, Series 2026 Project Fund” (the “Project Fund”). Amounts on deposit in the Project Fund shall be applied by the District to pay the costs of acquiring, constructing, improving and extending the System, including the expansion of the Doe Branch Water Reclamation Plant and to pay the costs of issuing the Parity Bonds. Separate accounts shall be established within the Construction Fund with respect to each series of Parity Bonds.

## **DEPOSITS OF PLEDGED REVENUES**

Pledged Revenues shall be credited to or deposited in the Interest and Sinking Fund, the Reserve Fund and other funds when and as required by this Resolution and any resolution authorizing the issuance of any Parity Bonds.

## **INVESTMENTS**

- (a) Money in any fund established pursuant to this Resolution or any resolution authorizing the issuance of Additional Bonds, at the option of the District, may be invested in such securities or obligations to the extent authorized by the Public Funds Investment Act, Chapter 2256, Texas Government Code, and the Public Funds Collateral Act, Chapter 2257, Texas Government Code, each as amended.

Any securities or obligations in which such 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.

Interest and income derived from investment of the Interest and Sinking Fund and the Reserve Fund shall be credited to their respective funds.

## **FUNDS SECURED**

Money in all funds established by the Resolution, to the extent not invested, shall be secured in the manner prescribed by law.

## **PRIORITY OF DEPOSITS AND PAYMENTS FROM REVENUE FUND**

The District shall make all deposits and payments from the Pledged Revenues in the Revenue Fund when and as required by this Resolution or the resolutions authorizing any Parity Bonds and such deposits shall be made in the following manner and with the following irrevocable priorities, respectively:

First, to the Interest and Sinking Fund, when and in the amounts required by the Resolution, and any resolution authorizing Parity Bonds; and

Second, to the Reserve Fund, when and in the amounts required by the Resolution and any resolution authorizing Parity Bonds.

## **INTEREST AND SINKING FUND REQUIREMENTS**

- (a) Promptly after the delivery of the Bonds the District shall cause to be deposited to the credit of the Interest and Sinking Fund any accrued interest received from the sale and delivery of a series of Parity Bonds, if any, and any such deposit shall be used to pay a portion of the interest next coming due on the such Parity Bonds.
- (b) In addition to the amounts required by the resolutions authorizing any Parity Bonds, the District shall transfer from the Pledged Revenues and deposit to the credit of the Interest and Sinking Fund the amounts, at the times, as follows:

- i. such amounts, deposited in approximately equal monthly installments on or before the 25th day of each month hereafter, commencing with the month during which a series of Parity Bonds is delivered, or the month thereafter if delivery is made after the 25th day thereof, as will be sufficient, together with other amounts, if any, then on hand in the Interest and Sinking Fund and available for such purpose, to pay interest scheduled to accrue and come due on the Parity Bonds on the next succeeding Interest Payment Date; and
- ii. such amounts, deposited in approximately equal monthly installments on or before the 25th day of each month hereafter, commencing with the month during which a series of Parity Bonds is delivered, or the month thereafter if delivery is made after the 25th day thereof, as will be sufficient, together with other amounts, if any, then on hand in the Interest and Sinking Fund and available for such purpose, to pay principal scheduled to mature and come due on the Parity Bonds on the next succeeding principal payment date.

## RESERVE FUND REQUIREMENTS

- (a) The District shall maintain in the Reserve Fund an amount of money and investments equal to the average annual principal and interest requirements of the Parity Bonds then outstanding (the "Required Reserve Amount") which Required Reserve Amount shall be calculated as of the dated date of a series of Parity Bonds in connection with the initial delivery thereof. Any increase in the Required Reserve Amount resulting from the issuance of Additional Bonds may be funded (i) from the Pledged Revenues, (ii) from the proceeds from the sale of any Additional Bonds, or (iii) from any other source or combination of sources. All or any part of the Required Reserve Amount not funded concurrently with the delivery of a series of Parity Bonds shall be funded, within not more than five years from the date of such delivery, by the deposit of Pledged Revenues in approximately equal monthly installments on or before the 25th day of each month commencing in the month following the delivery of such Parity Bonds. For purposes of calculating the principal and interest requirements on Parity Bonds, the principal amounts of Parity Bonds which are required to be redeemed pursuant to a scheduled mandatory redemption shall be deemed to be maturing amounts of principal in the years in which such principal is scheduled to be paid pursuant to such redemption.
- (b) No deposits shall be made to the Reserve Fund so long as the amount in the Reserve Fund is not less than the Required Reserve Amount. If at any time the amount on deposit in the Reserve Fund is less than the Required Reserve Amount, the District shall transfer from the Revenue Fund to the Reserve Fund, monthly on or before the 25th day of each month, available Pledged Revenues in an amount equal to 1/60th of the Required Reserve Amount, until such time as the amount on deposit in the Reserve Fund equals the Required Reserve Amount. The District specifically covenants that when and so long as the Reserve Fund contains the Required Reserve Amount, the District shall cause all interest and income derived from the deposit or investment of the Reserve Fund to be deposited to the credit of the Revenue Fund.
- (c) To the extent permitted by, and in accordance with applicable law and upon approval of the Attorney General of the State of Texas, the District may substitute a Credit Facility for cash or investment securities on deposit in the Reserve Fund or in substitution or replacement of any existing Credit Facility. Upon such replacement or substitution, cash or investment securities, on deposit in the Reserve Fund which, taken together with the face amount of any existing Credit Facilities, are in excess of the Required Reserve Amount may be withdrawn by the District, at its option, and transferred to the Revenue Fund; provided, however, that the face amount of any Credit Facility may be reduced at the option of the District in lieu of such transfer. However, to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the Revenue Fund and shall only be used for the purposes for which bond proceeds may be used. Any interest due on any reimbursement obligation under the Credit Facility shall not exceed the highest lawful rate of interest which may be paid by the District.
- (d) If the District is required to make a withdrawal from the Reserve Fund for any of the purposes described in the Resolution, the District shall promptly notify the issuer of such Credit Facility of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal first from available moneys or investment securities then on deposit in the Reserve Fund, and next from a drawing under any Credit Facility to the extent of such deficiency. In the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund an amount, in cash or investment securities, equal to the Required Reserve Amount, then, after making the required deposits to the Interest and Sinking Fund, the District shall deposit to the Reserve Fund from the first available Pledged Revenues amounts necessary to satisfy the Required Reserve Amount; provided, however, the District shall cause any such deficiency to be cured by making monthly installments of at least 1/60th of the Required Reserve Amount on or before the 25th day of each month following such deficiency.
- (e) In the event there is a draw upon the Credit Facility, the District shall reimburse the issuer of such Credit Facility for such draw in accordance with the terms of any agreement pursuant to which the Credit Facility is issued from Pledged Revenues; however, such reimbursement from Pledged Revenues shall be subordinate and junior in right of payment to the payment of Debt Service.

- (f) Cash and investment obligations on deposit in the Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the District, to the Revenue Fund. However, to the extent such excess cash and investments consist of bond proceeds, including earnings thereon, such amounts shall not be deposited to the Revenue Fund and shall be used only for the purposes for which bond proceeds may be used.

#### **DEFICIENCIES; EXCESS PLEDGED REVENUES**

- (a) If on any occasion there shall not be sufficient Pledged Revenues to make the required deposits into the Interest and Sinking Fund or the Reserve Fund, such deficiency shall be made up as soon as possible from the next available Pledged Revenues.
- (b) Subject to making the required deposits to the credit of the various funds when and as required by this Resolution or any resolution authorizing the issuance of any Parity Bonds, any surplus Pledged Revenues may be used by the District for any lawful purpose relating to the System.

#### **PAYMENT OF PARITY BONDS**

Prior to each Interest Payment Date and principal payment date while any of the Parity Bonds are outstanding and unpaid, the District shall make available to the Paying Agent/Registrar therefor, out of the Interest and Sinking Fund, or if necessary, out of the Reserve Fund, money sufficient to pay Debt Service on such date.

#### **ADDITIONAL BONDS.**

- (a) The District shall have the right and power at any time and from time to time, and in one or more series or issues, to authorize, issue, and deliver additional obligations on a parity with the outstanding Parity Bonds (the "Additional Bonds"), in accordance with law, in any amounts, for any lawful purpose, including the refunding of any Parity Bonds or other obligations. Such Additional Bonds, if and when authorized, issued, and delivered in accordance with this Resolution, shall be payable from and secured by a lien on and pledge of the Pledged Revenues, equally and ratably on a parity in all respects with the Outstanding Parity Bonds.
- (b) The principal of all Additional Bonds must be scheduled to be paid or mature on February 1 or August 1 (or both) of the years in which such principal is scheduled to be paid or mature.

#### **FURTHER REQUIREMENTS FOR ADDITIONAL BONDS**

Additional Bonds shall be issued only in accordance with this Resolution and no installment, series or issue of Additional Bonds shall be issued or delivered unless:

- (a) The President and the Secretary of the Board certify in writing that the District is not in default as to any covenant, condition, or obligation in connection with any Parity Bonds, and the resolutions authorizing same, and that the Interest and Sinking Fund and the Reserve Fund contain the amounts then required to be on deposit therein; and
- (b)
  - 1. An independent certified public accountant, or independent firm of certified public accountants, acting by and through a certified public accountant, signs a written certificate to the effect that, in his or her or its opinion, during either the next preceding fiscal year, or any twelve consecutive calendar month period out of the 18-month period immediately preceding the month in which the resolution authorizing the issuance of the then proposed Additional Bonds is passed, the Pledged Revenues were at least 1.00 times an amount equal to the average annual principal and interest requirements of the Parity Bonds and any Additional Bonds which are scheduled to be outstanding after the delivery of the then proposed Additional Bonds. It is specifically provided, however, that in calculating the amount of Pledged Revenues for the purposes of this Subsection (b), if there has been any increase in the rates or charges for services of the System which is then in effect, but which was not in effect during all or any part of the entire period for which the Pledged Revenues are being calculated (hereinafter referred to as the "entire period") then the certified public accountant, or in lieu of the certified public accountant, a firm of consulting engineers, shall determine and certify the amount of Pledged Revenues as being the total of (A) the actual Pledged Revenues for the entire period, plus (B) a sum equal to the aggregate amount by which the actual billings to customers of the System during the entire period would have been increased if such increased rates or charges had been in effect during the entire period.
  - 2. As an alternative to the requirements of paragraph 1 of this Subsection (b), Additional Bonds may be issued if, based upon an opinion of legal counsel to the District, there are System Contracts then in effect pursuant to which the parties to such System Contracts are obligated to make minimum payments to the District at such times and in such amounts as shall be necessary to result in Pledged Revenues being sufficient to pay when due all principal of and interest on the Parity Bonds and the Additional Bonds proposed to be issued.
- (c) Provision shall be made in the resolution authorizing the issuance of such Additional Bonds for increasing the Reserve Fund to the Required Reserve Amount as required by the Resolution with proceeds of the Additional Bonds, or other available source or combination of sources including Pledged Revenues, or both; and

- (d) All calculations of average annual principal and interest requirements of any bonds or obligations made in connection with the issuance of any then proposed Additional Bonds shall be made as of the date of such Additional Bonds. The principal amounts of any Parity Bonds which are required to be redeemed prior to maturity pursuant to any applicable scheduled mandatory redemption shall be deemed to be maturing amounts of principal of such Parity Bonds.

## GENERAL COVENANTS

The District further covenants and agrees that in accordance with and to the extent required or permitted by law:

- (a) **Performance.** It will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Resolution and each resolution authorizing the issuance of any Parity Bonds, and in each and every Parity Bond; that it will promptly pay or cause to be paid Debt Service on the dates and in the places and manner prescribed in such resolutions and Parity Bonds; and that it will, at the times and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Interest and Sinking Fund and the Reserve Fund; and any holder of Parity Bonds may require the District, its officials, and employees, to carry out, respect, or enforce the covenants and obligations of this Resolution, or any resolution authorizing the issuance of Parity Bonds, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the District, its officials, and employees.
- (b) **Legal Authority.** The District is a duly created and existing political subdivision of the State, and is duly authorized under the laws of the State to create and issue the Bonds; that all action on its part for the creation and issuance of the said obligations has been or will be duly and effectively taken; and said obligations in the hands of the Owners are and will be valid and special obligations of the District enforceable in accordance with their terms.
- (c) **Title.** The District has or will obtain lawful title to the lands, buildings, structures, and facilities constituting the System, and the District warrants that it will defend the title to all of the aforesaid lands, buildings, structures, and facilities, and every part thereof, for the benefit of the Owners of the Parity Bonds, against the claims and demands of all persons whomsoever, and it is lawfully qualified to pledge the Pledged Revenues to the payment of the Parity Bonds in the manner prescribed herein, and has lawfully exercised such rights.
- (d) **Liens.** The District will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon it, or the System; it will pay all lawful claims for rents, royalties, labor, materials, and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the liens granted hereunder shall be fully preserved in the manner provided herein; and it will not create or suffer to be created any mechanic's, laborer's, materialman's, or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the liens hereof might or could be impaired; provided, however, no such tax, assessment, or charge, and no such claims which might be used as the basis of a mechanic's, laborer's, materialman's, or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the District.
- (e) **Operation of System; No Free Service.** While any Parity Bonds are outstanding and unpaid, the District shall continuously and efficiently operate the System, and shall maintain the System, or cause the System to be operated and maintained in good condition, repair, and working order, all at reasonable cost. No free service of the System shall be allowed, and should the District or any of its agencies, instrumentalities, or customers make use of the services and facilities of the System, payment monthly of the standard price of the services provided shall be made out of funds from sources other than the Gross Revenues, unless made from surplus Pledged Revenues as permitted by the Resolution.
- (f) **Further Encumbrance.** While any Parity Bonds are outstanding and unpaid, the District shall not additionally encumber the Pledged Revenues in any manner, except as permitted in this Resolution in connection with the issuance of Additional Bonds, unless said encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants, and agreements of any resolution authorizing the issuance of any Parity Bonds; but the right of the District to issue revenue bonds payable from a subordinate lien on surplus Pledged Revenues is specifically recognized and retained.

- (g) Sale or Disposal of Property. Except with respect to any rights heretofore or hereafter granted to the TWDB to purchase a portion of the System (including pursuant to any Master Agreement), while any Parity Bonds are outstanding, the District shall not sell, convey, mortgage, encumber, lease (except to the extent such lease payments shall be at the fair market value thereof and shall constitute Gross Revenues, and except to the extent that leases may require the prior approval of the TWDB), or in any manner transfer title to, or dedicate to other use, or otherwise dispose of, the System (except as permitted in paragraph (f) hereof) or any significant or substantial part thereof; provided that whenever the District deems it necessary to dispose of any property, machinery, fixtures, or equipment, or dedicate such property to other use, it may do so either when it has made arrangements to replace the same or provide substitutes therefor, or it is determined by resolution of the Board that no such replacement or substitute is necessary.
- (h) Annual Budget. The District shall prepare, prior to the beginning of each fiscal year, an annual budget, in accordance with law, reflecting an estimate of cash receipts and disbursements for the ensuing fiscal year in sufficient detail to indicate the probable Gross Revenues and Pledged Revenues for such fiscal year.
- (i) Insurance.
- i. The District covenants and agrees that it will cause to be insured such parts of the System as would usually be insured by corporations or companies against risks, accidents, or casualties against which and to the extent insurance is usually carried by corporations operating like properties, including fire and extended coverage insurance. Public liability and property damage insurance shall also be carried unless the general counsel for the District, or the Attorney General of Texas, gives a written opinion to the effect that the District, the Board, and its officers and employees, are not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the District shall not be required to carry insurance on the works being constructed, but the contractor shall be required to carry appropriate insurance. All such policies shall be open to the inspection of the owners of the Parity Bonds and their representatives at all reasonable times.
  - ii. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the District shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the District. The proceeds of insurance covering such property, together with any other funds necessary and available for such purpose, shall be used forthwith by the District for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the System shall be used promptly as follows:
    - a. for the redemption prior to maturity of the Parity Bonds ratably in the proportion that the outstanding principal of each series or issue of Parity Bonds bears to the total outstanding principal of all Parity Bonds outstanding; provided that if on any such occasion the principal of any such series or issue is not subject to redemption, it shall not be regarded as outstanding in making the foregoing computation; or
    - b. if none of the outstanding Parity Bonds is subject to redemption, then for the purchase on the open market and retirement of said Parity Bonds in the same proportion as prescribed in the foregoing clause (a), to the extent practicable; provided that the purchase price for any such Parity Bond shall not exceed the redemption price of such Parity Bond on the first date upon which it becomes subject to redemption; or
    - c. to the extent that the foregoing clauses (a) and (b) cannot be complied with at the time, the insurance proceeds, or the remainder thereof, shall be deposited in a special and separate trust fund, at an official depository of the District, to be designated the Insurance Account. The Insurance Account shall be held until such time as the foregoing clauses (a) and/or (b) can be complied with, or until other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required, whichever of said events occurs first.
  - iii. The annual audit hereinafter required shall contain a list of all such insurance policies carried, together with a statement as to whether or not all insurance premiums upon such policies have been paid.

- (j) Rate Covenant. The District covenants and agrees that it will fix, establish, maintain, and collect, in accordance with the System Contracts, such rentals, rates, charges, and fees for the use and availability of the System as are necessary to produce Gross Revenues sufficient (i) to pay all Operation and Maintenance Expenses, (ii) to produce Net Revenues necessary to make all payments and deposits required to be made into the Interest and Sinking Fund and to maintain the Reserve Fund when and as required by this Resolution and all resolutions authorizing Parity Bonds, and (iii) to pay all other legal obligations of the District pertaining to the System, including those required under any Master Agreement.
- (k) System Contracts. The District covenants and agrees that it will comply with the terms and conditions of the System Contracts and any amendments thereto, and will, by all lawful means, enforce the same and cause the parties thereto to comply with all of their obligations thereunder. The District will not rescind, modify or amend the System Contracts in any way which would materially adversely affect the operation of the System or the rights of the Owners of the Parity Bonds.
- (l) Assignment of System Contracts. Notwithstanding the foregoing subparagraph (k), it is hereby expressly acknowledged that, in accordance with the terms of the Participating Customer Contracts in effect as of the date hereof, the Participating Customer Contracts may be assigned to Mustang Special Utility District as described in such System Contracts on the dates and on the terms set forth therein.
- (m) Records. The District shall keep proper books of record and account in which full, true, proper, and correct entries will be made of all dealings, activities, and transactions relating to the System, the Pledged Revenues, and the funds established pursuant to this Resolution and all resolutions authorizing Parity Bonds, and all books, documents, and vouchers relating thereto shall at all reasonable times be made available for inspection upon request of any Owner or citizen of the District. To the extent consistent with the provisions of this Resolution and all resolutions authorizing Parity Bonds, the District shall keep its books and records in a manner conforming to standard accounting practices as usually would be followed by private corporations owning and operating a similar System, with appropriate recognition being given to essential differences between municipal and corporate accounting practices.
- (n) Audits. After the close of each fiscal year while any of the Parity Bonds are outstanding, an audit will be made of the books and accounts relating to the System and the Pledged Revenues by an independent certified public accountant or an independent firm of certified public accountants. As soon as practicable after the close of each such year, and when said audit has been completed and made available to the District, a copy of such audit for the preceding year shall be mailed to the Municipal Advisory Council of Texas, to each paying agent for any Parity Bonds payable from Pledged Revenues, to any Owner who shall so request in writing, and to First Southwest Company. The annual audit reports shall be open to the inspection of the Owners and their agents and representatives at all reasonable times.
- (o) Governmental Agencies. 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, authorization, and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation, and maintenance of the System.
- (p) No Competition. The District will not operate, or grant any franchise or, to the extent it legally may, permit the acquisition, construction, or operation of, any facilities which would be in competition with the System, and to the extent that it legally may, the District will prohibit any such competing facilities.
- (q) Binding Nature of Resolution. The declarations and covenants of the District contained in this Resolution are made by, and for and on behalf of the Board and the District in accordance with and as authorized by the Act, and are binding upon the Board and the District for all purposes.

#### **DISCHARGE OF THE BONDS**

The Bonds may be discharged, defeased or refunded in any manner permitted by applicable law.

#### **BONDS AS NEGOTIABLE INSTRUMENTS**

Each of the Bonds shall be deemed and construed to be an "Investment Security" and, as such, a negotiable instrument, within the meaning of Article 8 of the Texas Uniform Commercial Code.

## AMENDMENTS AND MODIFICATIONS OF RESOLUTION

- (a) The resolutions authorizing the issuance of Parity Bonds may be amended only as provided in this Section.
  - i. The Owners of Parity Bonds aggregating 51% in principal amount of the aggregate principal amount of then outstanding Parity Bonds shall have the right from time to time to approve any amendment to any resolution authorizing the issuance of any Parity Bonds, which may be deemed necessary or desirable by the District, provided, however, that nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in said resolutions or in the Parity Bonds so as to:
  - ii. Make any change in the maturity of the outstanding Parity Bonds;
  - iii. Reduce the rate of interest borne by any of the outstanding Parity Bonds;
  - iv. Reduce the amount of the principal payable on the outstanding Parity Bonds;
  - v. Modify the terms of payment of principal of or interest on the outstanding Parity Bonds, or impose any conditions with respect to such payment;
  - vi. Affect the rights of the Owners of less than all of the Parity Bonds then outstanding;
  - vii. Change the minimum percentage of the principal amount of Parity Bonds necessary for consent to such amendment.
- (b) If at any time the District shall desire to amend a resolution under this Section, the District shall cause notice of the proposed amendment to be given in writing by first class mail, postage prepaid, to each Owner of the Parity Bonds. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the designated office of each paying agent for any of the Parity Bonds, for inspection by all Owners of Parity Bonds.
- (c) Whenever at any time not less than thirty days, and within one year, from the date of the service of written notice the District shall receive an instrument or instruments executed by the Owners of at least 51% in aggregate principal amount of all Parity Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the District may adopt the amendatory resolution in substantially the same form.
- (d) Upon the adoption of any amendatory resolution pursuant to the provisions of this Section, the resolution being amended shall be deemed to be amended in accordance with the amendatory resolution, and the respective rights, duties, and obligations of the District and all the Owners of then outstanding Parity Bonds and all future Additional Bonds shall thereafter be determined, exercised, and enforced hereunder, subject in all respects to such amendment.
- (e) Any consent given by the Owner of a Parity Bond pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first giving of the notice provided for in this Section, and shall be conclusive and binding upon all future Owners of the same Parity Bond during such period. Such consent may be revoked at any time after six months from the date of the giving of such notice by the Owner who gave such consent, or by a successor in title, by filing notice thereof with the paying agent for such Parity Bond and the District, but such revocation shall not be effective if the owners of 51% in aggregate principal amount of the then outstanding Parity Bonds as in this Section defined have, prior to the attempted revocation, consented to and approved the amendment.
- (f) For the purpose of this Section, the ownership of and other matters relating to Parity Bonds shall be determined from the registration books kept by the registrar therefor.

## 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 current State law, the District is authorized to invest in: (1) obligations of the United States or its agencies and instrumentalities, including letters of credit, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit and share certificates meeting the requirements of the Public Funds Investment Act, (i) that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits or (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3), (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District and held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (10) 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, (11) 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, (12) no-load money market mutual funds registered with the Securities and Exchange Commission that have a dollar-weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of no less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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 AAA-m 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.

Governmental bodies in the State are authorized to implement securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a

loan are pledged to the governmental body, held in the name of the governmental body 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.

**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 includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment the maximum average dollar-weighted maturity allowed for pooled fund 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 funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, (6) yield, and (7) legality.

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

**ADDITIONAL PROVISIONS . . .** Under Texas law the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (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 6 - CURRENT INVESTMENTS**

As of March 1, 2026 investable funds of the District's Northeast Regional Water Reclamation System were invested as follows:

Description	Percent	Market Value
WellsFargo Cash	10.86%	\$ 14,115,593
TexPool	89.14%	115,880,062
Total	100.00%	\$ 129,995,655

No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to another instrument, index, or commodity.

## TAX MATTERS

**The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.**

**TAX EXEMPTION** . . . In the opinion of Bracewell LLP, Dallas, Texas and Boyle & Lowry, L.L.P., Dallas, Texas, Co-Bond Counsel, under existing law, interest on the Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Resolution that it will comply with these requirements.

Co-Bond Counsel's opinion will assume continuing compliance with the covenants of the Resolution pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the District, and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the District and such parties, which Co-Bond Counsel have not independently verified. If the District fails to comply with the covenants in the Resolution or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Co-Bond Counsel will express no opinion as to the amount or timing of interest on the Bonds or, except as stated above, any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Resolution upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to the Bond Counsel's ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Bonds from gross income for federal income tax purposes.

Co-Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Co-Bond Counsel's knowledge of facts as of the date thereof. Co-Bond Counsel assume no duty to update or supplement their opinions to reflect any facts or circumstances that may thereafter come to Co-Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Co-Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Co-Bond Counsel's legal judgments based upon their review of existing law and in reliance upon the representations and covenants referenced above that they deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds, regardless of the ultimate outcome of the audit.

### ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

**Collateral Tax Consequences** . . . Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences, including but not limited to those noted below. Therefore, prospective purchasers of the Bonds should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

An "applicable corporation" (as defined in section 59(k) of the Code) may be subject to a 15% alternative minimum tax imposed under section 55 of the Code on its "adjusted financial statement income" (as defined in section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted financial statement income," ownership of the Bonds could subject certain corporations to alternative minimum tax consequences.

Ownership of tax-exempt obligations also may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds.

Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

**Tax Accounting Treatment of Original Issue Premium** . . . If the issue price of a maturity of the Bonds exceeds the stated redemption price payable at maturity of such Bonds, such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

**Tax Accounting Treatment of Original Issue Discount** . . . If the issue price of a maturity of the Bonds is less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds"), the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner 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 period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions "TAX MATTERS – Tax Exemption" and "TAX MATTERS – Additional Federal Income Tax Considerations – Collateral Tax Consequences" and "—Tax Legislative Changes" generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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.

The foregoing discussion assumes that (i) the Underwriters have purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the District nor Co-Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) 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 (ii) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that 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 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.

**TAX LEGISLATIVE CHANGES** . . . Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

## CONTINUING DISCLOSURE OF INFORMATION

In the Resolution, the District has made the following agreements for the benefit of the holders and beneficial owners of the Bonds. Under the agreement, the District has agreed to provide or cause to be provided with respect to itself and each Significant Obligated Person, certain updated financial information and operating data annually and the District will be obligated to provide timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). For purposes of such agreement, the "Significant Obligated Person" means any Participating Member or Participating Customer or other contracting parties whose payments to the District for use of or service from the Northeast System in the Fiscal Year preceding any such determination exceeded 10% of the Gross Revenues of the Northeast System. Currently, Significant Obligated Persons only include the City of Celina, the Town of Prosper and MSUD. MSUD assumed all of District No. 11-A's, formerly a Significant Obligated Person, obligations pursuant to MSUD's amendment to its Northeast System Contract with the District dated September 22, 2025. This information will be available to investors by the MSRB through its Electronic Municipal Market Access System ("EMMA") free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The District will provide, or cause the Significant Obligated Persons to provide, to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the District of the general type included in this Preliminary Official Statement under Tables 1 through 6, and with respect to the respective Significant Obligated Persons of the general type included in Appendix B to this Preliminary Official Statement relating to the respective Significant Obligated Persons. The District will update and provide the information in the numbered Tables and provide, or cause to be provided, with respect to the Significant Obligated Persons, the information included in Appendix B relating to the respective Significant Obligated Person, within six months after the end of each fiscal year of the District or the respective Significant Obligated Person, as applicable, ending in or after 2026 and, if then available, audited financial statements of the District and the Significant Obligated Persons. If audited financial statements are not available when the information is provided, the District will provide, or cause respective Significant Obligated Persons to provide within 12 months after the end of the respective fiscal year, audited financial statements when and if they become available. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall file, or cause the respective Significant Obligated Persons to 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 A or such other accounting principles as the District or the respective Significant Obligated Persons may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The District's current fiscal year end and the current fiscal year end of each of the current respective Significant Obligated Persons is September 30. Accordingly, updated financial information included in the above-referenced Tables with respect to the District and the information in Appendix B with respect to the respective Significant Obligated Persons with a September 30 fiscal year end must be provided by March 31 in each year, and audited financial statements (or unaudited financial statements if the audited financial statements is not available) must be provided by September 30 of each year, unless the District or the respective Significant Obligated Persons change their fiscal year. If the District or any Significant Obligated Person changes its fiscal year, the District will notify or cause the respective Significant Obligated Person to notify the MSRB of the change.

**NOTICE OF CERTAIN EVENTS . . .** The District shall notify the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, of any of the following events with respect to the Bonds: (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 the rights of holders, if material; (8) Bond calls, if material, and tender offers; (9) Defeasances; (10) release, substitution, or sale of property securing the repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, 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 such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent/Registrar or change in name of the Paying Agent/Registrar, if material; (15) Incurrence of a Financial Obligation, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation, any of which affect security holders, if material; and (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Bonds nor the Resolution make any provision for credit enhancement or liquidity enhancement (unless bond insurance is purchased). In addition, the District or the Significant Obligated Persons will provide timely notice of any failure by the District or the Significant Obligated Persons to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has

assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District and (B) the District intends the words used in clauses (15) and (16) in the immediately preceding paragraph and in the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

**AVAILABILITY OF INFORMATION . . .** All information and documentation filings required to be made by the District or the Significant Obligated Persons in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided by the MSRB, without charge to the general public, at [www.emma.msrb.org](http://www.emma.msrb.org).

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

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

**COMPLIANCE WITH PRIOR UNDERTAKINGS . . .** In connection with the District's outstanding bond debt for the District's treated water system, and separate wastewater treatment systems, the District entered into continuing disclosure undertakings to provide certain updated financial information and operating data of the District and certain significant obligated persons (generally, a contracting party for the respective system whose payments to the District for use of or service from such system in the Fiscal Year preceding such determination exceeded 10% of the gross revenues of such system) along with audited financial statements of the District and respective significant obligated persons within six months of the end of the District's fiscal year. Certain official statements of the District also indicated that the information for the respective significant obligated persons would be filed within six months of the fiscal year end of the respective significant obligated persons. During the last five years, the District has filed the required financial information and operating data and financial statements within six months of the District's September 30 fiscal year end. Certain significant obligated persons have different fiscal year ends from the District. Specifically, Lake Cities Municipal Utility Authority ("LCMUA"), a significant obligated person with respect to the District's outstanding Lakeview Regional Water Reclamation System debt, has an August 31 fiscal year end and Denton County Fresh Water Supply District No. 8-A, Elm Ridge Water Control and Improvement District (formerly known as Denton County Fresh Water Supply District No. 10) ("Elm Ridge") and District No. 11-A, each significant obligated persons with respect to the District's outstanding Northeast Regional Water Reclamation System debt currently or at some point within the last 5 years, have February 28, July 31 and February 28 fiscal year ends, respectively. District No. 8-A, Elm Ridge and District 11-A each have outstanding debt pursuant to which they have filed their annual financial statements on EMMA within six months of their respective year ends. In a separate Official Statement that has been filed on EMMA in connection with outstanding non-Northeast System related obligations, the Town of Prosper has disclosed that the Town filed its audited financial statements for the fiscal year ended September 30, 2021, dated March 25, 2022, on April 28, 2022 due to miscommunication between the Town and its continuing disclosure agent. For undertakings of the Town prior to 2015, this filing date is later than the associated filing deadline of March 31, 2022. The Town filed a notice of the timing of the filing on August 26, 2022. The Town currently has procedures in place to ensure timely and complete filings of its financial information and operating data, including 42 written administrative procedures and the use of an outside agent that specializes in continuing disclosure filings. Upon becoming aware of the late filing, and as an additional measure to ensure the timely filing of all future financial information, the Town has registered directly on the MSRB EMMA website and will begin receiving notifications directly from EMMA regarding filing deadlines.

The information in the preceding paragraph has been included based upon publicly filed information available on EMMA and other publicly available sources including an offering document prepared by the Town of Prosper and has not been provided or confirmed by the Town of Prosper.

The Town of Providence Village, formerly a Significant Obligated Person, has prior non-Northeast System undertakings to file audited financial statements within six months of the end of its fiscal year and if not available within such period, to file unaudited financial statements for the applicable year within the six month period; with respect to those undertakings, when audited financial statements were not available to be filed within such time period for fiscal years ending 2019, 2022 and 2023, the Town provided certain unaudited financial information and operating data by the specified date but did not file formal unaudited financial statements by such date.

The information in the preceding paragraph has not been provided or confirmed by the Town of Providence Village.

LCMUA, a Significant Obligated Person within the District's Lakeview System, has prior non-Northeast System undertakings to file audited financial statements within six months of the end of its fiscal year and if not available within such period, to file unaudited financial statements for the applicable year within the six month period; with respect to those undertakings, when audited financial statements were not available to be filed within such time period for fiscal year ending 2025, LCMUA provided certain unaudited financial information and operating data by the specified date but did not file formal unaudited financial statements by such date.

The information in the preceding paragraph has not been provided or confirmed by LCMUA.

Mustang Special Utility District ("MSUD"), a significant obligated person for the Bonds, was upgraded on November 17, 2023 by S&P Global Ratings from AA to AA+ and timely filed, in connection with MSUD's outstanding bonds, notice within 10 business days of the rating change on November 20, 2023. As the sole significant obligated person for the District's Peninsula Water Reclamation Plant Revenue Bonds, Series 2016, such bonds were upgraded accordingly. Upon learning of the upgrade, the District filed notice of the upgrade on October 7, 2024.

## **OTHER INFORMATION**

### **RATINGS**

The Bonds and the presently outstanding revenue debt of the Northeast System is rated "AA" by S&P without regard to credit enhancement. The rating reflects only the respective 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. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

### **LITIGATION AND OTHER ACTIONS**

It is the opinion of the District's General Counsel and District Management Officers that there is no pending, or to their knowledge threatened, litigation or other proceeding against the District or, to their knowledge, any Significant Obligated Person, that could 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 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 "A" or its equivalent as to investment quality by a national rating agency. 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, when secured by bond insurance, are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

## **LEGAL MATTERS**

The District will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding special obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Co-Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law and the Bonds are not private activity bonds. See "TAX MATTERS" herein, for a discussion of the opinion of Co-Bond Counsel, including a description of the alternative minimum tax consequences for corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished.

Thought they represent the Municipal Advisor and the Underwriters from time to time in matters unrelated to the Bonds, Co-Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Boyle & Lowry, L.L.P. is also General Counsel and makes the representation under "Litigation" above. Co-Bond Counsel did not take part in the preparation of the Preliminary Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Co-Bond Counsel, such firms have reviewed the information under "PLAN OF FINANCING" (exclusive of the subcaption "Sources and Uses of Proceeds"), "THE BONDS" (exclusive of the last paragraph under the subcaption "Security and Source of Payment" and the subcaptions "Book-Entry-Only System" and "Bondholders' Remedies"), the subcaption "General" and the first two paragraphs and last paragraph under the subcaption "Treated Water Contracts" under the caption "THE DISTRICT", "CERTAIN PROVISIONS OF THE RESOLUTION", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (exclusive of the subcaption "Compliance with Prior Undertakings") and the subcaptions "Registration and Qualification of the Bonds for Sale", "Legal Investments and Eligibility to Secure Public Funds in Texas" and "Legal Matters" under the caption "OTHER INFORMATION", and such firms are of the opinion that the information relating to the Bonds and the Resolution and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Resolution. The fee to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Norton Rose Fulbright US LLP, Dallas, Texas, Counsel to the Underwriters.

## **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 resolutions contained in this Preliminary Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

## **USE OF AUDITED FINANCIAL STATEMENTS**

The financial statements of Upper Trinity Regional Water District as of September 30, 2025, and for the year then ended, included in this Preliminary Official statement, have been audited by Deloitte & Touche LLP, Independent Auditors, as stated in their report appearing herein in Appendix A.

## **MUNICIPAL ADVISOR**

Hilltop Securities Inc. ("HilltopSecurities") is employed as Municipal Advisor to the District in connection with the issuance of the Bonds. The Municipal Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. HilltopSecurities, in its capacity as Municipal Advisor, has not verified and 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 Municipal Advisor to the District has provided the following sentence for inclusion in this Preliminary Official Statement. The Municipal Advisor has reviewed the information in this Preliminary 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 Municipal Advisor does not guarantee the accuracy or completeness of such information.

## **UNDERWRITING**

The Underwriters has agreed, subject to certain conditions, to purchase the Bonds from the District, at an underwriting discount of \$ \_\_\_\_\_. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriters.

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, Municipal Advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

#### **CYBERSECURITY**

Computer networks and data transmission and collection are vital to the operations of the District. Information technology and infrastructure of the District may be subject to attacks by outside or internal hackers and may be subject to breach by employee error, negligence or malfeasance. An attack or breach could compromise systems and the information stored thereon, result in the loss of confidential or proprietary data and disrupt the operations of the District. To mitigate these risks, the District continuously endeavors to improve protection/security posture, including required training for District staff and administration.

#### **FORWARD-LOOKING STATEMENTS DISCLAIMER**

The statements contained in this Preliminary 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 Preliminary 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 Preliminary Official Statement will prove to be accurate.

Neither the District's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

**MISCELLANEOUS**

In the Bond Resolution, the Board authorized any member of the Pricing Committee to approve for and on behalf of the District, (i) the form and content of this Preliminary Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriters use of this Preliminary Official Statement in connection with the public offering and sale of the Bonds, all of which the Pricing Committee will approve in the Pricing Certificate.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

UPPER TRINITY REGIONAL WATER DISTRICT

/s/ \_\_\_\_\_  
Pricing Officer

**NORTHEAST SYSTEM CONTRACTS  
NORTHEAST REGIONAL WATER RECLAMATION SYSTEM  
PARTICIPATING MEMBER AND PARTICIPATING CUSTOMER CONTRACTS**

**\*DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 8-A**

Northeast Regional Water Reclamation System Participating Customer Contract between Upper Trinity Regional Water District and Denton County Fresh Water Supply District No. 8-A, dated August 29, 2001

- Amendment to Participating Customer Contract, dated December 14, 2010
- **District 8-A's Northeast System Contract was fully assumed by MSUD pursuant to MSUD's Amendment to Participating Member Contract, dated September 22, 2025.**

**TOWN OF PROVIDENCE VILLAGE (FORMERLY PROVIDENCE VILLAGE WATER CONTROL AND IMPROVEMENT DISTRICT OF DENTON COUNTY (DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 9))**

Northeast Regional Water Reclamation System Participating Customer Contract between Upper Trinity Regional Water District and Denton County Fresh Water Supply District No. 9, dated August 29, 2001, as amended by:

- Amendment to Participating Customer Contract, dated March 2, 2006
- Amendment to Participating Customer Contract, dated November 17, 2015

**\*ELM RIDGE WATER CONTROL AND IMPROVEMENT DISTRICT (FORMERLY DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 10)**

Northeast Regional Water Reclamation System Amended and Restated Participating Customer Contract between Upper Trinity Regional Water District and Denton County Fresh Water Supply District No. 10, dated May 1, 2003

- Northeast Regional Water Reclamation System First Amendment to Amended and Restated Participating Customer Contract, dated May 15, 2008
- Northeast Regional Water Reclamation System Second Amendment to Participating Customer Contract, dated December 16, 2010
- Amendment to Participating Customer Contract, dated November 19, 2015
- Amendment to Participating Customer Contract, dated February 1, 2018
- Amendment to Participating Customer Contract, dated August 2, 2018

**\*DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-A**

Northeast Regional Water Reclamation System Participating Customer Contract between Upper Trinity Regional Water District and Denton County Fresh Water Supply District No. 11-A, dated August 29, 2001

- Amendment to Participating Customer Contract, dated December 15, 2010
- Amendment to Participating Customer Contract, dated November 18, 2015
- **District 11-A's Northeast System Contract was fully assumed by MSUD pursuant to MSUD's Amendment to Participating Member Contract, dated September 22, 2025.**

## **MUSTANG SPECIAL UTILITY DISTRICT**

Northeast Regional Water Reclamation System Participating Member Contract between Upper Trinity Regional Water District and the Mustang Special Utility District, dated June 1, 2006

- Northeast Regional Water Reclamation System First Amendment to Participating Member Contract, dated December 17, 2007
- Northeast Regional Water Reclamation System Second Amendment to Participating Member Contract, dated December 15, 2010
- Amendment to Participating Member Contract, dated May 19, 2015
- Amendment to Participating Member Contract, dated June 27, 2016
- Amendment to Participating Member Contract, dated August 27, 2017
- Amendment to Participating Member Contract, dated January 22, 2018
- Amendment to Participating Member Contract, dated August 27, 2018
- Amendment to Participating Member Contract, dated December 17, 2018
- Amendment to Participating Member Contract, effective November 27, 2023
- Amendment to Participating Member Contract, dated September 22, 2025 [Assumption in full of District No. 8-A's Northeast System Contracts]
- Amendment to Participating Member Contract, dated September 22, 2025 [Assumption in full of District No. 11-A's Northeast System Contracts]

## **CITY OF CELINA**

Northeast Regional Water Reclamation System Participating Member Contract between Upper Trinity Regional Water District and the City of Celina, dated December 7, 2006

- Northeast Regional Water Reclamation System First Amendment to Participating Member Contract, dated December 13, 2007
- Northeast Regional Water Reclamation System Second Amendment to Participating Member Contract, dated April 8, 2013
- Amendment to Participating Member Contract, dated May 10, 2016
- Amendment to Participating Member Contract, dated August 14, 2018
- Third Amendment to Participating Member Contract, dated April 9, 2024

## **TOWN OF PROSPER**

Northeast Regional Water Reclamation System Participating Member Contract between Upper Trinity Regional Water District and the Town of Prosper, dated December 4, 2007

- Amendment to Participating Member Contract, dated April 16, 2024

\*NOTE: Pursuant to certain separate contracts between Elm Ridge WCID, Fresh Water Supply District No. 11-A and Mustang Special Utility District ("MSUD"), MSUD has the option to purchase the respective water and sewer systems of District No. 11-A and Elm Ridge WCID provided MSUD meets certain requirements and assumes all of District 11-A and Elm Ridge WCID's rights and obligations under the Northeast System Contracts respectively.

**APPENDIX A**

UPPER TRINITY REGIONAL WATER DISTRICT  
FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2025  
REPORT OF INDEPENDENT AUDITORS

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## **INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Directors of  
Upper Trinity Regional Water District  
Lewisville, Texas

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Upper Trinity Regional Water District (the "District"), as of and for the year ended September 30, 2025, 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 accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Upper Trinity Regional Water District, as of September 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

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 opinions.

#### ***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 Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 judgment, 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 Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Supplemental System and Project Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental System and Project Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Deloitte & Touche LLP**

February 25, 2026

# UPPER TRINITY REGIONAL WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED SEPTEMBER 30, 2025

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Your interest in the financial results of the Upper Trinity Regional Water District (the District) is appreciated. We hope this financial report will be interesting and informative about the District's mission to provide for wholesale water and wastewater needs in our growing service area on the north side of the Dallas/Fort Worth Metroplex. Management is pleased to provide this overview and analysis of the District's financial activities for the fiscal year ended September 30, 2025.

### PROGRAM HIGHLIGHTS

- Strengthening financial position despite economic instability. A key indicator is “Net Position”, which is the remainder after deducting total liabilities and deferred inflows from total assets and deferred outflows. Net Position as of the end of FY 2025 was \$336 million, an increase of approximately 16% for the year. The increase was largely due to:
  - Diligent oversight of the Board and Staff in controlling costs.
  - Strategic use of available low-cost capital financing.
  - Contributions made by participating entities for the Doe Branch Plants.
  - A continued commitment by the Board to fund various reserve accounts including Working Capital, Operation and Maintenance, and Non-Bond Reserves. Continued funding of the District's reserve accounts is evidenced by the growing value of the Total Net Position.
- Even as the interest rates were volatile throughout FY 2025, use of Variable-Rate debt for capital improvements in the Regional Treated Water System provided flexibility and debt service reduction by requiring interest only payments. Interest rates on Variable-Rate debt ranged from a low of 3.648% to a high of 4.460%.
- Total capital asset additions were over \$294 million, of which over \$272 million was for the Regional Treated Water System.

You may find comparative financial information to be worthwhile; and considerable information is provided in other sections of this Management's Discussion and Analysis.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report is composed of financial statements, plus the appropriate notes for the Enterprise Fund. For a complete analysis, one also needs to examine the supplementary information to the basic financial statements, containing the financial information for the individual systems and projects. In this context, the following discussion and analysis serves as an introduction to the District's basic financial statements.

***Financial Statements***—The financial statements are designed to provide a reader with an overview of the District's finances, in a manner similar to a typical private enterprise.

The *Statements of Net Position* presents information on all District assets, deferred outflows, liabilities, and deferred inflows with the difference between assets, deferred outflows, liabilities and deferred inflows being reported as *net position*. Over time, increases or decreases in net position can serve as an indicator of the long-term trend of the District's financial condition.

The *Statements of Revenues, Expenses and Changes In Net Position* shows activity and changes during the fiscal year. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flow. Thus, revenues and expenses are reported for some items that will not affect cash flow until future fiscal periods (e.g., earned but unused vacation leave and accounts receivable for services).

The *Statement of Cash Flows* presents information showing the District's cash activities, cash receipts and cash disbursements. The statement of cash flows is presented in three broad categories: (1) cash flows from operating activities, (2) cash flows from capital and related financing activities, and (3) cash flows from investing activities. The statement of cash flows is a useful tool in understanding the District's cash position.

**Notes to the Financial Statements**—The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

## **ENTERPRISE FUND FINANCIAL ANALYSIS**

The trend of changes in net position over time serves as an indicator of the District's financial condition. Year-end assets and deferred outflows exceeded liabilities and deferred inflows by over \$336 million—an approximate increase of 16% in net position compared with fiscal year 2024. As noted on page 1, the increase was due to controlling costs, use of least-cost capital financing, contributions to the Doe Branch Plants and a commitment to fund the District's reserves.

The District and most of its member entities practice cash-basis budgeting. Further, the District does not consider depreciation expense when setting rates for utility services rendered to members and customers. Considering this, a relevant view of the District's financial strategy would be the original cost of the District's assets, less indebtedness, without any reduction for accumulated depreciation expense. Accordingly, the District only recovers the original cost of the acquired assets, plus related financing costs in its rates and charges.

Another major element of the District's financial strategy has been the use of funds provided by the Texas Water Development Board (TWDB) under the State Water Implementation Fund for Texas (SWIFT) *Board Participation Program*. Board Participation funds were received for the Lake Ralph Hall and the Northeast Pipeline Projects, key components of the Regional Treated Water System. Board Participation funds allow for added flexibility -- with repayment to occur more closely to the time when the projects are completed and in use. As a result, there is minimal cost to the current customer when Board Participation funds are used.

Similar to the structure of the *Board Participation Program* is the *State Participation Program* of the TWDB. Under this Program, the State of Texas invests capital funds in specific projects for equity participation to enable growing regional systems like the District to oversize facilities in an efficient manner - that is, to construct extra capacity for anticipated future growth. This Program enables the District to prepare for the future, with little cost to current customers. In the future, when pipeline or plant capacity is needed to meet the needs of a growing customer base, the District is required to repurchase from the State such constructed capacity as needed, at original cost. Such original oversize cost could be a fraction of what the cost would be to construct stand-alone

capacity in the future to meet such growth requirements. Therefore, for sound financial reasons, the District has made extensive use of State Participation funds to help construct extra capacity to prepare for expected future growth needs.

In addition, the flexibility of both the Board Participation and State Participation Programs affords the District time to refund the debt in more favorable interest rate environments financially beneficial to achieve the greatest savings. As a result, the District has taken advantage of historically low rates to refund nearly all of the debt issued under the State Participation Program since FY 1993. Board Participation and the remaining State Participation are discussed further in the **Debt Administration** section of the MD&A.

To help coordinate the timing of debt repayment with beneficial use, the District uses certain funding sources that offer deferred payment of principal. Such sources include the previously discussed Board Participation and State Participation financing. Other sources including variable rate debt financing, Participant Advance Funding and other SWIFT programs such as the *Deferred Interest Program* all serve as integral components of the District's financial strategy. This strategy enables the District to plan effectively for future growth needs by not placing an undue financial burden on current customers.

However, as a side effect of this practice, there could be a temporary decline in *Net Investment in Capital Assets* for an interim period. Such a decline can occur when the depreciation of capital assets is taken at a faster rate than the corresponding and related reduction in debt. When principal payments on debt are made, *Net Investment in Capital Assets* would then begin to increase.

To clarify, the amount noted as *Net Investment in Capital Assets* represents long-term capital assets the District uses to provide services to its members and customer entities, minus the related debt. These assets are not cash and cannot be immediately converted to cash; therefore, they cannot be used to satisfy current outstanding liabilities.

The District's net position also reflects the fact that \$8,530,488 is *Restricted for Debt Service*, and \$27,236,032 is *Restricted Contributions for Capital Improvements*, limiting how these funds may be used. The remaining *Unrestricted Net Position* may be used to meet ongoing obligations of the District.

**Upper Trinity Regional Water District's Condensed Schedule of Net Position**  
**September 30, 2025**  
**(With Comparative Totals As Of September 30, 2024)**

	<b>FY 2025</b>	<b>FY 2024</b>
<b>ASSETS:</b>		
Current and other assets	\$ 557,876,015	\$ 313,574,216
Capital assets, net	<u>1,379,446,047</u>	<u>1,104,555,789</u>
 Total assets	 <u>1,937,322,062</u>	 <u>1,418,130,005</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Loss on debt refunding	<u>220,693</u>	<u>355,813</u>
 Total deferred outflows of resources	 <u>220,693</u>	 <u>355,813</u>
 <b>LIABILITIES:</b>		
Current and other liabilities	129,629,795	91,112,726
Long-term liabilities outstanding	<u>1,470,831,456</u>	<u>1,037,828,994</u>
 Total liabilities	 <u>1,600,461,251</u>	 <u>1,128,941,720</u>
 <b>DEFERRED INFLOWS OF RESOURCES:</b>		
Deferred Inflow from Gain on debt refunding	1,266,378	320,991
Deferred Inflow from Leases	<u>148,874</u>	<u>150,338</u>
 Total deferred inflows of resources	 <u>1,415,252</u>	 <u>471,329</u>
 <b>NET POSITION:</b>		
Net investment in capital assets	213,839,016	159,824,792
Restricted:		
Debt service	8,530,488	8,044,813
Contributions for capital improvements	27,236,032	8,792,853
Unrestricted	<u>86,060,716</u>	<u>112,410,311</u>
 Total net position	 <u>\$ 335,666,252</u>	 <u>\$ 289,072,769</u>

**Expenses and Changes in Net Position  
For the Year Ended September 30, 2025  
(With Comparative Totals for Year Ended September 30, 2024)**

	<b>FY 2025</b>	<b>FY 2024</b>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 106,072,967	\$ 95,708,045
Miscellaneous income	<u>213,538</u>	<u>291,289</u>
Total operating revenue	<u>106,286,505</u>	<u>95,999,334</u>
<b>OPERATING EXPENSES:</b>		
Operation and maintenance	38,944,113	32,855,468
Depreciation and amortization	16,495,665	15,996,317
Administrative expenses	<u>5,186,419</u>	<u>4,475,235</u>
Total operating expenses	<u>60,626,197</u>	<u>53,327,020</u>
<b>OPERATING INCOME</b>	<u>45,660,308</u>	<u>42,672,314</u>
<b>NON-OPERATING REVENUES/(EXPENSES)</b>		
Interest income	22,750,290	17,972,835
Interest and fiscal charges	(52,622,888)	(36,194,762)
Grant revenue	52,081	
(Loss) gain on disposal of capital assets	<u>(527,308)</u>	<u>132,084</u>
Total non-operating revenues/(expenses)	<u>(30,347,825)</u>	<u>(18,089,843)</u>
<b>INCOME BEFORE CONTRIBUTIONS</b>	15,312,483	24,582,471
<b>CONTRIBUTIONS</b>	<u>31,281,000</u>	<u>6,392,867</u>
<b>CHANGE IN NET POSITION</b>	46,593,483	30,975,338
<b>TOTAL NET POSITION—beginning of year</b>	<u>289,072,769</u>	<u>258,097,431</u>
<b>TOTAL NET POSITION—end of year</b>	<u>\$ 335,666,252</u>	<u>\$ 289,072,769</u>

**CAPITAL ASSET AND DEBT ADMINISTRATION**

The District's total capital assets as of September 30, 2025, were \$1,379,446,047 (net of accumulated depreciation), including nearly \$812 million of capital assets for the Lake Ralph Hall project. This investment in capital assets includes land and buildings, treatment plants, pump stations, pipelines, water rights, an emergency water supply reservoir, and other equipment and fixtures. Additional information regarding the District's capital assets is reflected in Note 5 to the basic financial statements.

For FY 2025, the most significant additions to capital assets were for the Regional Treated Water System -- which increased by approximately \$272 million. The investments in capital assets in the Regional Treated Water System were for on-going planning, regulatory permitting and land purchases for the Lake Ralph Hall Water Supply Project, expansion of the Harpool treatment plant and the Taylor treatment plant, and various other capital improvement projects.

**Upper Trinity Regional Water District's Capital Assets  
(Net of accumulated depreciation)  
As of September 30, 2025  
(With Comparative Totals As Of September 30, 2024)**

	<b>FY 2025</b>	<b>FY 2024</b>
Land	\$ 16,397,604	\$ 16,397,604
Furniture and Equipment	6,083,883	5,255,209
Plant/Pipeline Facilities	336,526,718	352,539,711
Water Rights	6,044,691	6,136,277
Reservoirs	964,984	996,112
Construction in progress:		
Land - General purpose	8,910,451	6,487,249
Reservoir land	63,337,320	61,868,630
Other construction costs	<u>941,180,396</u>	<u>654,874,997</u>
 Total	 <u>\$ 1,379,446,047</u>	 <u>\$ 1,104,555,789</u>

**Debt Administration**

As mentioned earlier, over a period of years, the District received significant funding from the Texas Water Development Board (TWDB) *State Participation Program* for equity participation in construction of extra capacity in water and wastewater regional systems to meet future growth needs, reaching a peak of approximately \$55.5 million. Taking advantage of low-interest opportunities, the District has purchased most of the State's equity ownership at original cost, reducing the outstanding State Participation to \$1.66 million.

Between FY 2016 and FY 2025, the District received an approximate total of \$845 million from a TWDB program that is essentially the same in structure and nature as the State Participation Program – the *Board Participation Program*. Board Participation funding is part of the State Water Infrastructure Fund for Texas (SWIFT) Program of the TWDB that is specifically designed to assist for future water needs. Board Participation funding is being used for costs of the Lake Ralph Hall and the Northeast Pipeline Projects in the Regional Treated Water System. The State's equity ownership under the Board Participation program, plus non-current accrued interest remaining to be reimbursed when timely, was approximately \$921 million at fiscal year-end.

During FY 2016 and FY 2021, the District also acquired approximately \$29.1 and \$15 million, respectively, as part of the SWIFT *Deferred Interest Program*. Under Deferred Interest, the District pays no principal or interest for 8 years after issuance or until construction is completed

for Lake Ralph Hall, whichever is earlier. Also during that period, interest is not accrued. This funding source is being used for various planning costs associated with Lake Ralph Hall. The District classifies Deferred Interest funding as “Revenue Bonds” for financial reporting purposes.

Further, the total of outstanding debt (including both State Participation and Board Participation) and other long-term liabilities is approximately \$1,473 million. Of this total, 91.5% is for the Regional Treated Water System; 7.9% is for the Northeast Regional Water Reclamation System (Riverbend and Doe Branch Plants); and, the remaining .6% is for the Lakeview Water Reclamation System and the Peninsula Water Reclamation Plant.

**Upper Trinity Regional Water District’s Outstanding Debt  
As of September 30, 2025  
(With Comparative Totals As Of September 30, 2024)**

	<b>FY 2025</b>	<b>FY 2024</b>
Revenue Bonds	\$ 481,440,000	\$ 431,395,000
State/Board Participation Debt	846,905,000	509,140,000
Variable-Rate Debt	55,231,000	40,231,000
Water Supply Obligations	4,209,583	4,331,004
Notes Payable	8,896,432	8,924,332
State/Board Participation Accrued Interest	<u>76,022,815</u>	<u>47,198,038</u>
 Total	 <u>\$ 1,472,704,830</u>	 <u>\$ 1,041,219,374</u>

Currently, the District’s revenue bonds are rated as follows:

	<b>Moody’s Investors</b>	<b>Standard &amp; Poor’s</b>
Regional Treated Water System	A1	A+
Lakeview Regional Water Reclamation System	A1	AA-
Northeast Regional Water Reclamation System	n/a	AA
Peninsula Water Reclamation Plant	n/a	AA+

Additional information on the District’s long-term debt can be found in Notes 6 and 7 to the basic financial statements.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

In FY 2025, the Board of Directors continued to take a proactive approach to monitor costs and to adjust rates accordingly. The Board adjusted rates as necessary to maintain and improve the District’s financial condition. Of special note, FY 2025 represented the twenty first consecutive year that the District has achieved an increase in total Net Position, with an increase of approximately 16% for this fiscal year.

During FY 2025, many aspects of the national economy continued to experience challenges. However, the economy in the District’s service area continued to demonstrate robust growth across various metrics – positively impacting growth and development in the District’s services area. Accordingly, the District will continue to make adjustments in its Capital Improvement Program, while monitoring economic conditions and customer demand, which drive operational

expenditures. It is important that the District maintain a close watch on all aspects of its financial plan - capital planning, revenue projections, and cash management - to maintain a strong financial position.

The District proceeded with key capital projects: (1) achieving major construction milestones for Lake Ralph Hall, including completion of the 32-mile water conveyance pipeline and substantial progress on Leon Hurse Dam and spillway; (2) commencing the Phase 2 of the Tom Harpool Regional Water Treatment Plant, which will double capacity to 60 million gallons per day; (3) advancing the expansion of the Doe Branch Water Reclamation Facility in the Northeast Regional Water Reclamation System.

As a strategic element of the District's watershed protection program, the District established the Upper Trinity Conservation Trust (UTCT) as a component unit during FY 2010. The District established the UTCT as a charitable entity and appointed a Board of Trustees. During FY 2012, the UTCT experienced its first full fiscal year of operations and received IRS approval for full tax exemption. During FY2025, the UTCT continued to receive donations and began to acquire land conservation easements for the purpose of protecting water quality in watersheds above the District's water supply sources.

In September 2025, the Board of Directors approved new rates and charges for Fiscal Year 2026:

- Lakeview Regional Water Reclamation System. There was an increase of 2.75% for various fees and charges.
- Non-Potable Water System. There was an increase of .22% for various fees and charges.
- Northeast Regional Reclamation System. There was an increase of 2.75% for various fees and charges.
- Peninsula Water Reclamation Plant. There was an increase of 2.75% for various fees and charges.
- Regional Treated Water System. Combined, the blended rate increase for the fixed "Demand" components and the variable "Volume" components averaged 5.75%.

The District has maintained its full readiness and capacity to serve, and is prepared for economic growth, with the accompanying financial requirements. In the meantime, management continues to be vigilant in its oversight of District budgets, investments, finances, rates, and expenditures.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances, with a glimpse at enterprise planning and operating strategies. We believe that the results confirm the District's responsible stewardship and accountability for all funds and resources entrusted to the District. The District is proud of its commendable track record in development of regional systems, in extension of water and wastewater service throughout the service area, staying ahead of growth demands—and, in preparation for the future.

Management of the District believes that the District's motto on the cornerstone of its headquarters building is very apt:

*Providing for the present and future needs of this region.*

*With vision and courage we plan.*

*With cooperation and commitment we serve.*

Questions concerning any of the information provided in this report and requests for additional financial information may be addressed to the Chief Financial Officer, P.O. Box 305, Lewisville, Texas 75067.

## **BASIC FINANCIAL STATEMENTS**

# UPPER TRINITY REGIONAL WATER DISTRICT

## STATEMENTS OF NET POSITION

September 30, 2025

	UTRWD	Component Unit
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 123,844,169	\$ 129,144
Cash and cash equivalents-health self-insurance	4,455,162	
Investment - certificate of deposit (CD)	2,111,539	
Accounts receivable	23,081,269	
Interest receivable	592,297	
Leases receivable, current portion	75,290	
Other current assets	605,013	977
Total current assets	<u>154,764,739</u>	<u>130,121</u>
Non-current assets:		
Contractual agreements receivable	970,472	
Leases receivable non-current portion	77,918	
Restricted assets:		
Cash and cash equivalents	247,636,321	62,838
Cash and cash equivalents held in escrow	154,426,565	
Non-depreciable capital assets	1,029,825,771	
Depreciable capital assets - net	349,620,276	
Total non-current assets	<u>1,782,557,323</u>	<u>62,838</u>
<b>TOTAL ASSETS</b>	<u>1,937,322,062</u>	<u>192,959</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Deferred outflows from loss on debt refunding	220,693	
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>220,693</u>	<u>-</u>
<b>LIABILITIES:</b>		
Current liabilities:		
Accounts payable	8,242,954	8,186
Unearned revenue	1,345,944	
Accrued liabilities	892,394	
Accrued wages and benefits	1,574,221	
Other current liabilities	19,821	
Payable from restricted assets:		
Accrued interest payable	4,316,427	
Accounts payable-construction	62,584,635	
Construction retainage payable	28,650,625	
Current portion of long-term bonds	21,480,000	
Current portion of long-term state participation debt	125,000	
Current portion of water supply obligation	125,370	
Unpaid self-insurance claims	272,404	
Total current liabilities	<u>129,629,795</u>	<u>8,186</u>
Non-current liabilities:		
Long-term bonds	478,689,065	
Long-term board /state participation debt	846,780,000	
Variable rate debt	55,231,000	
Long-term water supply obligation	4,084,213	
Long-term accrued compensated absences	1,127,931	
Notes payable	8,896,432	
Long-term accrued interest	76,022,815	
Total non-current liabilities	<u>1,470,831,456</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>1,600,461,251</u>	<u>8,186</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflow from gain on debt refunding	1,266,378	
Deferred inflow from leases	148,874	
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>1,415,252</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	213,839,016	
Restricted:		
Debt service	8,530,488	
Conservation easements		62,838
Contributions for capital improvements	27,236,032	
Unrestricted	<u>86,060,716</u>	<u>121,935</u>
<b>TOTAL NET POSITION</b>	<u>\$ 335,666,262</u>	<u>\$ 184,773</u>

See notes to financial statements.

# UPPER TRINITY REGIONAL WATER DISTRICT

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED SEPTEMBER 30, 2025

	UTRWD	Component Unit
OPERATING REVENUES:		
Charges for services	\$ 106,072,967	\$
Contributions from donors		7,255
Contribution for conservation easements		31,810
Miscellaneous income	<u>213,538</u>	
Total operating revenues	<u>106,286,505</u>	<u>39,065</u>
OPERATING EXPENSES:		
Operation and maintenance:		
Salaries and benefits	8,276,088	24,707
Water and wastewater treatment	15,749,419	
Lab chemicals and supplies	3,846,703	
Maintenance materials service	1,972,950	
Utilities	4,598,198	
Equipment and tools	235,950	
Sludge removal	1,670,712	
Disposal service	34,227	
Miscellaneous	2,559,866	
Depreciation and amortization	16,495,665	
Overhead expenses	3,394,079	
Administrative/other	<u>1,792,340</u>	<u>23,316</u>
Total operating expenses	<u>60,626,197</u>	<u>48,023</u>
OPERATING INCOME (LOSS)	45,660,308	(8,958)
Non-operating revenues (expenses):		
Operating contribution from UTRWD	-	25,000
Grant revenue	52,081	50,000
Interest income	22,750,290	925
Interest and fiscal charges	(52,622,888)	
Loss on disposal of capital assets	<u>(527,308)</u>	
Net non-operating revenues (expenses)	<u>(30,347,825)</u>	<u>75,925</u>
NET INCOME BEFORE CONTRIBUTIONS	15,312,483	66,967
CONTRIBUTIONS FOR CAPITAL IMPROVEMENTS	<u>31,281,000</u>	
CHANGE IN NET POSITION	46,593,483	66,967
TOTAL NET POSITION - beginning of year	289,072,769	117,806
TOTAL NET POSITION - end of year	<u>\$ 335,666,252</u>	<u>\$ 184,773</u>

See notes to financial statements

# UPPER TRINITY REGIONAL WATER DISTRICT

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED SEPTEMBER 30, 2025

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 98,292,425
Cash paid to vendors	(30,529,784)
Cash paid to employees	(10,404,091)
	<hr/>
Net cash provided by operating activities	57,358,550
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital asset additions	(257,490,056)
Contributions received	31,281,000
Bond proceeds	88,723,487
Board participation debt proceeds	337,885,000
Bond principal payments	(22,735,000)
Bond payments for refunded bonds	(12,265,000)
State participation principal payments(from refunded bond proceeds)	(120,000)
Water supply obligation payment	(121,421)
Variable rate debt proceeds	75,000,000
Variable rate debt payments	(60,000,000)
Notes payable payments	(27,900)
Payment of interest and related fees	(24,212,341)
	<hr/>
Net cash provided by capital and related financing activities	155,917,769
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	22,238,285
Net cash provided by investing activities	<hr/> 22,238,285
Increase in cash and cash equivalents	235,514,604
Cash and cash equivalents, beginning of year	<hr/> 294,847,613
Cash and cash equivalents, end of year	<hr/> <hr/> \$ 530,362,217

(Continued)

# UPPER TRINITY REGIONAL WATER DISTRICT

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED SEPTEMBER 30, 2025

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### CASH FLOWS FROM OPERATING ACTIVITIES:

Operating income	\$ 45,660,308
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation and amortization	16,495,665
Change in accounts receivable	(7,994,077)
Change in accounts payable	1,934,974
Change in unearned revenue	1,316,859
Change in accrued wages and benefits	115,857
Change in other current assets	(171,036)
	<hr/>
Total adjustments	11,698,242
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 57,358,550

### NON-CASH ITEMS:

Amortization of bond refunding loss	(61,184)
Amortization of bond refunding gain	78,446
Amortization of bond premium	1,813,610
Accounts payable relating to construction	62,584,635
Retainage	28,650,625

See notes to financial statements. (Concluded)

# UPPER TRINITY REGIONAL WATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2025

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Upper Trinity Regional Water District (District) is a political subdivision of the State of Texas and a body politic and corporate, created as a conservation and reclamation district under Article XVI; Section 59 of the Constitution and chapter 1053, Acts of the 71st Legislature of Texas, Regular Session, 1989. Under the Constitution and the statutes the District has broad powers for water conservation and use of storm and flood waters and unappropriated flow waters. The District has specific authority to construct, own, and operate water supply, treatment and distribution facilities and wastewater gathering, treatment, and disposal facilities, to charge for such services; and to make contracts for such purposes with municipalities and other entities.

A board of directors appointed by member entities governs the District. Each member entity appoints one representative, who is not an elected official of the entity, to serve as a director for a term of four years. In order to fund the water and wastewater services to member entities, members pay a proportionate share of the administrative, planning, operating and maintenance, and financing costs of projects based upon their usage of services from each project in which they participate. Non-member entities (customers) pay fees at a slight premium compared to member entities.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The following is a summary of the more significant policies:

#### **District's Systems and Projects**

- A. **Reporting Entity** – The District's basic financial statements include all organizations and activities determined to be part of the District's reporting entity. The following are descriptions of the systems and projects, which are sub funds of the District and the Upper Trinity Conservation Trust (UTCT) which is the component unit of the District.

The District's Regional Treated Water System (RTWS) was placed in service in June of 1994 and currently provides treated water service to 19 customers in Denton County. The FY 2025 budgeted subscribed capacity for RTWS' customers is 99.14 million gallons per day (mgd). Flower Mound is the RTWS's largest customer with a subscribed capacity of 30 mgd.

The District initiated wholesale wastewater treatment service to customers of the Lakeview Regional Water Reclamation System (LRWRS) in 1996. It was completed in two phases and currently serves Bartonville, Corinth, Denton County Fresh Water Supply District (DCFWS) #7 (Lantana), Double Oak, Highland Village, and Lake Cities MUA. The total combined subscribed capacities for these customers are currently 5.3288 mgd, with Highland Village having the highest subscribed capacity at 1.65 mgd.

In March of 1995 the District entered into a contract for non-potable water service with DCFWS #1A. This system, which consists of a pump station and non-potable pipeline, was placed in operation in 1998. The system provides both treated effluent and raw water service to DCFWS #1A. It should be noted that the City of Lewisville assumed the operations of DCFWS #1A during FY 2022.

The Northeast Regional Water Reclamation System (NERWRS) is composed of the Riverbend and Doe Branch Plants. Riverbend currently provides wastewater treatment service to Mustang Special

Utility District (MSUD), Providence Village, and DCFWSD's #8A, #10, and #11. The Doe Branch Plant provides wastewater treatment services to Celina, Prosper, MSUD and DCFWSD #10. The combined budgeted contracted capacities for the two plants in FY 2025 is 7.482 mgd.

The Peninsula plant is also located in Northeast Denton County and became operational in 2003. The Peninsula plant serves Mustang SUD. Peninsula has a budgeted FY 2025 contracted capacity of 2.0 mgd.

The other sub funds include the Household Hazardous Waste Program. The District's Growth Project is used to account for the acquisition of land for projects. Administration and Project Development are used to report administrative fee revenue and expenses and to account for various expenses before the construction of projects begins.

#### **Discrete component unit**

The UTCT is a component unit of the District that was established in June 2010. The purpose of the UTCT is to receive, acquire, invest and maintain financial, real property and other assets for the purpose of protecting designated watersheds and water quality. The District appoints the board members that are separate from the District's Board of Directors and provides significant funds for the UTCT's operations. Therefore, the UTCT is accounted for as a discretely presented component unit, which is reported as a business type activity. The UTCT does not issue separate financial statements.

- B. **Fund Accounting** — The accounts of the District are organized into one Enterprise Fund, a proprietary fund. The operations of the fund are accounted for using a set of self-balancing accounts that comprise the fund's assets, deferred outflow of resources, liabilities, deferred inflow of resources, net position, revenues and expenses. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (expenses, excluding depreciation and amortization) of providing services to the contracting users on a continuing basis be financed or recovered primarily through user charges; and for which the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, management control, accountability or other purposes.
- C. **Basis of Accounting** — The proprietary fund is accounted for on a cost of services or "economic resources" measurement focus, using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

The statement of net position presents information on all of the District's assets, deferred outflow of resources, liabilities, and deferred inflow of resources, with the difference reported as net position.

The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing services. Operating expenses include the cost of providing the services, administrative expenses, depreciation of capital assets and general overhead. General overhead expenses such as the District's management and support staff's salary, benefits, supplies, rent and utilities are allocated to all operating systems and construction projects based on percentage of the total expenses for the year. All other expenses and revenues not meeting the definition outlined above are reported as non-operating revenues and expenses.

Rates charged for services to member and customer entities are established during the budget process and approved by the Board of Directors for each fiscal year. The Board provides final approval for the next fiscal year rates during the September meeting preceding the end of the fiscal year.

- D. **Cash, Cash Equivalents, and Investments** — Cash equivalents are defined as cash, public funds investment pools, and investments purchased within three months of maturity. Investments are recorded at fair value, with the exception of investments permitted to be reported at amortized cost. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The District reports cash and cash equivalents related to the acquisition or construction of capital assets or for debt service as a restricted non-current asset.

- E. **Restricted Cash and Cash Equivalents** — Certain cash and cash equivalents related to the acquisition or construction of capital assets and certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants and agreements. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, and then unrestricted resources as they are needed. This is exemplified in the resources first being used for debt service payments and construction costs. Escrow funds are held in the District’s name but are restricted for construction. The following table lists the categories and amounts of cash and cash equivalents that are restricted.

<u>Restricted Cash and Cash Equivalents</u>	<u>Amount</u>
<b><u>Non-current Restricted Cash and Cash Equivalents</u></b>	
Interest and Sinking Reserve	\$ 5,888,303
Debt Service Reserve	28,683,692
Construction Funds	121,651,249
Board Participation cash	88,818,845
Board Participation cash held in escrow	154,425,964
State Water Infrastructure Fund for Texas (SWIFT) - cash	2,594,232
State Water Infrastructure Fund for Texas (SWIFT) - escrow	601
Total Non-current Restricted Cash and Cash Equivalents	<u>402,062,886</u>
 Total Restricted Cash and Cash Equivalents	 <u>\$ 402,062,886</u>

- F. **Capital Assets** — Capital assets are recorded at historical cost. In the case of gifts or contributions, such assets are recorded at their acquisition value at the time received. Depreciation on property, plant and equipment in the financial statements are recorded for each major class of depreciable property utilizing the straight-line method over the following estimated useful lives:

Furniture and equipment	3–15 years
Plant/pipeline facilities	10–50 years
Reservoirs	50 years
Water Rights	100 years

The District’s capitalization threshold for assets is \$5,000. A full year of depreciation on plant/pipeline facilities is taken in the fiscal year following the year the asset is put in service.

- G. **Capital Contributions** – The District periodically receives capital contributions from various member entities for the construction and improvements of the District’s systems. It is the policy of

the District to recognize these contributions as revenue in the year they are received and to restrict the related net position. The cash received would be classified as restricted. Generally, as agreed upon by the contributing entities and the District, any unused funds are restricted for future system related improvements.

- H. **Compensated Absences** — The District’s employees earn vacation and sick leave that may be used or accumulated up to certain limits. Unused vacation is paid upon retirement, termination or death. Unused sick leave is reduced to a percentage of the accumulated balance when paid upon retirement, certain terminations or death.

A liability is recorded for vacation and sick leave earned by employees attributable to past service that is more likely than not to be used for time off or paid out upon termination. The maximum amount of vacation that can be accrued is equal to 2 years of annual eligibility for each employee. The maximum amount of sick leave that can be accrued is 1,200 hours for each employee. Employees are eligible to take accrued sick leave and vacation after 30 days and 6 months, respectively, from initial employment with the District. For purposes of measuring the compensated absences liability the District applies a “last earned, first used” flow assumption, under which the most recently accrued leave is assumed to be taken first.

The District calculates the current portion of the compensated absences liability based on a 3-year rolling average of amount used by employees. In addition, a liability is recorded for certain salary-related payments associated with the payment of accrued vacation and sick leave. Current portion of \$1,078,218 is included in accrued wages and benefits.

As of September 30, 2025, liabilities relating to accrued vacation and sick leave have been recorded as shown:

	<b>Sick Leave</b>	<b>Vacation</b>
Beginning of fiscal year	\$ 1,102,101	\$ 1,050,664
Net change	(18,549)	71,933
End of fiscal year	<u>\$ 1,083,552</u>	<u>\$ 1,122,597</u>

- I. **Net Position** – Net position on the Statements of Net Position includes the following:

*Net investment in capital assets* – the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt net of premiums, discounts and excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets. It does not include long-term accrued interest on State Participation debt.

For the calculation of this portion of net position for individual projects as sub-funds, all debt related to capital assets is considered. For the entity-wide financial statements, loans between sub-funds are not included for the calculation of net investment in capital assets, because the debt is not owed to an outside party and does not represent a debt of the District as a whole.

*Restricted for Debt Service* – the component of net position that reports the difference between assets to be used for debt service and associated liabilities.

*Restricted Contributions for Capital Improvements* – the component of net position that reports the amounts restricted for capital improvements.

*Restricted for Conservation Easements* – the component of net position that reports the difference between assets to be used to monitor conservation land easements and associated liabilities.

*Unrestricted* – the difference between the assets, deferred outflow of resources, liabilities, and deferred inflow of resources, that is not reported in Net Investment in Capital Assets and Restricted Net Position.

## 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Board designates Wells Fargo to serve as the depository for the funds of the District in accordance with its enabling statute. To the extent that funds held by the depository bank are not insured by the Federal Deposit Insurance Corporation (FDIC), they are secured in the manner provided by law of the State of Texas. At September 30, 2025, the District's cash and cash equivalents included deposits with carrying amount of \$24,411,861 for the District and \$191,982 for the UTCT. The bank balance as of September 30, 2025 was \$29,221,279 for the District and \$191,982 for the UTCT. Both bank balances at September 30, 2025, were entirely covered by federal depository insurance or by collateral held by District's independent third-party agent (BNY Mellon) in the District's name.

The District also holds a FDIC insured and fully collateralized deposit with Farmer's Bank and Trust. The collateral is a Direct Letter of Credit issued by Farmer's Bank and Trust on behalf of the District. At September 30, 2025, the amount deposited with Farmer's Bank and Trust was \$1,198,447.

The District also has money market and short-term government securities investments held in escrow accounts with BNY Mellon and Bank of Oklahoma Financial (BOK) with monies borrowed from the Texas Water Development Board (TWDB). The escrow investments in both BNY Mellon and BOK are Level 2 investments. All investments are measured at fair value. All escrow accounts require approval from the TWDB prior to funds being released to the District. At September 30, 2025, the District had \$154,426,565 held in these escrow accounts.

During July 2025, the District established a Money Market Account (MMA) for the City of Irving Joint Account Custody Agreement with Wells Fargo. The agreement relates to the advance funding for the Princeton Pump Station Capacity Expansion. The District invests in the Allspring Treasury Plus Money Market Fund, an institutional government money market fund that is valued at amortized cost, in accordance with GASB Statement 79. At September 30, 2025, the District had \$37,090,608 held in the MMA and \$1,000,000 held in cash. Investments in this fund are not insured or guaranteed by the FDIC or any government agency. All underlying investments are in full compliance with the Public Funds Investment Act.

During December 2023, the District obtained a FDIC insured and fully collateralized 13 month fixed Certificate of Deposit (CD) with Commercial Bank of Texas (CBT) for \$2,000,000. During January 2025, the District renewed the CD for 13 months at a stated rate of 4.25%. This CD is valued at cost of \$2,111,539 on the face of the financial statements as of September 30, 2025.

**Statutory Risks – Investments** – To ensure that the District is in compliance with all applicable laws, the District adheres to a Board approved Investment Policy in accordance with Chapter 2256, Texas Government Code (Texas Public Funds Investment Act).

**Interest Rate Risk** — In accordance with the District's Board approved investment policy and with Chapter 2256, Texas Government Code (Texas Public Funds Investment Act), investments are made to ensure the primary objective of preservation of capital and the safety of principal in the overall portfolio. Interest rate earnings and reasonable returns are the secondary objectives. As a result, each investment transaction seeks to ensure first that capital losses are avoided, whether they be from security defaults or erosion of fair value. Therefore, the District does not expose itself to significant interest rate risk.

**Credit Risk** — In accordance with the District's Board approved investment policy and with Chapter 2256, Texas Government Code (Texas Public Funds Investment Act), the District's investments in public funds

investment pools include investments with TexPool. As of September 30, 2025, TexPool was rated as an AAA by Standard & Poor's. TexPool is a public funds investment pool created by the Treasurer of the State of Texas, acting and through the Texas Treasury Safekeeping Trust Company, is empowered to invest funds and act as a custodian of investments purchased with local investment funds in full compliance with the Public Funds Investment Act. As of September 30, 2025, the District's investment in TexPool was \$312,234,736.

**Custodial Credit Risk — Investments** — For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments held by third parties are held in the District's name.

**Public Funds Investment Act** – The District adheres to the requirement of the Act in the areas of investment practices.

The District recognizes the net unrealized gain/loss on investments as investment income/loss.

### **Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market based measurement, not an entity specific measurement.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels. These three levels are as follows:

**Level 1** - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities in active markets that a government can access at the measurement date. An active market for the asset or liability is a market in which transactions for an asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Accordingly, a quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

**Level 2** - Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. If an asset or liability has a specified term to maturity, then to qualify for Level 2 designation, an input must be observable for substantially the full term to maturity of the asset or liability.

Level 2 inputs include the following: (a) Quoted prices for similar assets or liabilities in active markets; (b) Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market); (c) Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, prepayment speeds, loss severities, credit risks, and default rates); (d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market--corroborated inputs).

**Level 3**- Inputs that are unobservable for an asset or liability.

### **TexPool**

The \$312,234,736 of District's investments in Texpool is in a public funds investment pool which measures its investments at amortized cost in accordance with GASB Statement 79. The District has accordingly measured its investments in Texpool at amortized cost and as such, they are not subject to the fair value hierarchy categorization.

### 3. CONTRACTUAL AGREEMENTS RECEIVABLE

Contractual Agreements made with other entities refers to financing provided by the District for facilities for the benefit of Mustang SUD and Providence Village. The amount of \$1,659,264 represents the principal and interest to be paid by these entities, of which \$688,792 is recorded in accounts receivable is to be repaid in the next fiscal year.

### 4. UNEARNED REVENUE

The unearned revenue amount is comprised of the total interest that will be earned in future periods from Contractual Agreements. The unearned revenue will be recognized as revenue in future periods when service is performed.

### 5. CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended September 30, 2025:

	Beginning Balance	Additions	Retirements/ Adjustments	Ending Balance
Capital assets not being depreciated:				
Land	\$ 16,397,604	\$	\$	\$ 16,397,604
Construction in progress:				
Land - General purpose	6,487,249	2,423,202		8,910,451
Reservoir land	61,868,630	1,468,690		63,337,320
Other construction costs	654,874,997	288,534,104	(2,228,705)	941,180,396
	<u>739,628,480</u>	<u>292,425,996</u>	<u>(2,228,705)</u>	<u>1,029,825,771</u>
Total capital assets not being depreciated				
Capital assets that are being depreciated:				
Plant/pipeline facilities	569,824,978	285,509	(1,162,572)	568,947,915
Water rights	9,324,753			9,324,753
Reservoirs	1,556,416			1,556,416
Furniture and equipment	9,923,653	1,688,226	(104,490)	11,507,389
	<u>590,629,800</u>	<u>1,973,735</u>	<u>(1,267,062)</u>	<u>591,336,473</u>
Less accumulated depreciation for:				
Plant/pipeline facilities	217,285,267	15,524,916	(388,986)	232,421,197
Water rights	3,188,476	91,586		3,280,062
Reservoirs	560,304	31,128		591,432
Furniture and equipment	4,668,444	848,034	(92,972)	5,423,506
	<u>225,702,491</u>	<u>16,495,664</u>	<u>(481,958)</u>	<u>241,716,197</u>
Total depreciable capital assets — net	<u>364,927,309</u>	<u>(14,521,929)</u>	<u>(785,104)</u>	<u>349,620,276</u>
Capital assets — net	<u>\$ 1,104,555,789</u>	<u>\$ 277,904,067</u>	<u>\$ (3,013,809)</u>	<u>\$ 1,379,446,047</u>

### 6. NOTES PAYABLE, LONG-TERM DEBT, AND OTHER LIABILITIES

Long-term debt of the District at September 30, 2025 includes bonded indebtedness consisting of revenue bonds payable, State and Board Participation debt, notes payable, related non-current accrued interest payable, and other financing proceeds not to be repaid within one year. Revenues from customers participating in these projects will be used to pay debt service on the long-term debt.

## **Revenue Bonds**

Because the interest rate market remained favorable in FY2025, the District issued Regional Treated Water Supply System Revenue Bonds Series 2025 to refund \$60,000,000 of the VRCC and \$12,265,000 of the Series 2015 Regional Treated Water Supply System Revenue Bonds. With this partial refunding, the District recognized a refunding gain of approximately \$1,023,833 as a deferred inflow of resources. In addition, the District realized a total debt service savings of approximately \$646,726 and a total present value cash savings of approximately \$521,999.

## **Board/State Participation**

The District entered into a master agreement with the Texas Water Development Board (TWDB) on February 20, 2002 related to the Northeast Water Reclamation System and received \$2,325,000 of State Participation funding. The funding was for improvements to pump stations and transmission and distribution pipelines.

On October 1, 2015, the District entered into another Master Agreement related to the Regional Treated Water System and received \$15,565,000 of Board Participation funding as part of the State Water Infrastructure Fund for Texas (SWIFT) Program of the TWDB. On October 3, 2019, November 5, 2020, December 2, 2021 and December 1, 2022, the District amended and restated the Master Agreement for the Regional Treated Water System in order to receive an additional \$30,000,000, \$120,000,000, \$146,105,000, and \$119,100,000 respectively, of Board Participation. The funding is for land purchases and construction costs related to the Lake Ralph Hall and the Northeast Pipeline Projects.

On November 3, 2023, the District amended the Master Agreement for the Regional Treated Water System in order to receive \$18,080,000 in calendar year 2023, \$22,320,000 in calendar year 2024, \$20,220,000 in calendar year 2025, and \$15,635,000 in calendar year 2026. The funding is for land purchases and construction costs related to the Taylor Plant Expansion. Also, on November 3, 2023, the District amended the Master Agreement for Regional Treated Water System in order to receive \$5,810,000 in calendar year 2023, \$13,300,000 in calendar year 2025, and \$11,440,000 in calendar year 2026. The funding is for land purchases and construction costs related to the Harpool Plant Expansion.

On November 13, 2024, the District amended the Master Agreement for the Regional Treated Water System in order to receive \$40,000,000 in calendar year 2024, \$40,000,000 in calendar year 2025, \$40,000,000 in calendar year 2026, \$32,000,000 in calendar year 2027, and \$10,000,000 in calendar year 2028. The funding is for land purchases and construction costs related to the Taylor Plant Expansion. On November 8, 2024, the District amended the Master Agreement for the Regional Treated Water System in order to receive \$60,220,000 in calendar year 2025. The funding is for construction costs related to the Lake Ralph Hall.

Under the Master Agreements regarding State Participation and Board Participation funding, the District is allowed to defer payment of a portion of interest costs until future periods. However, the full amount of the interest is currently being expensed on an annual basis. The amount of unpaid interest is being recorded as a non-current liability under long-term accrued interest. The District has a remaining balance of \$76,022,815 in long-term accrued interest as of September 30, 2025.

In addition to the Board Participation funding for Lake Ralph Hall, the District received \$29,115,000 in FY 2016 and \$15,000,000 in FY 2021 of Deferred Interest funding for Lake Ralph Hall as part of the SWIFT Program. Under this program, the District did not begin to pay principal or interest for the first nine years, which is not until FY 2024 and FY 2029, respectively. During that period, interest was also not accrued. The District classifies Deferred Interest funding as senior lien revenue bonds for financial reporting purposes.

## **Variable-Rate Revolving Credit**

On December 7, 2023 the District entered into a Master Agreement (“Agreement”) with Wells Fargo, NA Bank establishing a Variable-Rate Revolving Credit Facility (VRRF). The VRRF allows the District to drawdown funds when necessary up to a set limit of \$100,000,000. During July 2025, the District amended

the Agreement with Well Fargo, which increased the set limit to \$150,000,000. In accordance with the terms of the Agreement, the District had recorded the amount outstanding as of year-end as a long-term liability in the Statement of Net Position. The outstanding balance would be due by the Agreement on the stated expiration date of December 2027. During fiscal year 2025, the annual interest rate for VRRC issued ranged from 3.648% to 4.460%. The outstanding principal balance as of September 30, 2025 for the VRRC is \$55,231,000.

### Water Supply Obligation

Also included as a significant portion of the District's long-term debt is the obligation due to the Army Corps of Engineers for Chapman Lake Water Rights through the City of Commerce. The District had a remaining balance of \$4,209,583. See note 7 for further explanation of this obligation.

### Notes Payable

The District had a remaining balance of \$8,896,432 of Notes Payable as of September 30, 2025. The District received these funds from certain fresh water supply districts for the construction of wastewater systems. These notes have no interest costs or payment schedule associated with them. The District may repay the Notes Payable at such time as the respective service areas have developed sufficiently that the District deems it appropriate to arrange other long-term financing or repay amounts available from non-restricted assets. The notes payable are reduced by 90% of the permit fees received by the District from the Denton County Fresh Water Supply Districts.

Total activity for notes payable, long-term debt and other liabilities for the year ended September 30, 2025 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 431,395,000	\$ 85,045,000	\$ (35,000,000)	\$ 481,440,000	\$ 21,480,000
Board/state participation	509,140,000	337,885,000	(120,000)	846,905,000	125,000
Premium	17,854,005	3,678,487	(2,803,427)	18,729,065	
Revenue bonds and board / state participation debt	<u>958,389,005</u>	<u>426,608,487</u>	<u>(37,923,427)</u>	<u>1,347,074,065</u>	<u>21,605,000</u>
Variable-rate revolving credit facility	40,231,000	145,231,000	(130,231,000)	55,231,000	
Water supply obligation	4,331,004		(121,421)	4,209,583	125,370
Notes payable	8,924,332		(27,900)	8,896,432	
Non-current accrued interest	47,198,038	28,824,777		76,022,815	
Other long-term liabilities	<u>100,684,374</u>	<u>174,055,777</u>	<u>(130,380,321)</u>	<u>144,359,830</u>	<u>125,370</u>
Total notes payable, long-term debt and other liabilities	<u>\$ 1,059,073,379</u>	<u>\$ 600,664,264</u>	<u>\$ (168,303,748)</u>	<u>\$ 1,491,433,895</u>	<u>\$ 21,730,370</u>

Additions to the Variable-Rate Revolving Credit Facility program in the amount of \$70,231,000 were rollovers.

The following is a detailed listing of the long-term debt of the District as of September 30, 2025:

<b>Series</b>	<b>Amount</b>	<b>Final Maturity</b>	<b>Interest Rates</b>
<b>Regional Treated Water System Revenue Bonds</b>			
Series 2013 (Refunding)	\$ 6,530,000	2030	3.11%
Series 2015 (Refunding)	4,055,000	2044	2.00 - 5.00%
Series 2015A (SWIFT)	27,340,000	2045	2.14 - 4.11%
Series 2016	9,640,000	2032	2.00 - 5.00%
Series 2017 (Refunding)	14,500,000	2047	2.00 - 4.00%
Series 2018	5,820,000	2043	1.40 - 3.01%
Series 2019 (SWIFT)	14,710,000	2044	0.96 - 2.46%
Series 2019A (Refunding)	17,040,000	2049	2.50 - 4.00%
Series 2020 (Refunding)	395,000	2026	4.00 - 5.00%
Series 2020A	12,940,000	2045	0.11 - 2.20%
Series 2020B	15,000,000	2050	0.94 - 3.09%
Series 2021	31,580,000	2051	2.00 - 4.00%
Series 2022 (Refunding)	38,905,000	2052	4.00 - 5.00%
Series 2023	29,040,000	2053	5.00 - 5.25%
Series 2024	64,765,000	2054	4.25 - 5.00%
Series 2025 (Refunding)	73,785,000	2049	5.00 - 5.50%
<b>Lakeview Water Reclamation System Revenue Bonds</b>			
Series 2012 (Refunding)	415,000	2028	2.00 - 4.00%
Series 2012A (Refunding)	4,100,000	2028	2.00 - 5.00%
Series 2014 (Refunding)	1,110,000	2030	2.00 - 3.50%
Series 2015	2,095,000	2035	2.00 - 4.00%
Series 2020 (Refunding)	1,870,000	2030	2.00 - 3.00%
<b>Northeast Water Reclamation System Revenue Bonds</b>			
Series 2016 (D-Fund)	10,835,000	2045	1.57 - 3.63%
Series 2017 (D-Fund)	22,790,000	2045	1.88 - 4.28%
Series 2019 (Refunding)	23,055,000	2048	3.00 - 5.00%
Series 2022	10,435,000	2047	5.00%
Series 2024	27,340,000	2054	4.25 - 5.00%
Series 2025	10,720,000	2049	4.00 - 5.00%
<b>Peninsula Water Reclamation Plant Revenue Bonds</b>			
Series 2016	630,000	2035	2.00 - 3.00%
<b>Total Revenue Bonds</b>	<b>\$ 481,440,000</b>		

<b>Series</b>	<b>Amount</b>	<b>Final Maturity</b>	<b>Interest Rates</b>
<b>Regional Treated Water System Board Participation</b>			
Series 2015	\$ 15,565,000	2050	3.98 - 4.11%
Series 2019	30,000,000	2054	1.27 - 3.46%
Series 2020	120,000,000	2055	2.41 - 3.09%
Series 2021	135,500,000	2056	2.65 - 3.27%
Series 2021A	10,605,000	2056	2.65 - 3.27%
Series 2022	110,000,000	2057	4.74 - 4.97%
Series 2022A	9,100,000	2057	4.74 - 4.97%
Series 2023	48,000,000	2058	4.75 - 4.96%
Series 2023A	4,705,000	2058	4.75 - 4.96%
Series 2023B	18,080,000	2058	4.75 - 4.96%
Series 2023C	5,810,000	2058	4.75 - 4.96%
Series 2024	260,625,000	2059	4.16 - 4.41%
Series 2024A	4,705,000	2059	4.16 - 4.41%
Series 2024	22,320,000	2059	4.16 - 4.41%
Series 2024	10,235,000	2059	4.16 - 4.41%
Series 2024	40,000,000	2059	4.16 - 4.41%
<b>Northeast Water Reclamation System State Participation</b>			
Series 2003	1,655,000	2036	5.58 - 5.78%
<b>Total Board/State Participation</b>	<b>\$ 846,905,000</b>		
<b>Regional Treated Water System Water Rights</b>			
Initial Water	\$ 844,931	2040	3.25%
Future Water	3,364,652	2050	3.25%
<b>Total Water Rights</b>	<b>\$ 4,209,583</b>		

The District plans to repay both the principal and interest on the Revenue Bonds, State/Board Participation and Water Supply Obligation based on the following schedule:

Years ending September 30:	Revenue Bonds		Board /State Participation		Water Supply Obligation		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2026	\$ 21,480,000	\$ 19,893,484	\$ 125,000	\$ 4,188,087	\$ 125,370	\$ 136,938	\$ 45,948,877
2027	20,210,000	18,787,907	135,000	5,872,930	129,449	132,859	45,268,145
2028	19,910,000	17,986,484	145,000	10,489,509	133,660	128,648	48,793,302
2029	18,740,000	17,560,687	150,000	12,765,697	138,008	124,301	49,478,692
2030	17,340,000	16,817,213	160,000	16,801,982	142,497	119,811	51,381,504
2031 - 2035	82,970,000	74,013,488	940,000	140,202,484	785,107	526,434	299,437,513
2036 - 2040	86,765,000	56,751,049	5,720,000	168,458,806	921,387	390,154	319,006,395
2041 - 2045	94,560,000	38,360,909	121,990,000	162,413,916	793,352	243,894	418,362,072
2046 - 2050	70,990,000	20,315,909	252,435,000	127,066,813	853,123	115,550	471,776,395
2051 - 2055	48,475,000	5,895,613	298,265,000	73,442,922	187,631	6,104	426,272,270
2056 - 2060			166,840,000	16,846,773			183,686,773
<b>Total</b>	<b>\$ 481,440,000</b>	<b>\$ 286,382,742</b>	<b>\$ 846,905,000</b>	<b>\$ 738,549,918</b>	<b>\$ 4,209,583</b>	<b>\$ 1,924,693</b>	<b>\$ 2,359,411,937</b>

Debt of the District's water, wastewater and non-potable systems includes revenue refunding and revenue bonds, State/Board Participation funding, Water Supply Obligation and payments related to Variable-Rate Revolving Credit Facility. This debt is secured by and payable from net revenues of each of the District's systems. Some of the District's debt contains provisions that allow the District to prepay or call the debt.

Specifically, net revenues of the District's various systems have been pledged for repayment of the District's outstanding debt. All debt was originally issued to provide for construction of the various systems. The pledge continues for the life of the debt. For the Regional Treated Water System, net pledged revenues for the year ended September 30, 2025 were \$65,563,809 and actual annual debt service was \$36,929,739. For the Lakeview Regional Water Reclamation System, net pledged revenues were \$4,492,919 and actual annual debt service was \$2,591,373. For the Northeast Regional Water Reclamation System, net pledged revenues were \$13,635,008 and actual annual debt service was \$7,471,435. For the Peninsula Water Reclamation Plant, net pledged revenues were \$921,044 and actual annual debt service was \$74,794.

The District uses a method that approximates the effective interest rate to amortize premiums and discounts on bond issuance.

There is no amortization schedule for the Variable Rate Funding or Notes Payable because these liabilities have undetermined payment schedules.

## 7. CHAPMAN RESERVOIR WATER RIGHTS/WATER SUPPLY OBLIGATIONS

In 1990 the District entered into a 50-year contract with the City of Commerce, Texas to obtain raw water rights in Chapman Reservoir. On January 31, 2006, the Corps of Engineers (COE) notified the Sulphur River Municipal Water District (SRMWD) of its final accounting for construction. The final construction cost allocated to water supply was \$14,930,738. The District's share of SRMWD's obligation is 41.81%, or \$6,242,542. As of September 30, 2025, the District had paid \$2,032,959 for principal, leaving a remaining liability of \$4,209,583. Inclusive of capitalized costs during the construction period of the reservoir, the net book value, net of amortization, of the District's water rights was \$6,044,691 at September 30, 2025.

During FY 2019, the contract was extended for an additional 50 years. Therefore, the District changed the amortization of its water rights over the new life of the contract, on a straight-line basis for 100 years.

## 8. LEASES

During fiscal year 2025, the District leased out office space from buildings the District owns. The District recognized \$88,633 of lease revenue and \$6,188 of interest revenue during the fiscal year 2025 related to these leases. The District received \$97,833 in lease payments, \$91,653 in principal and \$6,180 in interest. As of September 30, 2025, the District's total lease receivable for lease payments was \$153,207. Also, the

District has a deferred inflows of resources associated with these leases that will be recognized as revenue over the lease term. As of September 30, 2025, the balance of the deferred inflows of resources was \$148,874.

## 9. EMPLOYEES' RETIREMENT PLANS

**Defined Contribution Plan** — A retirement plan is provided for all regular employees of the District and is administered by Mission Square (formerly ICMA Retirement Corporation). It is a single-employer defined contribution retirement plan created in accordance with Internal Revenue Code Section 401(a), which provides retirement benefits for all regular employees. The retirement plan is established by the District's Board, which may periodically amend the plan and its respective contributions. The District's employer contribution to the 401(a) plan is 10% of the employees' gross compensation.

Employees hired before October 1, 2000, become fully vested after five years of employment or upon attaining age 60, whichever occurs first, and are eligible to receive benefits upon retirement. Full vesting for employees hired after September 30, 2000, occurs at seven years of employment or upon reaching age 62, whichever occurs first.

During fiscal year 2025, the District contributed the required employer contribution of 10% of the employees' gross compensation. The District also contributed the required employees' contribution of 6.2% of the employees' gross compensation pursuant to the IRC Section 414(h)(2) Pick-Up Election under the Plan. Under the Pick-Up Election, any plan established by a governmental unit can have its employees tax defer the required employee contribution since the employer "picks-up" the required contribution from the employee and makes the payment to the Plan on behalf of the employee. The employer and employee contributions were \$1,378,109 and \$732,237 respectively, based on a covered payroll of \$11,810,268. Total payroll for the District was \$12,765,897.

The District makes contributions to the 401(a) plan by matching, dollar-for-dollar, employees' contributions to the deferred compensation plan, discussed below, up to 2% of each employee's gross income. The District contributed \$198,152 to the 401(a) plan as a result of employee contributions into the deferred compensation plan.

The fair value of the balance in the District's forfeiture account at September 30, 2025 was \$30,197.

**Deferred Compensation Plan** — The District also offers its regular employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits participants to defer a portion of their salary until future years. Any withdrawal requires a penalty, except upon termination, retirement, death or an unforeseeable emergency. The District does not make any contribution to the deferred compensation plan.

All amounts of compensation deferred under the plan are placed into a trust for the benefit of participants. The plan is administered by Mission Square. These deferred amounts; all property and rights with those amounts, and all income attributable to those amounts are solely the property and rights of the employees. As such, these assets are not included in the financial statements of the District as of September 30, 2025.

## 10. CONTRIBUTIONS

The District recorded a total of \$31,281,000 in capital contributions in fiscal year 2025. The contributions received by the District were for the Northeast Water Reclamation Systems.

The UTCT recorded a total of \$25,000 in non-operating contributions. The contributions were received from the District. The contributions were made to assist the financial position of the UTCT.

## 11. SEGMENT INFORMATION

The three condensed schedules on the next two pages represent a breakdown of the financial information of the three major segments of the District. The Water segment is composed of the Regional Treated Water

System; the Water Reclamation segment is composed of the Lakeview System, the Northeast Water Reclamation System and the Peninsula Water Reclamation Plant; the Non-Potable Segment is composed of the Non-Potable Water System.

Condensed Schedule of Net Position by Segment	September 30, 2025				
	Water	Water Reclamation			Non-Potable
		Lakeview	Riverbend/Doe Branch	Peninsula	
<b>Assets:</b>					
Current assets	\$ 115,331,499	\$ 16,355,359	\$ 15,738,816	\$ 3,997,194	\$ 1,203,959
Non-current assets	970,472				
Restricted assets	312,620,490	2,249,559	86,284,652	447,838	460,347
Capital assets	<u>1,204,908,990</u>	<u>33,009,886</u>	<u>113,362,711</u>	<u>26,227,444</u>	<u>1,040,583</u>
Total assets	<u>1,633,831,451</u>	<u>51,614,804</u>	<u>215,386,179</u>	<u>30,672,476</u>	<u>2,704,889</u>
<b>Deferred outflows of resources:</b>					
Deferred outflows from loss on debt refunding	169,375	33,084	18,234		
Total deferred outflows of resources	<u>169,375</u>	<u>33,084</u>	<u>18,234</u>		
<b>Liabilities:</b>					
Current liabilities	7,953,668	1,861,287	1,216,643	199,882	15,706
Liabilities payable from restricted assets	102,187,191	2,954,501	12,312,901	115,887	221
Non-current liabilities	<u>1,345,037,634</u>	<u>7,499,543</u>	<u>117,279,483</u>	<u>600,936</u>	<u>606</u>
Total Liabilities	<u>1,455,178,493</u>	<u>12,315,331</u>	<u>130,809,027</u>	<u>916,705</u>	<u>16,533</u>
<b>Deferred inflows of resources:</b>					
Deferred inflows from gain on debt refunding	1,264,103	2,275			
Total deferred inflows of resources	<u>1,264,103</u>	<u>2,275</u>			
<b>Net position:</b>					
Net investment in capital assets	125,869,123	23,353,670	37,154,290	25,524,916	1,040,583
<b>Restricted:</b>					
Debt service		2,194,646	6,259,730	76,112	
Contributions for capital improvements			26,823,588	412,444	
Unrestricted	<u>51,689,107</u>	<u>13,781,966</u>	<u>14,357,778</u>	<u>3,742,299</u>	<u>1,647,773</u>
Total net position	<u>\$ 177,558,230</u>	<u>\$ 39,330,282</u>	<u>\$ 84,595,386</u>	<u>\$ 29,755,771</u>	<u>\$ 2,688,356</u>

**Condensed Schedule of Revenues, Expenses, and Changes in Net Position by Segment**

Year Ended September 30, 2025

	Water Reclamation				
	Water	Lakeview	Riverbend/Doe Branch	Peninsula	Non-Potable
Total Revenue	\$ 79,757,166	\$ 7,044,458	\$ 16,681,760	\$ 2,295,339	\$ 169,734
Depreciation	(9,649,316)	(1,224,740)	(4,164,114)	(1,328,520)	(61,726)
Other operating expenses	<u>(31,877,292)</u>	<u>(3,271,789)</u>	<u>(7,130,337)</u>	<u>(1,537,952)</u>	<u>(78,810)</u>
Operating income (loss)	<u>38,230,558</u>	<u>2,547,929</u>	<u>5,387,309</u>	<u>(571,133)</u>	<u>29,198</u>
Non-operating revenues (expenses):					
Interest income	17,683,935	720,248	4,083,582	163,658	42,150
Interest expense	(47,596,267)	(372,650)	(4,634,438)	(19,533)	
Grant revenue	52,081				
Gain (loss) on disposal of capital assets	(529,142)	1,502	175	105	52
Net non-operating revenues (expenses)	<u>(30,389,393)</u>	<u>349,100</u>	<u>(550,681)</u>	<u>144,230</u>	<u>42,202</u>
Net income (loss) before contributions and transfers	7,841,165	2,897,029	4,836,628	(426,903)	71,400
Contributions for capital improvements			31,281,000		
Transfers from (to) other systems	<u>533,391</u>	<u>(111,874)</u>	<u>(892,719)</u>	<u>482,528</u>	<u>(5,794)</u>
Change in net position	8,374,556	2,785,155	35,224,909	55,625	65,606
Beginning net position	<u>169,183,674</u>	<u>36,545,127</u>	<u>49,370,477</u>	<u>29,700,146</u>	<u>2,622,750</u>
Total net position - End of year	<u>\$ 177,558,230</u>	<u>\$ 39,330,282</u>	<u>\$ 84,595,386</u>	<u>\$ 29,755,771</u>	<u>\$ 2,688,356</u>

**Condensed Schedule of Cash Flows by Segment**

Year Ended September 30, 2025

	Water Reclamation				
	Water	Lakeview	Riverbend/Doe Branch	Peninsula	Non-Potable
Net cash provided (used) by:					
Operating activities	\$ 43,456,183	\$ 3,877,930	\$ 9,431,753	\$ 209,552	\$ 89,731
Capital and related financing activities	136,181,323	(5,580,229)	25,869,897	(324,135)	(9,641)
Investing activities	<u>17,171,938</u>	<u>720,248</u>	<u>4,083,582</u>	<u>163,658</u>	<u>42,150</u>
Net increase (decrease)	196,809,444	(982,051)	39,385,232	49,075	122,240
Cash and cash equivalents — beginning of year	<u>210,049,862</u>	<u>17,362,526</u>	<u>60,187,287</u>	<u>4,174,729</u>	<u>1,498,577</u>
Cash and cash equivalents — end of year	<u>\$ 406,859,306</u>	<u>\$ 16,380,475</u>	<u>\$ 99,572,519</u>	<u>\$ 4,223,804</u>	<u>\$ 1,620,817</u>

## 12. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; workers' compensation; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are managed through the purchase of commercial insurance policies. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The District has a partially self-funded health care insurance program. This is subject to stop-loss of \$35,000 per year per covered person. The District had estimated partially self-funded health insurance liabilities as follows:

	Year ended 9/30/25	Year ended 9/30/24	Year ended 9/30/23
Unpaid claims, beginning of fiscal year	\$ 316,737	\$ 352,917	\$ 290,868
Incurred claims (including IBNR*)	2,731,344	2,468,180	2,339,247
Claim payments	<u>(2,775,677)</u>	<u>(2,504,360)</u>	<u>(2,277,198)</u>
Unpaid claims, end of fiscal year	<u>\$ 272,404</u>	<u>\$ 316,737</u>	<u>\$ 352,917</u>

No significant reductions in insurance coverage have occurred. No settlements have exceeded coverage in the past three years.

\*IBNR – Incurred But Not Reported.

## 13. COMMITMENTS AND CONTINGENCIES

The District frequently enters into contractual commitments for construction of water and wastewater facilities, pipelines and other related construction costs. Commitments for construction projects not completed at September 30, 2025, had a total contracted amount of \$1,189,630,492 of which \$550,115,424 has been spent. Funds to pay these obligations are provided by debt proceeds, internally generated capital (Non-Bond Reserve Funds) and from entities that participate in projects.

The District from time to time is the condemnor in eminent domain cases and is subject to other suits in the normal course of business, for which the ultimate cost is unknown. The exposure to the District in condemnation matters depends on testimony as to the value of the right taken. Management does not expect the potential exposure in these cases to be material, and has not recorded an accrual at September 30, 2025.

## 14. SUBSEQUENT EVENTS

During November 2025, the District received \$188,740,000 of Board Participation Funds from the Texas Water Development Board for the Regional Treated Water System. These funds have interest rates between 4.72% and 4.84%. The final repayment of these funds will occur in 2060.

During February 2026, the District received a contribution of \$31,250,000 from the Town of Prosper for the Doe Branch Water Reclamation Plant of the Northeast Regional Water Reclamation System.

## 15. NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued the following statements that are not yet effective:

In April 2024, the GASB issued Statement No. 103, *Financial Model Improvements*. This Statement is effective for the District in fiscal year ending September 30, 2026.

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. This Statement is effective for the District in fiscal year ending September 30, 2026.

In December 2025, the GASB issued Statement No. 105, *Subsequent Events*. This Statement is effective for the District in fiscal year ending September 30, 2027.

Management has not yet determined the impact of the above statements on the basic financial statements.

**Governmental Accounting Standards Board Statements Implemented in Current Fiscal Year:**

During FY 2025, the District implemented Statement No. 101, *Compensated Absences*. There is minimal impact to the District's financial statements.

During FY 2025, the District implemented Statement No. 102, *Certain Risk Disclosures*. There is no impact to the District's financial statements.

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## **SUPPLEMENTAL SYSTEM AND PROJECT SCHEDULES**

# UPPER TRINITY REGIONAL WATER DISTRICT

## COMBINING SCHEDULE OF NET POSITION - SYSTEMS AND PROJECTS

September 30, 2025

	Water	Water Reclamation		
	Regional Treated Water System	Lakeview Water Reclamation System	Riverbend and Doe Branch Water Reclamation Plants	Peninsula Water Reclamation Plant
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 91,306,747	\$ 13,682,273	\$ 12,433,828	\$ 3,617,757
Cash and cash equivalents-health self-insurance	2,932,069	448,645	854,042	158,208
Investment - certificate of deposit (CD)	2,111,539			
Accounts receivable	18,221,349	2,202,514	2,397,535	197,263
Interest receivable	591,742			
Leases receivable, current portion				
Prepaid expenses	165,953	21,927	53,411	23,966
Other current assets	2,100			
<b>Total current assets</b>	<b>115,331,499</b>	<b>16,355,359</b>	<b>15,738,816</b>	<b>3,997,194</b>
<b>NON-CURRENT ASSETS:</b>				
Leases receivable noncurrent portion				
Contractual agreements receivable	970,472			
Restricted assets:				
Conservation Easements:				
Cash and cash equivalents				
Board Participation:				
Cash and cash equivalents	88,818,845			
Cash and cash equivalents held in escrow	154,425,964			
SWIFT:				
Cash and cash equivalents	2,594,232			
Cash and cash equivalents held in escrow	601			
Construction Fund:				
Cash and cash equivalents	41,619,564	1,683	79,200,803	368,852
Debt Reserve Fund:				
Cash and cash equivalents	20,363,362	2,192,034	6,052,449	75,847
Interest and Sinking Reserve Fund:				
Cash and cash equivalents	4,797,922	55,842	1,031,400	3,139
<b>Total non-current assets</b>	<b>313,590,962</b>	<b>2,249,559</b>	<b>86,284,652</b>	<b>447,838</b>
<b>CAPITAL ASSETS:</b>				
Land	12,656,266	1,254,432	2,220,866	213,113
Buildings	1,326,088	78,934	88,447	15,787
Furniture and equipment	5,587,834	2,545,672	2,037,600	472,185
Plant/pipeline facilities	357,528,939	52,092,730	122,514,039	32,462,692
Water rights	9,324,753			
Reservoirs	1,556,416			
Less accumulated depreciation	(160,189,112)	(30,675,992)	(41,016,419)	(7,615,184)
Construction in progress:				
Land	8,910,451			
Reservoir land	63,337,320			
Other construction costs	904,870,035	7,714,110	27,518,178	678,851
<b>Total capital assets</b>	<b>1,204,908,990</b>	<b>33,009,886</b>	<b>113,362,711</b>	<b>26,227,444</b>
<b>Total non-current assets</b>	<b>1,518,499,952</b>	<b>35,259,445</b>	<b>199,647,363</b>	<b>26,675,282</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,633,831,451</b>	<b>\$ 51,614,804</b>	<b>\$ 215,386,179</b>	<b>\$ 30,672,476</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Deferred outflow from loss on debt refunding	169,375	33,084	18,234	
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 169,375</b>	<b>\$ 33,084</b>	<b>\$ 18,234</b>	<b>\$</b>

<u>Non-Potable</u>	<u>Solid Waste</u>	<u>Administration and Project Development</u>			<u>Component Unit</u>
<u>Non-Potable Water System</u>	<u>Household Hazardous Waste Program</u>	<u>Growth Project</u>	<u>Administration and Capital Projects</u>	<u>Total</u>	
\$ 1,156,848	\$ 108,304	\$ 68,264	\$ 1,470,148	\$ 123,844,169	\$ 129,144
3,620			58,578	4,455,162	
				2,111,539	
34,512	15,796		12,300	23,081,269	
			555	592,297	
			75,290	75,290	
8,979	29		328,648	602,913	977
				2,100	
<u>1,203,959</u>	<u>124,129</u>	<u>68,264</u>	<u>1,945,519</u>	<u>154,764,739</u>	<u>130,121</u>
			77,918	77,918	
				970,472	
					62,838
				88,818,845	
				154,425,964	
				2,594,232	
				601	
460,347				121,651,249	
				28,683,692	
				5,888,303	
<u>460,347</u>			<u>77,918</u>	<u>403,111,276</u>	<u>62,838</u>
27,966			24,961	16,397,604	
7,893			140,428	1,657,577	
14,143			849,954	11,507,388	
2,678,138			13,800	567,290,338	
				9,324,753	
				1,556,416	
(1,691,615)			(527,874)	(241,716,196)	
				8,910,451	
				63,337,320	
4,058			395,164	941,180,396	
<u>1,040,583</u>			<u>896,433</u>	<u>1,379,446,047</u>	
1,500,930			974,351	1,782,557,323	62,838
<u>\$ 2,704,889</u>	<u>\$ 124,129</u>	<u>\$ 68,264</u>	<u>\$ 2,919,870</u>	<u>\$ 1,937,322,062</u>	<u>\$ 192,959</u>
				220,693	
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 220,693</u>	<u>\$</u>

(Continued)

# UPPER TRINITY REGIONAL WATER DISTRICT

## COMBINING SCHEDULE OF NET POSITION - SYSTEMS AND PROJECTS

September 30, 2025

	Water Regional Treated Water System	Lakeview Water Reclamation System	Water Reclamation Riverbend and Doe Branch Water Reclamation Plants	Peninsula Water Reclamation Plant
<b>LIABILITIES AND NET POSITION</b>				
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 6,761,735	\$ 331,992	\$ 690,136	\$ 152,780
Unearned revenue	10,754	1,331,230		
Accrued liabilities (arbitrage)	459,029	101,382	331,983	
Accrued wages & benefits	722,150	96,683	194,525	47,102
Other current liabilities				19,821
Liabilities payable from restricted assets:				
Accrued interest payable	3,436,204	53,230	824,119	2,874
Accounts payable-construction	53,750,978	541,982	8,291,675	
Construction retainage payable	27,960,362	46,857	614,887	28,519
Current portion of long-term bonds	16,735,000	2,285,000	2,405,000	55,000
Current portion of long-term state participation			125,000	
Current portion of water supply obligation	125,370			
Unpaid self-insurance claims	179,277	27,432	52,219	9,673
	<u>110,140,859</u>	<u>4,815,788</u>	<u>13,529,544</u>	<u>315,769</u>
Total current liabilities				
Non-current liabilities, net of current portion				
Long-term bonds	363,926,225	7,446,547	106,740,876	575,417
Long-term board /state participation	845,250,000		1,530,000	
Variable rate debt	55,231,000			
Long-term water supply obligation	4,084,213			
Long-term accrued compensated absences	523,381	52,996	112,175	25,519
Notes payable			8,896,432	
Long-term accrued interest	76,022,815			
Total non-current liabilities	<u>1,345,037,634</u>	<u>7,499,543</u>	<u>117,279,483</u>	<u>600,936</u>
TOTAL LIABILITIES				
	<u>\$ 1,455,178,493</u>	<u>\$ 12,315,331</u>	<u>\$ 130,809,027</u>	<u>\$ 916,705</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflow from gain on debt refunding	1,264,103	2,275		
Deferred inflow from leases				
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 1,264,103</u>	<u>\$ 2,275</u>	<u>\$</u>	<u>\$</u>
<b>NET POSITION</b>				
Net investment in capital assets	125,869,123	23,353,670	37,154,290	25,524,916
Restricted:				
Debt service		2,194,646	6,259,730	76,112
Conservation easements				
Contributions for capital improvements			26,823,588	412,444
Unrestricted	<u>51,689,107</u>	<u>13,781,966</u>	<u>14,357,778</u>	<u>3,742,299</u>
Total net position	<u>\$ 177,558,230</u>	<u>\$ 39,330,282</u>	<u>\$ 84,595,386</u>	<u>\$ 29,755,771</u>

Non-Potable Water System	Solid Waste Household Hazardous Waste Program	Administration and Project Development		Total	Component Unit
		Growth Project	Administration and Capital Projects		
\$ 14,433	\$ 1,645 3,960		\$ 290,233	\$ 8,242,954 1,345,944 892,394	\$ 8,186
1,273	84		512,404	1,574,221 19,821	
				4,316,427 62,584,635 28,650,625 21,480,000 125,000 125,370	
221			3,582	272,404	
<u>15,927</u>	<u>5,689</u>		<u>806,219</u>	<u>129,629,795</u>	<u>8,186</u>
				478,689,065 846,780,000 55,231,000 4,084,213	
606			413,254	1,127,931 8,896,432	
<u>606</u>			<u>413,254</u>	<u>76,022,815</u>	
<u>\$ 16,533</u>	<u>\$ 5,689</u>		<u>\$ 1,219,473</u>	<u>\$ 1,600,461,251</u>	<u>\$ 8,186</u>
				1,266,378	
			148,874	148,874	
<u>\$</u>	<u>\$</u>		<u>\$ 148,874</u>	<u>\$ 1,415,252</u>	
1,040,583			896,433	213,839,016	
				8,530,468	62,838
				27,236,032	
<u>1,647,773</u>	<u>118,440</u>	<u>68,264</u>	<u>655,089</u>	<u>86,060,716</u>	<u>121,935</u>
<u>\$ 2,688,356</u>	<u>\$ 118,440</u>	<u>\$ 68,264</u>	<u>\$ 1,551,522</u>	<u>\$ 335,666,252</u>	<u>\$ 184,773</u>

(Concluded)

# UPPER TRINITY REGIONAL WATER DISTRICT

## COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - SYSTEMS AND PROJECTS YEAR ENDED SEPTEMBER 30, 2025

	Water	Water Reclamation		
	Regional Treated Water System	Lakeview Water Reclamation System	Riverbend and Doe Branch Water Reclamation Plants	Peninsula Water Reclamation Plant
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 79,668,098	\$ 7,044,364	\$ 16,672,060	\$ 2,293,653
Contributions from donors				
Contribution for conservation easements				
Miscellaneous income	89,068	94	9,700	1,686
<b>Total operating revenues</b>	<u>79,757,166</u>	<u>7,044,458</u>	<u>16,681,760</u>	<u>2,295,339</u>
<b>OPERATING EXPENSES:</b>				
Operation and maintenance:				
Salaries and benefits	4,292,713	1,083,904	2,212,264	547,779
Water and wastewater treatment	14,781,297	430,284	389,184	112,115
Lab chemicals and supplies	3,563,430	95,162	125,401	62,710
Maintenance	884,852	238,351	709,954	135,030
Utilities	2,852,912	289,238	1,295,169	147,044
Equipment and tools	114,661	10,746	96,926	13,617
Sludge removal		534,059	961,631	175,022
Disposal service				
Miscellaneous	2,447,439	40,709	62,934	8,784
Depreciation	9,649,316	1,224,740	4,164,114	1,328,520
Overhead expenses	1,777,251	486,765	924,089	175,417
Administrative/other	1,162,737	62,571	352,785	160,434
<b>Total expenses</b>	<u>41,526,608</u>	<u>4,496,529</u>	<u>11,294,451</u>	<u>2,866,472</u>
<b>OPERATING INCOME (LOSS)</b>	<u>38,230,558</u>	<u>2,547,929</u>	<u>5,387,309</u>	<u>(571,133)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Operating contribution from UTRWD				
Interest income	17,683,935	720,248	4,083,582	163,658
Grant revenue	52,081			
Interest and fiscal charges	(47,596,267)	(372,650)	(4,634,438)	(19,533)
Gain/(loss) on disposal of capital assets	(529,142)	1,502	175	105
<b>Net non-operating revenue (expenses)</b>	<u>(30,389,393)</u>	<u>349,100</u>	<u>(550,681)</u>	<u>144,230</u>
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<u>7,841,165</u>	<u>2,897,029</u>	<u>4,836,628</u>	<u>(426,903)</u>
Contributions for capital improvements				
Transfers (to)/from other systems and projects	533,391	(111,874)	31,281,000	482,528
<b>CHANGE IN NET POSITION</b>	<u>8,374,556</u>	<u>2,785,155</u>	<u>35,224,909</u>	<u>55,625</u>
<b>TOTAL NET POSITION - beginning of year</b>	<u>169,183,674</u>	<u>36,545,127</u>	<u>49,370,477</u>	<u>29,700,146</u>
<b>TOTAL NET POSITION - end of year</b>	<u>\$ 177,558,230</u>	<u>\$ 39,330,282</u>	<u>\$ 84,595,386</u>	<u>\$ 29,755,771</u>

<u>Non-Potable</u>	<u>Solid Waste</u>	<u>Administration and Project Development</u>			<u>Component Unit</u>
<u>Non-Potable Water System</u>	<u>Household Hazardous Waste Program</u>	<u>Growth Project</u>	<u>Administration and Project Development</u>	<u>Total</u>	
\$ 169,704	\$ 37,334	\$ 16,631	\$ 171,123	\$ 106,072,967	\$
<u>30</u>	<u>          </u>	<u>          </u>	<u>112,960</u>	<u>213,538</u>	<u>7,255</u>
<u>169,734</u>	<u>37,334</u>	<u>16,631</u>	<u>284,083</u>	<u>106,286,505</u>	<u>31,810</u>
12,273	15,842		111,313	8,276,088	24,707
36,539				15,749,419	
1,110			3,653	3,846,703	
13,835				1,972,950	
				4,598,198	
				235,950	
				1,670,712	
	34,227			34,227	
				2,559,866	
61,726			67,249	16,495,665	
15,054	5,000		10,504	3,394,079	
<u>          </u>	<u>          </u>	<u>          </u>	<u>53,814</u>	<u>1,792,340</u>	<u>23,316</u>
<u>140,536</u>	<u>55,069</u>	<u>          </u>	<u>246,533</u>	<u>60,626,197</u>	<u>48,023</u>
<u>29,198</u>	<u>(17,735)</u>	<u>16,631</u>	<u>37,550</u>	<u>45,660,308</u>	<u>(8,958)</u>
42,150	4,722	3,054	48,941	22,750,290	25,000
				52,081	925
				(52,622,888)	50,000
<u>52</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>(527,308)</u>	<u>          </u>
<u>42,202</u>	<u>4,722</u>	<u>3,054</u>	<u>48,941</u>	<u>(30,347,825)</u>	<u>75,925</u>
71,400	(13,013)	19,685	86,491	15,312,483	66,967
				31,281,000	
(5,794)		(16,630)	11,098		
65,606	(13,013)	3,055	97,589	46,593,483	66,967
<u>2,622,750</u>	<u>131,453</u>	<u>65,209</u>	<u>1,453,933</u>	<u>289,072,769</u>	<u>117,806</u>
<u>\$ 2,688,356</u>	<u>\$ 118,440</u>	<u>\$ 68,264</u>	<u>\$ 1,551,522</u>	<u>\$ 335,666,252</u>	<u>\$ 184,773</u>

# UPPER TRINITY REGIONAL WATER DISTRICT

## COMBINING SCHEDULE OF CASH FLOWS - SYSTEMS AND PROJECTS FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Water	Water Reclamation		
	Regional Treated Water System	Lakeview Water Reclamation System	Northeast Water Reclamation Riverbend/Doe Branch Plants	Peninsula Water Reclamation Plant
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 73,581,613	\$ 5,673,899	\$ 16,249,937	\$ 2,287,725
Cash paid to vendors	(24,631,703)	(389,500)	(4,000,804)	(1,431,649)
Cash paid to employees	(5,493,727)	(1,406,469)	(2,817,380)	(646,524)
<b>Net cash provided by (used in) operating activities</b>	<b>43,456,183</b>	<b>3,877,930</b>	<b>9,431,753</b>	<b>209,552</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Property additions	(244,930,999)	(2,876,980)	(8,732,442)	(731,870)
Contributions received	-	-	31,281,000	-
Bond proceeds	76,891,677	-	11,831,810	-
Board participation debt proceeds	337,885,000	-	-	-
Bond principal payments	(17,950,000)	(2,180,000)	(2,550,000)	(55,000)
Bond principal payments for refunded bonds	(12,265,000)	-	-	-
State participation principal payments	-	-	(120,000)	-
Water supply obligation	(121,421)	-	-	-
Variable rate debt proceeds	75,000,000	-	-	-
Variable rate debt payments	(60,000,000)	-	-	-
Interfund Notes Receivable	118,414	-	-	-
Interfund Notes Payable	-	-	(118,414)	-
Notes payable payments	-	-	(27,900)	-
Payment of interest and related fees	(18,979,739)	(411,373)	(4,801,435)	(19,794)
Interfund transfers	533,391	(111,874)	(892,719)	482,528
<b>Net cash provided (used in) by capital and related financing activities</b>	<b>136,181,323</b>	<b>(5,580,227)</b>	<b>25,869,900</b>	<b>(324,136)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest income	17,171,938	720,248	4,083,582	163,658
<b>Net cash provided by investing activities</b>	<b>17,171,938</b>	<b>720,248</b>	<b>4,083,582</b>	<b>163,658</b>
Increase (decrease) in cash and cash equivalents	196,809,444	(982,049)	39,385,235	49,074
Cash and cash equivalents, beginning of year	210,049,662	17,362,526	60,187,287	4,174,729
<b>Cash and cash equivalents, end of year</b>	<b>\$ 406,859,306</b>	<b>\$ 16,380,477</b>	<b>\$ 99,572,522</b>	<b>\$ 4,223,803</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 38,230,558	\$ 2,547,929	\$ 5,387,309	\$ (571,133)
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation and amortization	9,649,316	1,224,740	4,164,114	1,328,520
Change in accounts receivable	(6,175,553)	(1,370,559)	(431,823)	(7,613)
Change in accounts payable	1,897,083	151,785	340,850	(537,392)
Change in deferred revenue	(8,270)	1,331,069	-	-
Change in accrued wages	(15,381)	2,164	11,359	18,278
Change in other current assets	(121,570)	(9,198)	(40,056)	(21,108)
<b>Total adjustments</b>	<b>5,225,625</b>	<b>1,330,001</b>	<b>4,044,444</b>	<b>780,685</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 43,456,183</b>	<b>\$ 3,877,930</b>	<b>\$ 9,431,753</b>	<b>\$ 209,552</b>
<b>Non-cash Item:</b>				
Amortization of bond refunding loss	\$ (43,818)	\$ (15,846)	\$ (1,520)	\$ -
Amortization of bond refunding gain	77,688	758	-	-
Amortization of bond premium	1,439,938	72,640	300,954	78
Accounts payable relating to construction	53,750,978	541,982	8,291,675	-
Retainage	27,960,362	46,857	614,887	28,519

Non-Potable Water System	Solid Waste Household Hazardous Waste Program	Administration and Project Development		Totals
		Growth Fund Project	Administration and Capital Projects	
\$ 172,954	\$ 22,198	\$ 16,640	\$ 287,459	\$ 98,292,425
(70,956)	(44,136)		38,964	(30,529,784)
(12,268)	(15,914)		(11,809)	(10,404,091)
<u>89,730</u>	<u>(37,852)</u>	<u>16,640</u>	<u>314,614</u>	<u>57,358,550</u>
(3,848)			(213,917)	(257,490,056)
				31,281,000
				88,723,487
				337,885,000
				(22,735,000)
				(12,265,000)
				(120,000)
				(121,421)
				75,000,000
				(60,000,000)
				118,414
				(118,414)
				(27,900)
				(24,212,341)
(5,794)		(16,630)	11,098	
(9,642)	-	(16,630)	(202,819)	155,917,769
<u>42,150</u>	<u>4,722</u>	<u>3,054</u>	<u>48,933</u>	<u>22,238,285</u>
<u>42,150</u>	<u>4,722</u>	<u>3,054</u>	<u>48,933</u>	<u>22,238,285</u>
122,238	(33,130)	3,064	160,728	235,514,604
1,498,577	141,434	65,200	1,367,998	294,847,613
<u>\$ 1,620,815</u>	<u>\$ 108,304</u>	<u>\$ 68,264</u>	<u>\$ 1,528,726</u>	<u>\$ 530,362,217</u>
\$ 29,198	\$ (17,735)	\$ 16,631	\$ 37,550	\$ 45,660,308
61,726			67,249	16,495,665
3,220	(15,136)	9	3,378	(7,994,077)
4,497	1,048		77,104	1,934,975
	(5,940)			1,316,859
5	(72)		99,504	115,857
(8,916)	(17)		29,829	(171,036)
<u>60,532</u>	<u>(20,117)</u>	<u>9</u>	<u>277,064</u>	<u>\$ 11,696,243</u>
<u>\$ 89,730</u>	<u>\$ (37,852)</u>	<u>\$ 16,640</u>	<u>\$ 314,614</u>	<u>\$ 57,358,551</u>
\$ -	\$ -	\$ -	\$ -	\$ (61,184)
-	-	-	-	78,446
-	-	-	-	1,813,610
-	-	-	-	62,584,635
-	-	-	-	28,650,625

(Concluded)

**APPENDIX B**

INFORMATION REGARDING SIGNIFICANT OBLIGATED PERSONS

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**DENTON COUNTY FRESH WATER SUPPLY DISTRICT No. 11-A**

**WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT**

	Fiscal Year Ending February 28,				
	2025	2024	2023	2022	2021
Gross Revenues <sup>(1)</sup>	\$ 6,105,291	\$ 5,660,975	\$ 4,885,179	\$ 4,013,505	\$ 3,205,771
Developer Advances	-	-	-	-	-
Total Revenues	\$ 6,105,291	\$ 5,660,975	\$ 4,885,179	\$ 4,013,505	\$ 3,205,771
Operating Expenses <sup>(3)</sup>	4,924,413	4,133,081	4,363,023	3,790,312	3,139,567
Net Revenues	\$ 1,180,878	\$ 1,527,894	\$ 522,156	\$ 223,193	\$ 66,204
Water ESFC <sup>(2)</sup>	1,740	1,743	1,717	1,719	1,716
Sewer ESFC <sup>(2)</sup>	1,732	1,735	1,697	1,699	1,696

(1) Does not include receipts from DCFWSD #8A, 8B, 11B and 11C for water and sewer (utility) services.

(2) "ESFC" means Equivalent Single Family Connections. Includes combined total of water and wastewater connections.

(3) Operating expenses do not include Depreciation.

**REVENUE BOND DATA**

The District does not have any outstanding waterworks and sewer system revenue bonds as of September 30, 2025.

**RESIDENTIAL WATER RATES**

Flat Rate	Rates
	3.75/5,000 Gallons
	4.25/5,001 Gallons to 10,000 Gallons
	5.00/10,001 Gallons to 15,000 Gallons
	6.25/15,001 Gallons to 20,000 Gallons
	7.25/20,001 Gallons and up

**RESIDENTIAL SEWER RATES**

Gallons of Water Used	Rates
Up to 10,000	\$58.17
Over 10,000	\$61.17

**CITY OF CELINA**

**UTILITY SYSTEM OPERATING STATEMENT**

Fiscal Year Ended September 30,

	2025	2024	2023	2022	2021
Revenue <sup>(1)</sup>	\$ 79,698,038	\$ 71,390,435	\$ 52,445,995	\$ 44,112,234	\$ 41,637,280
Expenses <sup>(2)</sup>	28,982,063	23,287,286	19,614,929	13,891,799	14,304,459
Net Revenues	<u>\$ 50,715,975</u>	<u>\$ 48,103,149</u>	<u>\$ 32,831,066</u>	<u>\$ 30,220,435</u>	<u>\$ 27,332,821</u>
Sewer Customers	16,682	14,062	10,281	9,760	9,192
Water Customers	18,626	15,026	12,194	10,628	9,966

(1) Gross Revenues include operating revenue, interest income.

(2) Operating Expenses do not include depreciation.

**REVENUE BOND DATA**

The City does not have any outstanding waterworks and sewer system revenue bonds as of September 30, 2025.

**WATER RATES (EFFECTIVE JANUARY 2026)**

Residential		Commercial	
Usage	Rates	Usage	Rates
0 - 2,000 Gallons		0 - 2,000 Gallons	
5/8 and 3/4 inch meter	\$24.56	5/8 and 3/4 inch meter	\$ 29.50
1 inch meter	41.30	1 inch meter	51.63
1 1/2 inch meter	82.61	1 1/2 inch meter	103.27
2 inch meter	132.18	2 inch meter	165.22
		3 inch meter	247.83
2,001 - 10,000 Gallons per 1K	\$ 5.37	4 inch meter	413.05
10,001 - 20,000 Gallons per 1K	8.13	6 inch meter	843.13
20,001 - 30,000 Gallons per 1K	9.57	8 inch meter	1,636.58
30,000 Gallons and above per 1K	13.81		
		2,001 - 10,000 Gallons per 1K	\$ 5.37
		10,001 - 20,000 Gallons per 1K	8.13
		20,001 - 30,000 Gallons per 1K	9.57
		30,000 Gallons and above per 1K	13.81

**SEWER RATES (EFFECTIVE JANUARY 2026)**

Residential		Commercial	
Usage	Rates	Usage	Rates
0 - 2,000 Gallons		0 - 2,000 Gallons	
5/8 and 3/4 inch meter	\$25.54	5/8 and 3/4 inch meter	\$ 30.59
1 inch meter	45.90	1 inch meter	57.37
1 1/2 inch meter	85.66	1 1/2 inch meter	107.08
2 inch meter	146.85	2 inch meter	183.56
		3 inch meter	256.96
2,001 - 5,000 Gallons per 1K	\$ 6.37	4 inch meter	458.90
5,001-Max	\$ 7.88	6 inch meter	917.80
		8 inch meter	1,835.60
		2,001 Gallons and up per 1K	\$ 6.94

**TOWN OF PROSPER**

**WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT**

Fiscal Year Ended September 30,

	2025	2024	2023	2022	2021
Revenue	\$ 40,181,002	\$ 37,002,381	\$ 32,073,289	\$ 31,967,832	\$ 26,415,452
Expenses <sup>(1)</sup>	29,875,536	27,595,288	24,052,230	23,564,204	19,242,105
Net Revenues	\$ 10,305,466	\$ 9,407,093	\$ 8,021,059	\$ 8,403,628	\$ 7,173,347
Water Customers	15,491	14,773	13,135	12,573	11,766
Sewer Customers	14,008	13,462	12,384	11,835	10,640

(1) Operating expenses do not include depreciation.

**REVENUE BOND DATA**

The Town does not have any outstanding waterworks and sewer system revenue bonds as of September 30, 2025.

**WATER RATES**

Residential		Commercial	
Meter Size	Rates	Meter Size	Rates
3/4" or Smaller	\$ 14.41	3/4" or Smaller	\$ 28.37
1"	24.02	1"	42.11
1 1/2"	48.03	1 1/2"	84.38
2"	76.80	2"	134.19
3"	143.93	3"	249.26
4"	239.88	4"	383.44
6"	479.60	6"	805.28
Volumetric Charges		Volumetric Charges	
	Rates		Rates
Minimum bill includes 2,000 Gallons	\$ 26.02	Minimum bill includes 2,000 Gallons	\$ 28.37
2,000 - 15,000 Gallons per 1K	5.76	Cost Per Thousand Gallons* Over 2,000 Galons	5.95
15,001 - 25,000 Gallons per 1K	6.70		
25,001 - 40,000 Gallons per 1K	7.17		
40,001 - 80,000 Gallons per 1K	8.29		
80,001 Gallons and above per 1K	9.96		

**SEWER RATES**

Residential		Commercial	
	Rates		Rates
Minimum	\$38.31	Minimum	\$67.77
Rate Per 1,000 Gallons	\$ 8.07	Rate Per 1,000 Gallons	\$ 8.07

Charges on residential accounts are billed based on the Winter Average Consumption during the months of December, January and February.

**MUSTANG SPECIAL UTILITY DISTRICT**

**OPERATING STATEMENT:**

	Fiscal Year Ended September 30,				
	2025	2024	2023	2022	2021
Revenues:					
Operating	\$ 109,513,938	\$ 87,544,415	\$ 69,154,377	\$ 57,547,442	\$ 50,663,661
Other	4,778,099	4,856,241	4,410,733	833,304	272,130
Total	\$ 114,292,037	\$ 92,400,656	\$ 73,565,110	\$ 58,380,746	\$ 50,935,791
Operating Expenses <sup>(1)</sup>	\$ 52,003,409	\$ 45,271,424	\$ 33,511,267	\$ 27,120,253	\$ 20,654,659
Net Revenues	\$ 62,288,628	\$ 47,129,232	\$ 40,053,843	\$ 31,260,493	\$ 30,281,132
Water Customers	37,498	34,667	31,118	23,443	20,147

(1) Operating expenses do not include Depreciation.

**REVENUE BOND DATA <sup>(1)</sup>:**

Average Annual Principal and Interest Requirements, 2026 - 2058	\$ 3,819,941
Coverage of Average Requirements by 9/30/25 Net Income	16.31 times
Maximum Principal and Interest Requirements, 2028	\$ 5,798,517
Coverage of Maximum Requirements by 9/30/25 Net Income	10.74 times
Waterworks and Sewer System Revenue Bonds Outstanding as of 9/30/25	\$ 85,343,448
Interest and Sinking Fund, 9/30/25	\$ 6,419,689
Reserve Fund, 9/30/25	\$ 7,061,072

(1) Does not include the District's Contract Revenue Note or the Subordinate Lien Revenue Note which are secured on a junior lien basis to their Prior Lien Obligations.

**WATER SUPPLY:**

The Mustang Special Utility District is a special utility district organized and operating under the terms and conditions of Texas law. Mustang Water Supply Corporation successfully converted to a special utility district on May 4, 2002. The District provides water and wastewater service to an area of approximately 242 sq. miles in Denton, Collin, and Grayson Counties. The District provides water service to approximately 37,498 connections, and provides wastewater service to approximately 29,204 connections. The current distribution system contains approximately 1465 miles of pipe in varying sizes.

Mustang ("The District") purchases treated surface water from the Upper Trinity Regional Water District, whose source is Lake Chapman and Lake Lewisville. Mustang also purchases treated groundwater from The City of Sherman, whose source is the Trinity Aquifer. Mustang owned wells provide groundwater from the Trinity and Woodbine Aquifers. Elmont and Gunter have groundwater wells in the Trinity, Woodbine, and Puluxy Aquifers. The District owns and operates 24 groundwater wells capable of pumping 14.9 million gallons per day; 22 ground storage tanks with total capacity of 10.0 million gallons, 8 pressure tanks with capacity of 84,000 gallons, and 9 elevated storage tanks with a capacity of 7.5 million gallons.

Mustang has a subscription of 5.2 million gallons per day in the Peninsula Water Reclamation Plant, the Riverbend Water Reclamation Plant, and the Doe Branch Water Reclamation Plant, all of which are operated by the Upper Trinity Regional Water District. Mustang also owns and operates 3 wastewater treatment plants, which combined are capable of treating 1.28 million gallons per day. Mustang's Sandbrock Wastewater Treatment Plant is capable of treating 0.8 million gallons per day, and Gunter's Stanley Creek and Gunter Creek Wastewater Treatment Plants are both capable of treating 0.24 million gallons per day.

**WATER SALES:**

Fiscal Year	Water Consumption (Gallons Billed)	Water & Wastewater Revenue
2021	2,103,117,817	\$ 24,057,470
2022	2,630,243,684	36,265,691
2023	3,370,930,479	43,759,211
2024	3,885,413,738	52,200,139
2025	4,031,209,659	60,005,785

**MONTHLY CHARGES:**

Water Service Base Rate		Water Service Gallonage Charge	
Meter Size	Monthly Rates	Charge per M/Gallons	Meters Smaller than 2"
5/8" x 3/4" <sup>(1)</sup>	\$33.83	\$3.31	1 to 3,000 gallons
3/4"	80.76	4.64	3,001 to 9,000 gallons
1"	84.66	5.79	9,001 to 15,000 gallons
1 1/2"	169.32	7.05	15,001 to 23,000 gallons
2"	270.91	10.78	23,001 to 31,000 gallons
3"	507.97	13.74	31,001 to 40,000 gallons
4"	846.62	19.25	>40,001 gallons
6"	1,693.16		
8"	2,580.03		
			<u>Meters Equal to or Larger than 2"</u>
		7.05	1 to 35,000 gallons
Reserve Fee (No meter installed)	30.68	10.78	1 to 35,000 gallons
		13.74	>70,000 gallons

City of Oak Pint Franchise Fee 6% additional to Monthly Rates; late payment fee is \$10 or 10% of payments due, whichever is greater.  
 City of Krugerville Franchise Fee 2% additional to Monthly Rates, late payment fee is \$10 or 10% of payments due, whichever is greater.  
 City of Crossroads Franchise Fee 2% additional to Monthly Rates, late payment fee is \$10 or 10% of payments due, whichever is greater.  
 City of Aubrey Franchise Fee 8% additional to monthly rates, late payment fee is \$10 or 10% of payments due, whichever is greater.  
 City of Providence Village Franchise Fee 2% additional to monthly rates, late payment fee is \$10 or 10% of payments due, whichever is greater.  
 City of Gunter Franchise Fee 10% additional to monthly rates, late payment fee is \$10 or 10% of payments due, whichever is greater.

(1) Per 5/8" x 3/4". Meter – cost on larger meter quoted at time of enrollment process.

Wastewater Service		
Meter Size	Gallons	Charges
Standard, 3/4"	1 to 8,000 gallons	\$ 62.14 per Month
	over 8,000 gallons	\$ 69.30 Per Month
1", 1.5", 2"	Usage Charge	\$ 22.70 per Month
	Usage per 1,000 Gallons Water Used	\$ 4.35 per Thousand
3", 4"	Usage Charge	\$ 41.69 per Month
	Usage per 1,000 Gallons Water Used	\$ 7.05 per Thousand
6", 8"	Usage Charge	\$ 159.32 per Month
	Usage per 1,000 Gallons Water Used	\$ 7.05 per Thousand

Fees

Deposit, water service		\$ 100.00
Deposit, wastewater service		50.00
Late fee	10% or \$10, whichever is greater	
Nonpayment fee		60.00
Disconnect fee		35.00
Reconnect fee		25.00
Same day guarantee reconnect fee		50.00
Service trip fee		25.00
Return check fee		30.00
Meter test fee		35.00
Customer history report fee		5.00
Transfer fee		25.00
TCEQ Regulatory Assesement	5% of monthly water and wastewater charges	
City of Oak Point Franchise Tax		6%
City of Krugerville Franchise Tax		2%
City of Crossroads Franchise Tax		2%
City of Aubrey Franchise Fee		8%
City of Providence Village Franchise Fee		2%
City of Gunter Franchise Fee		10%

**APPENDIX C**

EXAMPLE CONTRACT

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**UPPER TRINITY REGIONAL WATER DISTRICT  
NORTHEAST REGIONAL WATER RECLAMATION SYSTEM**

**PARTICIPATING CUSTOMER CONTRACT  
WITH  
DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 8-A**

THE STATE OF TEXAS           §  
  §  
COUNTY OF DENTON           §

This WASTEWATER TREATMENT SERVICES CONTRACT (the "Contract") made and entered into as of the 29<sup>th</sup> day of August 2001 (the "Contract Date"), by and between UPPER TRINITY REGIONAL WATER DISTRICT, (the "District"), a conservation and reclamation district created pursuant to Article XVI, Section 59 of the Constitution of the State of Texas, and DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 8-A ("FWSD"), a special district and political subdivision of the State of Texas, created and organized pursuant to the Texas Water Code, Chapters 49, 51 and 53. FWSD also may be referred to herein as "Customer", "Participating Customer", or "Initial Participating Customer".

**WITNESSETH:**

**WHEREAS**, FWSD, the boundaries of which are illustrated in Exhibit A to this Contract, is a conservation and reclamation district and a duly created and validly existing political subdivision of the State of Texas, operating under the constitution and laws of the State of Texas; and

**WHEREAS**, FWSD is a governmental entity in Denton County that is taking definitive steps satisfactory to the District to provide retail utility service to customers within its boundaries; and

**WHEREAS**, contemporaneous with this Contract, FWSD and District are entering into a contract for wholesale treated water service, under which contract, FWSD will be a Participating Customer of the Regional Treated Water System; and

**WHEREAS**, FWSD has requested that the District provide wastewater treatment service for FWSD's local wastewater collection and transportation system; and

**WHEREAS**, the District, in cooperation with Participating Customers and other entities, proposes to develop and construct a regional wastewater treatment system in northeast Denton County that includes two or more treatment plants with associated outfall trunk mains for individual Customers, joint trunk mains for combined use, lift stations, sludge handling facilities, effluent discharge and metering facilities; and

WHEREAS, FWSD through its predecessor, Denton County Fresh Water Supply District No. 8 ("Original FWSD") participated in the cost and conduct of the regional study recently completed by District and described in a report entitled "Regional Wastewater System - - Doe Branch and Little Elm Creek Drainage Basins", prepared by Alan Plummer Associates, Inc. and dated April 2000, which report (herein "Northeast Regional Plan") recommends that two wastewater treatment plants be sited and constructed to serve the area generally north of Lewisville Lake, east of U.S. 377 and west of State Highway 289, herein referred to as the Northeast Regional Water Reclamation System (or "System"); and

WHEREAS, up to five (5) Denton County Fresh Water Supply Districts (Numbers 4, 8-A, 9, 10, and 11) are expected to participate in and provide a substantial portion of the initial funds to design and construct the System, which parties individually or collectively are herein referred to as the "Initial Participating Customers;" and

WHEREAS, District has filed an application with Texas Natural Resource Conservation Commission (TNRCC) to obtain a discharge permit for a wastewater treatment plant ("Northside Plant") north of U. S. 380 adjacent to the Little Elm Creek arm of Lewisville Lake; and

WHEREAS, the location of the proposed Northside Plant is consistent with the location recommended in the Northeast Regional Plan for regional service to FWSD, other Participating Customers, nearby cities and utilities, generally in the Little Elm Creek drainage basin; and

WHEREAS, FWSD and District agree that it is in the mutual interest of both parties for District to own and operate the Northside Plant as a regional facility in accordance with the concept outlined in the Northeast Regional Plan; and

WHEREAS, FWSD desires to expedite the requested discharge permit, and accordingly FWSD agrees to provide its pro rata share of all funds to cover the cost of applying for and acquiring the discharge permit, which cost will be shared on a pro rata basis between the Initial Participating Customers to be served by the Northside Plant; and

WHEREAS, the District and FWSD are authorized to enter into this Contract pursuant to the District's enabling statute, Chapter 1053 Acts of the 71<sup>st</sup> Legislature, Regular Session 1989 as amended (the "Act"), the Texas Water Code, and other applicable laws; and

WHEREAS, FWSD hereto acknowledges that the District may enter into similar contracts as this Contract with Additional Customers in the future; and

WHEREAS, FWSD hereto acknowledges that District may seek funding for a portion of the cost of the System from State of Texas through the "State Participation Program," administered by the Texas Water Development Board (TWDB); and if State Participation funds are so provided, District will be obligated to repurchase said portion in future years from the State; and

WHEREAS, if a portion of costs of the Project or System are provided by State Participation funds, FWSD and other future Customers may be required in the future to contribute a share of costs to enable the District to reimburse TWDB according to a Master Agreement with TWDB for such funds; and

**WHEREAS**, FWSD has requested the District to construct a treatment plant (Northside Plant) and related facilities, pipeline, metering facilities and associated improvements in accordance with the requested permit and as generally described in an engineering report prepared by Alan Plummer Associates, Inc., concerning treatment of Wastewater from the Point of Entry for each Customer as part of the Northeast Regional Water Reclamation System (herein, the "Project"); and

**WHEREAS**, FWSD is willing to deposit funds with District on a pro rata basis as provided herein to cover the construction cost of Project, which funds will be reimbursed to each Initial Participating Customer according to the terms hereof, as retail customers within their boundaries are connected to their respective collection system, and as the stream of revenues otherwise available will enable District to provide alternative financing; and

**WHEREAS**, FWSD and the other Initial Participating Customers agree to provide the Town of Lincoln Park's share of funds (for up to 0.06 MGD capacity) on a pro rata basis for participation in the Northside Plant, subject to reimbursement according to the terms hereof; and

**WHEREAS**, FWSD desires to retain the option to increase the number of acres of future development to be served by the Northeast Regional Water Reclamation System under this Contract; and

**WHEREAS**, FWSD will finance, construct, own and operate its internal collection system for delivery of its Wastewater to the Point of Entry; and

**WHEREAS**, the parties agree that if District provides services of the Project or System to future parties who use and benefit from certain facilities of the Project or System previously funded in whole or part by Customer(s) pursuant to this Contract, District will require such benefiting party to pay an appropriate share of such prior costs thereof, which costs will be reimbursed on a pro rata basis to Customer(s) that provided the advance funding; and

**WHEREAS**, FWSD is authorized to provide both water and wastewater (sewer) service to retail customers within its boundaries and is contracting with District for treated water service in addition to wholesale wastewater treatment services under this Contract; and

**WHEREAS**, FWSD is wholly or partially within the water service area of Mustang Water Supply Corporation (MWSC), an area for which MWSC has been granted a Certificate of Convenience and Necessity (CCN); and

**WHEREAS**, MWSC has filed an application to secure a CCN to provide wastewater service on a retail basis for the area that includes FWSD; and

**WHEREAS**, District and FWSD agree that the provision of retail wastewater collection service within FWSD will be coordinated with MWSC in a manner satisfactory to the District; and

**WHEREAS**, FWSD agrees that the District must review and approve any contract with a private party, including MWSC, for operation of FWSD's wastewater collection and pumping system to assure that such contract(s) do not adversely affect the tax exempt status of either District Bonds or FWSD bonds, notes or other obligations; and

**WHEREAS**, one of the purposes for which the District was created was to provide wholesale wastewater treatment services to cities, special districts and other utilities of the Denton County area; and

**WHEREAS**, FWSD desires that the District undertake steps to provide said wastewater treatment service on a wholesale basis to FWSD; and

**WHEREAS**, FWSD is not a Member of the District and has not paid membership fees prior to date of this Contract; and, is therefore willing to pay rates for wastewater treatment service which are reasonably higher than rates offered to Members of the District; and

**WHEREAS**, it is expected by the parties hereto that as soon as practicable after the execution of this Contract, FWSD will deposit its portion of the money to acquire and construct the Project, and thereafter the District, if necessary, will issue an installment or installments of Bonds to complete the acquisition and construction of the Project and any necessary expansion of the System, and to reimburse initial construction funds deposited by FWSD, with all of said Bonds to be payable from and secured by Annual Payments made under this Contract and other similar contracts for participation in the Project and System; and

**NOW THEREFORE**, in consideration of the mutual covenants and agreements herein contained, Customer agrees to deposit funds as provided in this Contract, and the District agrees to take reasonable steps to provide Wastewater treatment services of the Northeast Regional Water Reclamation System to FWSD under this Contract, and to use its best efforts to issue its Bonds, if necessary, to acquire, construct and complete the Project and other System facilities upon and subject to the terms and conditions hereinafter set forth, to-wit:

## ARTICLE I Preamble/Definitions

Section 1.01. **Adoption of Preamble.** All of the matters stated in the preamble of this Contract are true and correct and are hereby incorporated into the body of this Contract as though fully set forth in their entirety herein.

Section 1.02. **Definitions.** The following terms and expressions as used in this Contract, unless the context clearly shows otherwise, shall have the following meanings:

1. "Act" means H.B. 3112, Chapter 1053, Acts of the 71st Legislature, Regular Session, 1989 (effective June 16, 1989), as amended by Chapter 494, 74th Legislature, Regular Session 1995 (which amendment became effective August 28, 1995).

2. "Additional Participating Member" means any Member of the District with which the District makes a contract similar to this Contract for participation in the System.

3. **"Administrative Payment"** means the amount of money to be paid to the District by each of the Participating Members, Participating Utilities, and other Customers during each Annual Payment Period as their proportionate share of Administration and Planning Expenses of the District.

4. **"Adjusted Annual Payment"** means the Annual Payment as adjusted by the Board during or after such Annual Payment Period, as provided by this Contract.

5. **"Administrative and Planning Expenses"** means the general overhead cost and expenses of managing the District, but not including expenses related to capital projects financed by the District; such expenses shall include the administration of the District's general office, the activities and meetings of the Board and the planning activities of the District, to the extent such programs and activities shall be for the general welfare of the District; activities and programs for the benefit of specific parties and for specific capital projects shall, unless otherwise authorized, be the responsibility of the benefiting parties.

6. **"Annual Payment"** means the amount of money to be paid to the District by Customer during each Annual Payment Period as its proportionate share of the Annual Requirement.

7. **"Annual Payment Period"** means the District's fiscal year, which currently begins on October 1 of each calendar year and ends on September 30 of the following calendar year, but which may be any twelve consecutive month period fixed by the District; and, the first Annual Payment Period under this Contract is estimated to be the period of October 1, 2000, through September 30, 2001. Any service provided during FY 2000-2001 for a partial year will be on a pro rated basis.

8. **"Annual Requirement"** means the total amount of money required for District to pay all Operating and Maintenance Expenses of the System, and to pay the Capital Component of the Annual Requirement as described hereinafter, including debt service on its Bonds, and any sums required to pay or restore any amounts required to be deposited in any special or reserve funds required to be established and/or maintained by the provisions of the Bond Resolutions or by action of the Board.

9. **"Board"** means the governing body of the District. The governing body of each Member of the District and of the County are entitled to appoint a qualified person to serve on the Board.

10. **"Boardmembers"** means a member or members of the Board.

11. **"B.O.D."** (denoting Biochemical Oxygen Demand) means the quantity of oxygen utilized in the biochemical oxidation of organic matter under standard laboratory procedure in five days at 20°C., expressed in milligrams per liter.

12. **"Bond Resolution"** means any resolution of the District, which authorizes any Bonds.

13. "Bonds" means all bonds hereafter issued by the District, whether in one or more series or issues, and the interest thereon, to acquire, construct and complete the Project, and/or all bonds issued subsequently to improve, extend, operate or maintain the System, and/or all bonds issued to enable reimbursement of monies advanced by Customer to construct the Project, and any bonds issued to refund any bonds or to refund any such refunding bonds.

14. "County" means Denton County, Texas.

15. "Customer(s)" means specifically FWSD, and, according to context, may refer to any wholesale user participating in the wastewater services provided by the District from the System, which user provides retail utility services within its boundaries.

16. "Customer Advisory Council" or "Council" means the committee authorized to be created to consult with and advise the District with respect to the System as provided in this Contract.

17. "District" means the Upper Trinity Regional Water District, a conservation and reclamation district pursuant to Article XVI, Section 59 of the Constitution of the State of Texas created in accordance with the Act.

18. "Garbage" means solid wastes from the preparation, cooking, and dispensing of food, and from handling, storage, and sale of produce.

19. "gpd" is an abbreviation for "gallons per day".

20. "Grease" means fats, waxes, oils, and other similar nonvolatile materials in Wastewater.

21. "Industrial User (IU)" means any person, including but not limited to, any individual, firm, partnership, corporation, association, or any other group or combination acting as a unit, or any other legal entity, who discharges or desires to discharge Industrial Wastes into the System.

22. "Industrial Waste" means all water-borne solids, liquids, or gaseous substances resulting from an industrial, manufacturing, or food processing operation, or from the development of a natural resource, or any mixture of these with water or domestic sewage.

23. "Infiltration Water" means rainwater or other water which leaks into a sewer that discharges into the System.

24. "MGD" is an abbreviation for "million gallons per day".

25. "mg/l" is an abbreviation for "milligrams per liter".

26. "Northeast Regional Service Area" means generally the area north of Lewisville Lake, east of U.S. Highway 377 and west of State Highway 289 including Little Elm Creek Basin, Doe Branch Basin and Panther Creek Basin; which service area shall be separate from other service areas of the District for purposes of determining the Annual Requirement and for delivery

of services, and which area may be modified from time to time by the Board, subject to provisions otherwise provided in this Contract for protection of Customer and other Participants.

27. "Operation and Maintenance Expenses" means all costs and expenses of operation and maintenance of the System, including (for greater certainty but without limiting the generality of the foregoing) repairs and replacements; operating personnel; the cost of utilities; fees and charges to be paid to Texas Natural Resource Conservation Commission or any other federal, state or local agency for regulatory purposes or for services rendered; the costs of supervision, engineering, accounting, auditing, legal services, insurance premiums, supplies and services; administration and equipment necessary for proper operation and maintenance of the System; and, payments made by District in satisfaction of judgments resulting from claims not covered by District's insurance arising in connection with the acquisition, construction, operation, and maintenance of the System. The term also includes the charges of the bank or banks acting as paying agents and/or registrars for any Bonds. The term does not include depreciation expense which is a non-cash expense; nor does it include Administration and Planning Expenses, payment of which is provided for as a separate item.

28. "Participating Member" (or "Member") means a governmental entity who has met the membership requirements of the District, that provides retail utility service to customers within its boundaries, and that contracts with the District for the acquisition, construction, improvement, enlargement, and payment for the water projects to be financed from time to time by the District. A Participating Customer is required to meet similar requirements, except those related to "membership".

29. "pH" means the common logarithm of the reciprocal of the weight of hydrogen ions in grams per liter of solution.

30. "Point(s) of Entry" means the point(s) designated in Exhibit A to this Contract where Wastewater will be received from Customer into the System.

31. "POTW" means a publicly owned treatment works as defined in 40 CFR 403 of federal code.

32. "Project" means the Wastewater "Project" as defined in the Preamble of this Contract. Unless otherwise provided in this Contract, ownership of the Project shall be vested in District.

33. "Properly Shredded Garbage" means garbage that has been shredded to such degree that all particles will be carried freely under the flow conditions normally prevailing in public sewers, with no particle greater than 1/2 inch in any dimension.

34. "Significant Industrial User (SIU)" means any industrial user who is connected or desires to connect to a governmental entity's domestic wastewater collection system and meets at least one of the following criteria:

(i) Average Industrial Wastewater discharge rate greater than 25,000 gpd.

(ii) B.O.D. and/or suspended solids concentrations in Industrial Wastewater greater than 250 mg/l.

(iii) Industrial category regulated by National Pre-treatment Standards as promulgated by the United States Environmental Protection Agency.

35. "State" means the State of Texas.

36. "Suspended Solids" means the total suspended matter that either floats on the surface or is in suspension in water, sewage, or other liquids, and which is removable by laboratory filtering, expressed in milligrams per liter.

37. "System" means the Project, two proposed treatment plants (herein referred to as "Northside" and "Eastside"), trunk mains, lift stations and other facilities of the Northeast Regional Service Area, together with all future improvements, enlargements, extensions, and additions to any of the foregoing which are deemed necessary and feasible by the District to receive, treat, and dispose of Wastewater from any Participating Member, Participating Customer or other Customer; and, to comply with the requirements of the regulatory agencies of the State and the United States; future facilities which are acquired or constructed with the proceeds from the sale of any Bonds or revenues from the System; and, any other wastewater facilities which are deliberately and specifically, at the option of the District, made a part of the System by resolution of the Board, subject to the provisions of this Contract; and, all repairs to, or replacements of, the System. Said term does not include any District facilities which provide potable water services; nor does said term include any facilities acquired or constructed by the District as follows:

(i) with the proceeds from the issuance of "Special Facilities Bonds", which are hereby defined as being revenue obligations of the District which are not secured by or payable from payments made under this Contract and similar contracts with Additional Participating Members or Customers, and which are payable solely from sources other than revenues of the System, or

(ii) for Wastewater services provided by District for any service area other than the Northeast Regional Service Area.

38. "Total Toxic Organic" means the sum of all detected concentrations greater than 10 micrograms per liter for all organic compounds classified as priority pollutants by the United States Environmental Protection Agency.

39. "Trunk Sewer" means any wastewater line in which sewage (Wastewater) from collecting and lateral sewers is received and conveyed from a Point of Entry to the System.

40. "ug/l" is an abbreviation for "micrograms per liter".

41. "Wastewater" means sewage, Industrial Waste, municipal waste, recreational waste, and agricultural waste, as defined in the Texas Water Code, together with Properly Shredded Garbage and such Infiltration Water that may be present.

**ARTICLE II**  
**General Provisions**

**Section 2.01. Board of Directors.** The District is governed by a Board, the members of which are appointed by the governing bodies of Members and by the County. FWSD is not entitled to appoint a representative to the Board. However, Participating Customers shall be represented by a Boardmember serving Denton County at-large.

**Section 2.02. Consulting Engineers.** The District and Customer agree that the District will choose the Consulting Engineers for the Project and the System and may change Consulting Engineers at the option of the District. However, District agrees to arrange for Customer's engineer to participate in design of the Project, if requested by Customer.

**Section 2.03. Wastewater Flow.** The District agrees to receive, transport and treat Wastewater in accordance with the specifications and restrictions of this Article. The District agrees to provide adequate facilities and processes to meet volume and peaking requirements of Customer as provided herein.

**Section 2.04. Construction of Project and System.**

(a) Subject to cost participation by Customer as provided herein, District agrees to use its best efforts to issue its Bonds, payable from and secured by Annual Payments made under this Contract and other similar contracts, to acquire and construct the Project and other System facilities when and as needed, as determined by the District to provide Wastewater treatment services to Participating Customers, Members and other Customers. It is anticipated that such acquisition and construction will be in phases and that each phase will be financed in part by the District through the issuance of one or more series or issues of its Bonds; and the District agrees to use its best efforts to issue its Bonds for such purpose. Also, at the discretion of the District, Bonds may be issued to refund any Bonds; and, may be issued to extend, enlarge, repair, renovate, equip, operate, maintain and otherwise improve the System and any System facilities. District agrees that such improvements for the Project and System will be made in accordance with generally accepted engineering practices. It is anticipated that such improvements will be financed by cost participation by Customers, however, the District may issue one or more series or issues of its Bonds payable from and secured by Annual Payments made under this Contract and other similar contracts. However, unless District in its sole discretion, determines it is in the interest of District to issue Bonds to help finance the Project, FWSD and other Initial Participating Customers will provide funds for all construction costs of the Project.

(b) To improve marketability of its Bonds (if any), District reserves the right, at its sole discretion, to issue Bonds for the Project or System using pledged revenues from District contracts with treated water Customers who are participating in the District's Regional Treated Water System. If such Bond's are issued by District, the Board may specify a premium of up to 35 basis points (0.35%) on the interest rate for such Bonds, which will be paid by Customer and other participants in the System to cover risk and extra costs.

**Section 2.05. Bond Proceeds.** The proceeds from the sale and delivery of such Bonds may be used to fund, to the extent deemed advisable by the District, a debt service reserve fund, a contingency fund, and interest on the Bonds during construction; and, such proceeds also will be used for the payment of the District's expenses and costs in connection with the Project and System (including all engineering and design costs and expenses, and the cost of the land and interests therein related to the System) and the Bonds, including, without limitation, all financing, legal, printing, and other expenses and costs related to the issuance of such Bonds and the System..

**Section 2.06. Bond Resolution.** Each Bond Resolution of the District shall specify the exact principal amount of the Bonds to be issued thereunder, which shall mature within the maximum period, and shall bear interest at not to exceed the maximum rates then permitted by law. Each Bond Resolution shall create and provide for the maintenance of a revenue fund, an interest and sinking fund, a debt service reserve fund, and any other funds deemed advisable, all in the manner and amounts as provided in such Bond Resolution. Customer agrees that if and when such Bonds are actually issued and delivered to the purchaser thereof, either for the purpose of initially acquiring and constructing the Project, or subsequently for improving and/or extending the System, the Bond Resolution authorizing the Bonds shall for all purposes be deemed to be in compliance with this Contract in all respects, and the Bonds issued thereunder will constitute Bonds as defined in this Contract for all purposes.

**Section 2.07. Flow Rates.**

(a) Customer agrees that during each Annual Payment Period while the System is in operation, it shall be obligated to transport and discharge into the System at its Point of Entry, all of the Wastewater which is generated and collected within its boundaries, subject to the restrictions hereinafter stated.

(b) The combined maximum hourly rate at which Wastewater is discharged by Customer at its Point of Entry shall not exceed a rate which, if continued for a period of twenty-four hours would equal 3.75 times the estimated average daily contributing flow of Wastewater for the then current Annual Payment Period. The total quantity of Wastewater discharge into the System shall never exceed the amount which the System is capable of receiving, treating, and disposing, unless approved by the Board, subject to the terms and conditions to be established by the District.

(c) Notwithstanding the foregoing, no participant or Customer shall ever make any discharge into the System which would cause the System to be overloaded or be in violation of permits from the State and/or the United States of America.

**Section 2.08. Point of Entry.** Wastewater meeting the quality requirements of Section 2.15 of this Contract will be received into the System at the Point of Entry for Customer, as shown on Exhibit A hereto, which Exhibit is attached hereto and incorporated herein for all purposes, or at such other Points of Entry that may be established by mutual agreement between the District and Customer, if such other Points of Entry are determined by the District to be economical and beneficial to the System, and if Customer pays the costs thereof.

**Section 2.09. Capacity.** It is the intention of the parties hereto that the System shall be acquired, constructed, extended, and improved so that at all reasonable times it will be capable of receiving, transporting, treating, and disposing of all eligible Wastewater generated within the collection system of, and delivered to the Point(s) of Entry for each Customer. After the Project is completed and when the System needs to be expanded, it is anticipated that the District will, from time to time, issue its Bonds in such amounts as are, within its judgment and discretion, sufficient to provide the necessary capacity for then existing Customers or to extend the System to serve other Customers.

**Section 2.10. Quantity/Operation and Maintenance Expense.** The District agrees to accept Wastewater under this Contract from Customer at its Point of Entry. Customer agrees to deliver to its Point of Entry or to pay for certain minimum quantity of Wastewater specified in Exhibit B hereto to assure adequate funds to the District to fulfill its obligations under this Contract, including Operation and Maintenance Expense.

**Section 2.11. Capacity/Fixed Costs.** For the purpose of calculating the minimum fixed (or capacity cost) portion of each Annual Requirement for which Customer is liable, without offset or counterclaim, Customer, during each Annual Payment Period, hereby subscribes to, contracts for, and shall be deemed to have taken and used the minimum contracted capacity (regardless of whether or not such amount is or was actually taken or used) specified for Customer in Exhibit B hereto. District agrees to design and construct the Project with adequate overall capacity to provide for the capacity so specified in Exhibit B.

**Section 2.12. Additional Capacity.** To pay the cost of additional capacity in certain facilities of the Project for future growth, District may receive funds from Texas Water Development Board (TWDB) for State Participation in the System. If State Participation is offered by TWDB and accepted by District, the State through the Texas Water Development Board will own certain capacity in the System under an agreement with the District. Under said agreement, District will have an obligation to repurchase the additional capacity when actually used to meet future flow requirements, or according to an agreed schedule of repurchase. Initial Participating Customer(s) or Members in the System shall have the "first right" to such additional capacity. Subject to the "first right" of such parties, District may make such additional capacity available to Additional Participating Members or future Customers in accordance with Section 2.14. The purpose of State Participation in the Project is to encourage regional wholesale service and to provide capacity for future growth by Initial Participating Customers and for other future Customers.

**Section 2.13. Repurchase of Capacity owned by State.** Participants in the System whose actual usage later exceeds initial contracted capacities shall be obligated to provide funds for District to repurchase appropriate capacity from State as provided in any Master Agreement for the Project between District and Texas Water Development Board. Also, any Initial Participating Customer or Member may exercise its respective right to acquire said additional capacity on a first come, first serve basis. Additional participants (Customers) shall have the right to acquire any such additional capacity not already contracted by others.

**Section 2.14. Payment for Additional Capacity.** To acquire any capacity funded by State Participation in the Project, Participating Customer and future Customers must pay certain costs to District for the repurchase of capacity, if any, owned by State. The Board will establish

and maintain a policy for repurchase of State Participation. The current policy of the Board is that any party must pay an Equity Fee to pay interest that has accrued to date for State Participation in the System, such accrued interest to be calculated to the date of subscription and for the amount of capacity being subscribed. After payment of such Equity Fee, the party subscribing to said additional capacity shall pay principal and interest thereon and all other costs provided by Contract to meet Annual Requirement. Said Equity Fee shall not apply to the initial capacity subscribed herein (Exhibit B), but may apply when additional capacity is subscribed in the future by Customer, at which time the revised total capacity in System shall be substituted for the amount specified in Exhibit B hereof. Customer understands and agrees that the amount and the terms of said Equity Fee are, and shall remain, the subject of policy to be established by the Board; accordingly, Customer agrees to abide by said policy for subscription to additional future capacity in the System.

**Section 2.15. Quality.** The obligation of the District to receive Customer's Wastewater into the System depends upon compliance by Customer with the provisions of this Section. In order to permit the District to properly treat and dispose of Customer's Wastewater; to protect the public health; to permit cooperation with other agencies which have requirements for the protection of the physical, chemical, and bacteriological quality of public water and water courses; and, to protect the properties of the System; Customer hereby agrees to the following provisions concerning quality of Wastewater:

1. **Admissible Discharges into District's System.** Discharges into the System shall consist only of Wastewater and other waste which are free from the prohibited constituents listed on Exhibit C, and limited in B.O.D., Suspended Solids, dissolved sulfides, and pH as provided in said Exhibit C, which is attached hereto and incorporated herein for all purposes and, which may be updated by the District from time to time in order to comply with current or future State or federal regulations regarding pollutants.

2. **Prohibited Discharge Limitations Subject to Change.** Notwithstanding the foregoing provisions of this Section, Customer agrees and understands that the District has a responsibility to operate the System in a cost-effective, environmentally safe manner and that federal and State regulatory agencies periodically modify standards on prohibited discharges; therefore, revisions to, additions to, or deletions from the items listed or incorporated in this Section may become necessary in the future to comply with the requirements applicable to the District and such revised standards. It is the intention of this Contract that prohibited discharge requirements be reviewed periodically by the District and revised in accordance with the latest standards of any federal or State regulatory agency having jurisdiction over such standards. Any required revision shall be made and written notice thereof given to each Participating Member or Customer. Customer shall be responsible for integrating such changes into the local Industrial Waste ordinance, resolution or regulation and notifying all affected retail users of the change within ninety (90) days following written notice to Customer of such changes. Any such change shall be incorporated automatically in Exhibit C hereto, to the extent applicable, unless an objection from Customer shall be filed with the District within sixty (60) days, in which case the District shall hold a hearing relating to such change or changes prior to incorporating such change or changes in Exhibit C.

3. **Normal Quality/Extra Strength.** To determine normal quality of Wastewater, the District may collect samples of Wastewater at each Point of Entry and cause same to be analyzed in accordance with testing procedures as set forth in the latest edition of Standard Methods of Examination of Water and Wastewater, published by American Public Health Association, Inc., or by such other procedures as may be established or authorized by the Board. Composite samples may be taken monthly, or at other intervals as necessary to determine Wastewater quality. Such Wastewater shall not exceed the limits of concentration specified in Exhibit C for Normal Wastewater. Should the analysis disclose concentrations higher than those listed, the District immediately will inform the respective participant of the violation of this Section, and the participant will take immediate steps to correct such excessive concentration. However, with the approval of the District, Wastewater with concentrations of B.O.D. and T.S.S. greater than specified above may be discharged by Customer or other participants into the System on an emergency and temporary basis, subject to the payment of a surcharge which shall be in addition to all other payments required by this Contract. The amount of such surcharge shall be based on analysis of samples of the Wastewater taken by the District or its agent.

4. **Additional Charge.** An additional charge shall be made for excess strength discharges at the Point of Entry of any Customer into the System. A surcharge for each mg/l of B.O.D. in excess of 250 mg/l and for each mg/l of T.S.S. in excess of 250 mg/l shall be assessed by resolution of the Board, which resolution will establish the amount of the surcharge and will specify how it will be applied. Customer agrees that the Board, within its judgment, has the right to raise the allowable discharge strengths; but, the Board may lower the allowable strength only by amendment to this Contract. Customer shall pay the District for concentrations of B.O.D. and T.S.S. exceeding 250 mg/l at a rate which shall be determined by the Board and which shall be in an amount sufficient to cover and pay all additional costs for transportation, treatment and disposal related to such excess concentration discharges.

5. **Basis for Billing.** Customer agrees that the results from analysis of composite samples of the Wastewater taken by the District or its agent shall be the basis for billing purposes related to excess strength.

#### **Section 2.16. Metering of Wastewater.**

(a) Unless otherwise mutually agreed in writing, District agrees to furnish and install, at or near each Point of Entry, as part of the Project, standard type devices and equipment and related facilities for measuring and sampling all Wastewater to be discharged into the System. The District will own, operate and maintain at its expense the measuring equipment and devices so installed. Such meters and other equipment shall remain the property of the District. The District or its designee may from time to time inspect, calibrate, and adjust its meters as necessary to maintain accurate measurements of the Wastewater entering the System. Customer shall have access to its metering equipment at all reasonable times for inspection and examination, but the reading, calibration, and adjustment thereof shall be done only by employees or agents of the District. Customer may witness such reading, calibration and adjustment of meters. All readings of meters will be entered upon proper books of record maintained by the District. Customer may have access to said record books during normal business hours.

(b) District shall provide for the calibration of meters at least one time per fiscal year. Upon request, District will make or cause to be made one (1) additional calibration in any fiscal year at no charge to Customer. All requested calibrations in excess of one (1) will be made at the expense of Customer, except when the accuracy of the meter is beyond the limits specified herein, in which case the District shall bear such expense. If, for any reason, any meter is out of service or out of repair, or if, upon any test, the percentage of inaccuracy of any meter is found to be in excess of five (5%) percent of the volume so indicated by the meter, the meter records shall be corrected for a period of time extending back to the time when such inaccuracy began, if such time is ascertainable, and if not ascertainable, then for a period extending back one-half (1/2) of the time elapsed since the date of the last calibration, but in no event further back than a period of six (6) months.

(c) Customer may, at its option and its own expense, install, own and operate a check meter to check each meter installed by the District, but the measurement for the purpose of this Contract shall be solely by the District's meters, except as in this Section specifically provided to the contrary. All such check meters shall be of standard make, shall be installed in a location approved by the District, and shall be subject at all reasonable times to inspection and examination by any employee or agent of the District; but, the reading, calibration, and adjustment thereof shall be the responsibility of Customer, except during any period when a check meter may be used under specific written consent by the District for measuring the amount of Wastewater delivered into the System, in which case the reading, calibration, and adjustment thereof shall be made by District with like effect as if such check meter or meters had been furnished by the District.

(d) If either party at any time observes a variation between the delivery meter and the check meter, if any such check meter shall be installed, such party will promptly notify the other party, and the parties hereto shall then cooperate to procure an immediate calibration test and joint observation of any adjustment and the same meter or meters shall then be adjusted to accuracy.

(e) If for any reason any meters are out of repair so that the amount of Wastewater received cannot be ascertained or computed from the reading thereof, the Wastewater quantity through the period such meters are out of service or out of repair shall be estimated and agreed upon by the parties hereto upon the basis of the best data available. For such purpose, the best data available shall be deemed to be the registration of any check meter or meters if the same have been installed and are accurately registering. Otherwise, the amount of Wastewater for such period may be estimated:

(1) by correcting the error if the percentage of the error is ascertainable by calibration tests or mathematical calculation, or

(2) by estimating the quantity during the preceding periods under similar conditions when the meter or meters were registering accurately.

(f) Each party shall give the other party forty-eight (48) hours notice of the time of all tests of meters so that the other party may conveniently have a representative present.

**Section 2.17. Unit of Measurement.** The unit of measurement for Wastewater discharged into the System hereunder shall be 1,000 gallons, U. S. Standard Liquid Measure.

**Section 2.18. Access.**

(a) Customer agrees to provide ingress and egress for District employees and agents to all Customer premises inside its boundaries to install, operate, inspect, test, and maintain facilities owned or maintained by District within corporate or jurisdictional limits of Customer, or to make such inspections or tests authorized by this Contract.

(b) District agrees to provide ingress and egress for Customer employees and agents to all premises under control of the District to install, operate, inspect, test, and maintain facilities, and read meters owned or maintained by Customer.

**Section 2.19. Resale.** Customer hereby agrees not to accept and transport to its Point of Entry any Wastewater from outside Customer boundaries or prescribed service area (as may be adjusted from time to time pursuant to Exhibit D hereof) unless Customer has received prior written approval from the District. Approval to provide wastewater collection service on a retail basis to individual customers outside such boundaries may be granted by the Executive Director of the District. Approval to make wholesale agreements to receive Wastewater or to provide wastewater collection service for other public or utility entities shall require the specific approval of the Board. In granting such authorization, District may establish the terms and conditions for the acceptance and conveyance of such Wastewater including, but not restricted to, the setting of monetary rates for such Wastewater service.

**Section 2.20. Reporting Requirements.** Approximately sixty (60) days after the end of each Annual Payment Period, Customer shall furnish in writing to the District the following information:

(1) The number of active domestic sewer connections in the Customer's system which will be served by the System;

(2) The number of commercial and business connections to be served by the System;

(3) The number of industrial connections to be served by the System, with name and location of each;

(4) An estimate of the projected annual wastewater flow into the System by Customer for the next five (5) years.

The purpose of this provision is to permit the District to accumulate statistical data which will enable it to plan for adequate service and to facilitate plans for betterment and future facilities expansion.

**Section 2.21. Industrial Waste Pretreatment Program.**

(a) The effects of certain types of Industrial Waste upon sewers and sewage treatment processes are such as to require that careful consideration be made of each industrial connection. To accomplish the purpose of the National Industrial Waste Control Program, when Customer has an industrial customer, Customer shall obtain approval by the U. S. Environmental Protection Agency of its Industrial Waste Pretreatment Program. If Customer chooses to administer its own program, it shall regulate by individual permit the discharge of Industrial Waste generated by a SIU into its sewer system. Customer will authorize discharge of Industrial Waste into its sewers subject to the general provision that no harm will result from such discharge. Customer will require each such industrial user to file an appropriate application, a copy of which shall be forwarded to the District, containing the following information:

- (1) Name and address of applicant;
- (2) Type of industry;
- (3) Total quantity of plant waste produced;
- (4) Quantity of plant wastes proposed to be discharged;
- (5) Typical analysis of the waste; and
- (6) Type of pretreatment proposed by applicant.

To facilitate inspection and control of Industrial Waste, Customer will require industries to separate Industrial Waste from sanitary sewage until such Industrial Waste has passed through a monitoring portal which shall be located so as to be accessible at all times to inspectors of Customer and the District. If inspection indicates that damage might result from the discharge, the permit shall be revoked unless and until the industry promptly establishes acceptable remedial measures. As necessary and indicated, the District may collect and analyze samples of all Wastewater at each Point of Entry. Such Wastewater shall not contain prohibited constituents nor exceed the limits of concentration specified in Section 2.15 of this Contract. Should the analysis disclose prohibited constituents or concentrations higher than those stipulated, the District will inform Customer of such unauthorized wastes. It shall be the obligation of Customer to require the offending originator of said waste to immediately cease discharge of such unauthorized waste and to initiate and undertake remedial pre-treatment or other legal means before further discharge into Customer's sewers.

(b) If Customer desires that District administer its Industrial Waste Pretreatment Program, District agrees to contract to provide such service at actual cost thereof.

**Section 2.22. Regulations, Resolutions, Orders.** Customer agrees that prior to serving any Industrial User it will enact regulations, resolutions, or orders, as appropriate, as necessary to include the following provisions:

(1) For each existing and future SIU, Customer shall require said user to complete and submit a permit application containing information specified in a sample application form to be furnished by the District. Customer shall provide the District with a completed copy of the permit application within thirty (30) days after receipt by Customer. The District may provide written comments to Customer regarding said application within thirty (30) days of receipt. Failure to comment shall be construed as concurrence by the District. After approval of the permit application by Customer, Customer shall issue a discharge permit containing standard requirements as specified in a sample permit form to be furnished by the District. Such a discharge permit shall be required of all SIU's before said industrial user will be allowed to discharge Industrial Wastes into the Customer's Wastewater collection system. The District reserves the right upon notice to each Customer to review each proposed permit before issuance. In the absence of such notice, such review and issuance shall be accomplished by Customer without the necessity for District review and approval, except for providing a copy of application to District as above required, subject to periodic inspection of records by the District. It is mutually agreed that unless Customer obtains approval by the U. S. Environmental Protection Agency of its Industrial Pretreatment Program that it will contract with the District to administer said pretreatment program and will pay the cost of such program, including all monitoring, sampling and testing or will cause said cost to be paid by the affected industry.

(2) Customer shall require Significant Industrial Users to comply with applicable Federal Categorical Pretreatment Standards as well as any applicable state and local standards.

(3) Customer shall maintain certain information contained in permit applications as confidential at SIU's request.

(4) Customer shall not allow a user to employ dilution as a means of reducing pollutant concentrations in an SIU's waste stream.

(5) Upon notice, Customer and the District shall be authorized to enter SIU premises at any time for independent monitoring, inspection, or review of applicable records to determine compliance.

(6) Customer shall develop and require adherence to SIU compliance schedules.

(7) Customer shall require self-monitoring and reporting at SIU's expense.

(8) Customer shall choose or designate an approved laboratory to analyze Industrial Wastes.

(9) Customer shall require SIU's to pay applicable fees for:

- (i) sampling and testing to determine compliance;
- (ii) disconnection/reconnection of service resulting from noncompliance;

- (iii) excess concentrations above the criteria for Normal Wastewater;
- (iv) additional costs incurred by Customer or the District in transporting or treating wastes; and
- (v) filing, review, revision, or renewal of permit application

(10) Customer shall provide prompt notification to the permit holder and the District for instances of violation.

(11) Customer shall deny/revoke permit, disallow/disconnect service, assess civil or criminal penalties, and seek other available legal and equitable remedies against SIU for:

- (i) discharge to Wastewater collection system resulting in violation of applicable POTW discharge permit conditions;
- (ii) hazard to health or life of POTW personnel or users of receiving waters;
- (iii) violation of any applicable ordinance or regulation; and
- (iv) false information transmitted to Customer through permit application, monitoring reports, etc.;

Upon request by District, Customer shall furnish to the District all documents and records, in addition to those outlined herein, as necessary to demonstrate compliance by all industries with the applicable pretreatment program and this Contract.

#### **Section 2.23. Other Contracts.**

(a) The District reserves the right to enter into contracts to provide Wastewater services of the System to Additional Participating Members or Customers under contracts similar to this Contract. Each such contract shall comply with the requirements of this Contract, shall substantially restate the essential provisions of this Contract, and shall be structured to be similar hereto to the fullest extent applicable and practicable, with such additions or changes as are necessary to meet the actual circumstances, with the effect that each Additional Participating Member or Customer will substantially adopt the provisions of this Contract, as supplemented and necessarily changed by its contract. However, the District shall not obligate itself to receive Wastewater into the System from a future Additional Participating Member or Customer if, in the judgment and discretion of the District, such obligation would jeopardize the District's ability to meet its obligation to receive, transport, treat and dispose of Wastewater discharged into the System by Customer under this Contract.

(b) The parties hereto recognize and acknowledge that it is the policy and practice of the District that any other party that desires to receive service from the System shall contract directly with the District to become a Customer of the District or a Participating Member. However, Customer may propose, and with the approval of the Board, Customer may negotiate

and enter into subcontracts with another utility entity for Wastewater service. Any such Wastewater to be discharged into the System under such subcontract shall be generated within the planned boundaries of the System, but may be outside the boundaries of Customer; such Wastewater will be discharged into Customer's sewers, to be transported into the System at Customer's Point of Entry along with Customer's Wastewater. In such case the additional Wastewater shall be regarded as being Customer's Wastewater for all purposes of this Contract. If such arrangement is approved by the District, such transaction shall not relieve Customer of its obligations to the District under the terms of this Contract, including payment of the Annual Requirement.

(c) If District enters into contracts to provide services of the System to Additional Participating Members or to future Customers, such contracts shall require a pro rata refund of applicable prior costs, if any, paid by Customer, not including State Participation costs required by Section 2.14. Refund of such prior costs shall include a pro rata share of the cost of any treatment plant site contributed in whole or part by a Participating Customer, said cost to be determined according to the Special Provisions contained in Exhibit D hereof. If State Participation has been repurchased in whole or in part or if any Customer(s) has paid for System capacity for which said Additional Participating Member(s) or Customer(s) will subscribe or beneficially use, District agrees to provide in said contracts for pro rata reimbursement plus interest thereon to the appropriate Customer for any prior cost so paid for said capacity. The reimbursement provision of this Section shall expire fifteen (15) years after Contract Date. Thereafter, District shall not be obligated to collect such prior costs from future Customers nor to reimburse same to Customer(s).

#### **Section 2.24. Customer Advisory Council.**

(a) Each Customer of the System may appoint one representative to the Customer Advisory Council for the System. The Council shall elect such officers as it deems necessary. The Council shall consult with and advise the District with regard to engineering design, financial matters, budgets, operation and maintenance, contracts for additional Customers, improvements and extensions of the System and other pertinent matters relating to the System. The members of the Council shall play an important role in the efficient functioning of the System, in representing the interest of the Customer and in keeping the Customer well informed. The Council shall have access to and may inspect at reasonable times all physical elements of the System and all records and accounts of the District pertaining to the System.

(b) The term of membership on the Council shall be at the pleasure of each Customer represented, respectively, and each member shall serve until replaced by such Customer. All expenses of the Council in discharging its duties under this Section shall be considered as an Operation and Maintenance Expense of the System.

**Section 2.25. Water Conservation, Drought Contingency Plan.** It is the policy of the District to prepare, adopt and maintain a regional water conservation plan which incorporates loss reduction measures and demand management practices which insure that the District's water supply and the capacity of the System are used in an economically efficient and environmentally sensitive manner. Similarly, it is the policy of the District to prepare, adopt and maintain a drought and emergency contingency plan for water supply. Customer agrees to cooperate in the

implementation of both plans and to adopt and enforce such or similar plans for use within its jurisdiction.

### ARTICLE III Fiscal Provisions

**Section 3.01. Annual Requirement.** Subject to the terms and provisions of this Contract, and after accounting for any cost participation by Customer, the District will provide and pay for the cost of the acquisition, construction and improvement of the Project and System facilities, by issuing its Bonds in amounts which will be sufficient to accomplish such purposes. It is acknowledged and agreed that payment to be made under this Contract and similar contracts with other Customers, if any, will be the primary source available to the District to provide the Annual Requirement. In compliance with the District's duty to fix and from time to time to revise the rates and charges for services of the System, the Annual Requirement may change from time to time. Each such Annual Requirement shall be allocated to Customer and among other Customers as herein provided; and, the Annual Requirement for each Annual Payment Period shall be provided for in each Annual Budget and shall at all times be not less than an amount sufficient to pay or provide for the payment of:

1. An "Operation and Maintenance Component" equal to the amount paid or payable for all Operation and Maintenance Expenses of the System; and
2. A "Capital Component" equal to:
  - (i) the principal of, redemption premium, if any, and interest on the Bonds, as such principal, redemption premium, if any, and interest become due, less interest to be paid out of Bond proceeds or from other sources if permitted by any Bond Resolution, and all amounts required to redeem any Bonds prior to maturity when and as provided in any Bond Resolution, plus the fees, expenses and charges of each paying agent/registrar for paying the principal of and interest on the Bonds, and for authenticating, registering and transferring Bonds on the registration books of the District maintained with the paying agent/registrar; and
  - (ii) the proportionate amount of any special, contingency or reserve funds required to be accumulated and maintained by the provisions of any Bond Resolution; and
  - (iii) an amount in addition thereto sufficient to restore any deficiency in any of such funds required to be accumulated and maintained by the provisions of any Bond Resolution; and
  - (iv) any premium that the Board may establish on interest rates on Bonds issued for the Project or System, for which revenues of other projects of District are pledged to support the Bonds.

3. An "Operation and Maintenance Reserve" in an amount deemed appropriate and necessary by the Board for Operation and Maintenance Expenses of the System and for capital improvements. Any such reserve shall be used as a source of funds for Operation and Maintenance Expenses, for emergency expenses and as a fluctuating reserve for additions to, or shortfalls in, the annual revenues of the System. The normal level of such reserve shall be 25% of the annual on-going Operation and Maintenance Expenses of the System; however, the Board may authorize the reserve to be maintained at a higher level, especially if needed for future capital improvements, to respond to new regulatory requirements, and to facilitate efficient operation and maintenance of the System.

4. Other "Special Reserves" as determined necessary by the Board for such purposes as "Rate Stabilization" or for "Capital Improvements".

**Section 3.02. Annual Budget.** Each annual budget for the System shall always provide for amounts sufficient to pay the Annual Requirement. The annual budget for the System for all or any part of the first Annual Payment Period during which the System is placed into operation shall be prepared by the District based on estimates made by the District. On or before June 15 of each year after the Project is first placed in operation, the District shall furnish to Customer a preliminary estimate of the Annual Payment required from Customer for the next following Annual Payment Period. Not less than forty days before the commencement of the Annual Payment Period after the System is first placed into operation, and not less than forty days before the commencement of each Annual Payment Period thereafter, the District shall cause to be prepared as herein provided its preliminary budget for the System for the next ensuing Annual Payment Period. A copy of such preliminary budget shall be filed with Customer for review before action by the Board. Customer may submit comments about the preliminary budget directly to the Board. The Board may adopt the preliminary budget or make such amendments thereto, as the Board may deem proper. The budget thus approved by the Board shall be the annual budget for the next ensuing Annual Payment Period. The annual budget (including the first annual budget) may be amended by the District at any time to transfer funds from one account or fund to another account or fund so long as such transfer will not increase the total budget. The amount for any account or fund, or the amount for any purpose, in the annual budget may be increased through formal action by the Board even though such action might cause the total amount of the Annual Budget to be exceeded; provided that such action shall be taken only in the event of an emergency or special circumstances which shall be clearly stated in a resolution at the time such action is taken by the Board.

**Section 3.03. Payments by Customer.**

(a) For the Wastewater services to be provided to Customer under this Contract, Customer agrees to pay, at the time and in the manner hereinafter provided, its proportionate share (Annual Payment) of the Annual Requirement. Customer shall pay the Annual Payment for each Annual Payment Period directly to the District, in monthly installments in accordance with the schedule of payments furnished by the District, as hereinafter provided.

(b) Customer shall pay its Annual Payment, including a capacity charge for fixed costs, and a volume charge for variable costs of Wastewater flow. The District shall estimate its cost and shall establish a capacity charge and a price per 1,000 gallons of volume for purposes of

determining the monthly payment to be made by Customer. Customer shall pay a capacity charge in approximately equal monthly installments, based on the capacity specified in Exhibit B. Such capacity charge shall be sufficient to cover the fixed cost portion of the Annual Requirement. Customer shall pay a volume charge based on the actual volume of Wastewater delivered to each respective Point of Entry. The volume charge shall be sufficient to cover the variable cost portion of the Annual Requirement and specifically the costs associated with receiving, pumping, transporting, treating and disposing of the Wastewater and residual bio-solids (sludge).

**Section 3.04. Fiscal Policy.** It is hereby provided that in estimating costs for services, the District is specifically authorized, in its discretion, to include in such estimate of costs reasonable contributions to reserve funds and to assume that the Annual Payment Period may be a dry year. Such policy could cause revenues to be increased if the year is actually normal or wet instead of dry as assumed. This fiscal policy is expressly approved by Customer and is deemed by the parties hereto to be beneficial in the fiscal management of the System, and will assure the timely availability of funds even under unexpected circumstances. Upon receipt during any Annual Payment Period of an amount sufficient to meet the then current Annual Budget of the System for the remainder of the then current Annual Payment Period, the District shall deposit subsequent revenues received into appropriate reserve or contingency accounts. If there is a shortfall in revenues, the District may withdraw from the reserves, adjust the Annual Requirement, revise the payment schedule or do any combination thereof.

**Section 3.05. Minimum Payments/Schedule.**

(a) It is agreed that if, during any Annual Payment Period, the estimated and/or actual flow of Wastewater delivered by Customer to the System is, for any reason whatsoever, less than any minimum amount prescribed by this Contract, Customer shall pay its Annual Payment according to such minimum amount. However, if Customer's estimated and/or actual metered amount of Wastewater is equal to, or in excess of, such minimum amount, its Annual Payment shall be calculated on the basis of estimated and actual volumes. Any future contracts with Additional Participating Members or Customers also shall provide for equitable minimum amounts.

(b) All such payments for each Annual Payment Period shall be made in accordance with a written schedule of payments for the appropriate Annual Payment Period which will be supplied to Customer by District. Such schedule of payments may be based on the use of monthly flow volumes as determined by meter readings or estimates of flow or may be based on other factors determined by the District; but, in no case shall Customer's Annual Payment requirement exceed its pro rata share of the System costs.

**Section 3.06. Redetermination of Annual Requirements.** Notwithstanding the foregoing, the Annual Requirement, and Customer's share thereof (Annual Payment), may be redetermined at any time during any Annual Payment Period, to the extent deemed necessary or advisable by the District, if:

(i) The District commences furnishing services of the System to an additional Customer;

(ii) Unusual, extraordinary, or unexpected expenditures for Operation and Maintenance Expenses are required which are not provided for in the District's annual budget or reserves for the System;

(iii) Operation and Maintenance Expenses of the System are substantially less than estimated;

(iv) District issues Bonds which require an increase in the Capital Component of the Annual Payment; or

(v) The District receives either significantly more or significantly less revenues than the amounts which are provided in the District's annual budget for the System.

If the Annual Requirement is so redetermined, Customer will be advised of the Adjusted Annual Payment.

**Section 3.07. Other Revenues.** All surcharges collected from any Customer or Participating Member under Section 2.15 of this Contract shall be used to cover the extra costs of treating excessive strength Wastewater for the respective Customer or Member. Under this Section, any revenues, payments and surcharges derived from extra services shall be devoted to paying the cost of said extra services and shall not be used to make the Annual Payment which is the obligation of Customer under this Contract.

**Section 3.08. Prompt Payment/Disputed Bills.** Customer hereby agrees that it will make payments required by this Contract to the District within twenty (20) days of the date a bill for service is rendered. If Customer, at any time, disputes the amount to be paid by it to the District, Customer shall nevertheless promptly make such payment or payments; but, if it is subsequently determined by agreement or court decision that such disputed payments should have been less, or more, the District shall promptly revise and reallocate the charges in such manner that Customer will recover its overpayment or the District will recover the amount due it. All amounts due and owing to the District by Customer, or due and owing to Customer by the District, shall, if not paid when due, bear interest at the rate of ten (10%) percent per annum from the date when due until paid.

**Section 3.09. Delinquent Bills.** As provided in Section 4.10, Customer specifically agrees to make all payments required by this Contract without offset or counterclaim. Nonetheless, if any Customer in the System shall become delinquent in such payments, District shall, to the extent permitted by law, discontinue the services of the System to any such Customer which remains delinquent in any payments due hereunder for a period of sixty (60) days, and is not obligated to resume such services while such Customer is so delinquent. It is further provided and agreed that if Customer should remain delinquent in any payments due hereunder for a period of one hundred twenty (120) days, and if such delinquency continues during any period thereafter, Customer's minimum amount specified by contract, shall be deemed to have been zero (0.0) gallons during all periods of such delinquency, for the purpose of calculating and redetermining the percentage of each Annual Requirement to be paid by the non-delinquent Customers; and, the District shall redetermine such percentage in such event on a basis so that the non-delinquent Customers, collectively, shall be required to pay all of the Annual Requirement. The Board may authorize the use of available System reserves as a source of

funds to help offset said delinquent payments. However, the District shall pursue all legal remedies against any such delinquent Customer to enforce and protect the rights of the District, other Members and Customers, and the holders of the Bonds. The delinquent Customer shall not be relieved of the liability to the District for payment of all amounts which would have been due hereunder had no default occurred or the percentage had not been redetermined as provided in this Section. It is understood that the foregoing provisions are for the benefit of the holders of the Bonds so as to insure that all of the Annual Requirement will be paid by the non-delinquent Customers during each Annual Payment Period regardless of the delinquency of a particular Customer. If any amount due and owing the District by Customer is placed with an attorney for collection, Customer shall pay to the District all attorneys' fees, in addition to all other payments provided for herein, including interest.

**Section 3.10. Updated Schedule of Payment.** If, during any Annual Payment Period, Customer's Annual Payment is redetermined as provided or required in the foregoing Sections, the District will promptly furnish Customer with an updated schedule of monthly payments reflecting such redetermination.

**Section 3.11. Service Areas.** For purposes of determining the Annual Requirement and for delivery of services, the District shall maintain separate cost centers for the Northeast Regional Service Area and for such other wastewater service areas the District may establish. Nonetheless, the Board reserves the right to combine two or more regional service areas for operational or billing purposes, if in the Board's judgment, such action is in the best interest of the District.

**Section 3.12. Extensions and Enlargements.** The District shall have the continuing responsibility to maintain adequate capacity in the System to meet the needs of Customer over the term of this Contract, and any extension thereof. Customer shall have the responsibility to keep the District informed of its projected needs for Wastewater service to allow adequate time for the District to plan and implement necessary improvements to the System. Likewise, the District shall have the continuing responsibility to plan for the needs of Additional Participating Members and future Customers within the Northeast Regional Service Area.

#### ARTICLE IV

##### Miscellaneous Provisions and Special Conditions

**Section 4.01. Operation and Maintenance of System.** The District will continuously operate and maintain the System in an efficient manner and in accordance with good business and engineering practices, and at reasonable cost and expense. The District recognizes its right and duty to operate the various facilities of the System in the most prudent and economical manner for the benefit of all Customers.

**Section 4.02. Project Schedule.** It is the intent of the parties that the Project will be placed in operation as soon as practicable, and the District agrees to proceed diligently with the design and construction of the Project, subject to the terms and conditions in this Contract. In connection therein, Customer agrees to promptly provide any funds to District required by the provisions of Exhibit D hereto.

**Section 4.03. Permits, Financing and Applicable laws.** It is understood that any obligations on the part of the District to acquire, construct, and complete the Project and other System facilities and to provide Wastewater services of the Project and other System facilities to Customer shall be:

1. conditioned upon the District's ability to obtain all necessary permits, material, labor, and equipment;
2. conditioned upon the District receiving Customer's share of the cost of Project as specified herein;
3. conditioned upon the ability of the District to finance its share of the cost, if any, of the Project and other System facilities through the actual sale of District Bonds; and
4. subject to all present and future valid laws, orders, rules, and regulations of the United States of America, the State of Texas, and any regulatory body having jurisdiction.

**Section 4.04. Title to Wastewater and Liability for Damages and Responsibility for Treatment and Disposal of Wastewater/Reuse; Indemnification.** Liability for damages arising from the transportation, delivery, reception, treatment, and/or disposal of all Wastewater discharged into the System hereunder shall remain with each Customer to the Point of Entry, and title to such Wastewater shall be in the name of each Customer to the Point of Entry, and upon passing through Point of Entry, title to such Wastewater and liability for such damages shall pass to the District. District and Customer agree to indemnify to the extent permitted by law and to save and hold the other party harmless from any and all claims, demands, causes of action, damages, losses, costs, fines, and expenses, including reasonable attorney's fees, which may arise or be asserted by anyone at any time on account of the transportation, delivery, reception, treatment, and/or disposal while title to the Wastewater is in such party, or on account of a prohibited discharge by a Customer. Both Customer and District agree to be responsible for their own respective negligent acts. The District has the responsibility as between the parties for the proper reception, transportation, treatment, and disposal of all Wastewater discharged into the System, but not for prohibited discharges by any party at any Point of Entry. After treatment of such Wastewater, the District may, reclaim, and sell the water, sludge or any other product for reuse. Any net revenues and other benefits of such reclamation, sale and reuse shall be fairly apportioned among Participating Members and Customers, and other parties participating in such sale and reuse.

**Section 4.05. Payments.** As provided in Exhibit D hereto, Customer agrees to levy taxes, and the District shall have the right to demand payment by Customer of any obligations assumed by it or imposed on it under and by virtue of this Contract from funds raised or to be raised by taxes. Customer may make payments from its water and wastewater (sewer) system revenues, or from any other lawful source, including impact fees and ad valorem taxes.

**Section 4.06. Operating Expenses.** Customer represents and covenants that all payments to be made by it under this Contract shall constitute reasonable and necessary "operating expenses" of its combined waterworks and sewer system, and that all such payments

will be made from the revenues of its combined waterworks and sewer system, from taxes or any other lawful source. Customer represents and has determined that the services to be provided by the System, including the Project and other System facilities, are absolutely necessary and essential to the present and future operation of its Wastewater system, and that the System is the best long-term method for discharging, treating and disposing of its Wastewater; and, accordingly, all payments required by this Contract to be made by Customer shall constitute reasonable and necessary operating expenses of its respective system as described above, with the effect that the obligation to make such payments from revenues of such system(s) shall have priority over any obligation to make any payments from such revenues (whether of principal, interest, or otherwise) with respect to all bonds or other obligations heretofore or hereafter issued by Customer.

**Section 4.07. Rates for Water and Wastewater Services.** Customer agrees throughout the term of this Contract to continuously operate and maintain its waterworks system and its wastewater (sewer) system, and to fix and collect such rates and charges for water and wastewater services to be supplied by its systems as will produce revenues in an amount equal to at least:

1. all of the expenses of operation and maintenance of such system or systems, including specifically, its payments under this Contract, and
2. all other amounts as required by law and the provisions of the ordinance or resolutions authorizing its revenue bonds or other obligations now or hereafter outstanding, including the amounts required to pay all principal of and interest on such bonds and other obligations.

Notwithstanding the foregoing, in fixing and collecting such rates and charges, Customer may take into consideration the amount of any ad valorem taxes levied, assessed and collected in accordance with Section 4.05.

**Section 4.08. Use of Funds and System.** The District covenants and agrees that neither the proceeds from the sale of the Bonds, nor the monies paid it pursuant to this Contract, nor any earnings from the investment of any of the foregoing, will be used for any purposes, except those directly relating to the System, and the Bonds as provided in this Contract; provided that the District may rebate any excess arbitrage earnings from such investment earnings to the United States of America in order to prevent any Bonds from becoming "arbitrage bonds" within the meaning of the Internal Revenue Code of 1986 (the "Code") or any amendments thereto in effect on the date of issue of such Bonds. Customer covenants and agrees that it will not use, or permit the use of, the System in any manner that would cause the interest on any of the Bonds to be or become subject to federal income taxation under said Code or any amendments thereto in effect on the date of issue of such Bonds.

**Section 4.09. Rights-of-Way.**

(a) Customer hereby grants to the District without additional cost to the District, the perpetual use of the streets, easements, and rights-of-way under its control for the construction, operation, and maintenance of the System and the Project.

(b) Customer agrees that District may use streets, alleys and public rights-of-way within Customer's boundaries for pipeline purposes to provide Wastewater service to Customer or to other Customers without charges or tolls, provided that District makes the necessary repairs to restore to their original condition the streets, alleys or public rights-of-way so used.

(c) FWSD hereby consents to the District exercising its power of eminent domain, if necessary, to obtain property or rights-of-way within the boundaries of FWSD for the Project and the System.

**Section 4.10. Unconditional Obligation to Make Payments.** Recognizing the fact that FWSD urgently requires the facilities and services of the Project and the System, and that such facilities and services are essential and necessary for actual use and for standby purposes; and, recognizing the fact that the District will use payments received from FWSD, other Participating Customers and future Customers, if any, to pay and secure its Bonds; it is hereby agreed that FWSD shall be unconditionally obligated to pay, without offset or counterclaim, its proportionate share of the Annual Requirement, as provided and determined in this Contract (including the obligation to pay for certain "minimums" as described in Section 2.11 hereof, regardless of whether or not the District actually acquires, constructs or completes the Project or the System or is actually delivering services of the System to FWSD, or whether or not FWSD actually receives or uses services of the System (whether due to Force Majeure or any other reason whatsoever), regardless of any other provisions of this or any other contract or agreement between any of the parties hereto. This covenant by FWSD shall be for the benefit of and enforceable by the holders of the Bonds as well as the District.

**Section 4.11. Insurance.** The District agrees to carry and arrange for fire, casualty, public liability, and/or other insurance, including self insurance, on the System for purposes and in amounts which, as determined by the District, ordinarily would be carried by a privately owned utility company owning and operating such facilities, except that the District shall not be required to provide liability insurance except to insure itself against risk of loss due to claims for which it can, in the opinion of the District's legal counsel, be liable under the Texas Tort Claims Act or any similar law or judicial decision. Such insurance will provide, to the extent feasible and practicable, for the restoration of damaged or destroyed properties and equipment, to minimize the interruption of the services of such facilities. All premiums for such insurance shall constitute an Operation and Maintenance Expense of the System.

**Section 4.12. Future Capacity.**

(a) The Project and the System will include capacity in pipelines and certain other facilities for future needs of FWSD and future Customers. Customer agrees that it is in the best interest of both the District and Customer to plan, acquire and construct the Project and System with excess capacity in anticipation of future increases in Customer's requirements and in anticipation of future new Customers. Further, FWSD agrees that if the District executes a financial plan for the Project or System that includes participation by the State in future capacity costs and deferral of a portion of the capital costs to a future date, that FWSD will assume its respective share, when due, of such System cost, if any, so deferred as if Bonds had been issued during the initial construction of the Project. Subject to the terms of this Contract, District reserves the right to contract with Additional Participating Members and other Customers for equitable participation (on a pro rata basis) in such future capacity.

(b) This Contract includes a definition of the Northeast Regional Service Area, which area is considered the future long-term service area for the System. It is agreed to be in the best interest of the parties hereto to make future extensions from the System to serve other Customers within the Northeast Regional Service Area.

**Section 4.13. Contracting Parties.** This Contract shall be effective as to FWSD whether or not other parties, who are expected to execute contracts of a similar nature, become initial participants in the System. The "minimums" listed in Exhibit B shall remain the same as listed for FWSD, regardless of minimum amounts agreed for other parties who participate in the System.

**Section 4.14. Special Provisions.** The parties hereto acknowledge and agree to the Special Provisions which are set forth in Exhibit D hereto, which Exhibit is incorporated herein for all purposes. The Special Provisions in Exhibit D of this Contract reflect circumstances or issues for FWSD which may be different from those of other Customers and therefore constitute a modification of, or a requirement in addition to, the standard provisions otherwise contained in this Contract. If any provision of Exhibit D is different from or conflicts with the general provisions set forth in the main body of this Contract, the provisions of Exhibit D shall prevail.

**Section 4.15. Exhibits.** Several special Exhibits styled Exhibit A through Exhibit D are referenced elsewhere in this Contract and attached hereto as part of this Contract.

- |           |  |
|-----------|--|
| Exhibit A | This Exhibit identifies the boundaries of FWSD and proposed Point of Entry to the System.              |
| Exhibit B | This Exhibit indicates the initial quantities subscribed by FWSD.                                      |
| Exhibit C | This Exhibit describes prohibited discharges and requirements for Normal Wastewater for all Customers. |
| Exhibit D | This Exhibit contains special provisions applicable to FWSD.   |

**Section 4.16. Permit Compliance.** The Project and System must operate under the terms and conditions of applicable State and federal permits. Accordingly, the District agrees to use its best efforts to operate and maintain the System in an efficient and professional manner, endeavoring to provide satisfactory service to Customer while complying with applicable permits. If the District becomes aware of a condition, an action or inaction, that could cause the System to be in violation of such permits, the District will take immediate steps to remedy the potential violation. If the condition, action or inaction appears to be the responsibility of Customer, the District will give notice to Customer to take timely steps to remedy the potential violation. If the District receives a fine or penalty for a violation of an applicable permit, and if the cause of such fine or penalty is determined, after investigation, to have been the responsibility of a specific Customer, Customer hereby expressly agrees that the District shall require the Customer that caused the violation, fine or penalty to reimburse the District for actual cost thereof, in addition to taking the necessary steps to remedy the circumstance causing the violation.

**ARTICLE V**  
**Standard Provisions**

**Section 5.01. Force Majeure.** If by reason of force majeure, any party hereto shall be rendered unable wholly or in part to carry out its obligations under this Contract, other than the obligation of Customer to make the payments required under this Contract, then if such party shall give notice and full particulars of such force majeure in writing to the other parties within a reasonable time after occurrence of the event or cause relied on, the obligation of the party giving such notice, so far as it is affected by such force majeure, shall be suspended during the continuance of the inability then claimed, but for no longer period, and any such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "Force Majeure" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of public enemy, orders of any kind of the Government of the United States or the State of Texas, or any civil or military authority, insurrection, riots, epidemics, landslides, lightning, earthquake, fires, hurricanes, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accidents to machinery, pipelines or canals, partial or entire failure of water supply, or on account of any other causes not reasonably within the control of the party claiming such inability.

**Section 5.02. Term of Contract.** This Contract shall be effective on and from the Contract Date, and shall continue in force and effect for twenty-five (25) years, or for such period of time that Bonds issued by the District for the Project or the System remain outstanding, whichever period is greater; provided, however, the term of the Contract and the expiration date may be extended for a period of time not to exceed twenty (20) years by mutual agreement of Customer and the District as to the terms and conditions. The District's obligation to provide the contracted for services shall commence from the date that the District gives written notice that the Project is operational and functional to provide Wastewater services to Customer. This Contract and its attachments constitute the sole agreement between the parties hereto with respect to the Project and System.

**Section 5.03. Modification.** No change, amendment or modification of this Contract shall be made or be effective which will affect adversely the prompt payment when due of all monies required to be paid by Customer under this Contract or any similar contract; and, no such change, amendment or modification shall be made or be effective which would cause a violation of any provisions of any Bond Resolution.

**Section 5.04. Addresses and Notice.** Unless otherwise provided herein, any notice, communication, request, reply or advice (herein severally and collectively, for convenience, called "Notice") herein provided or permitted to be given, made or accepted by any party to any other party must be in writing and may be given or be served by depositing the same in the United States mail postpaid and registered or certified and addressed to the party to be notified, with return receipt requested, or by delivering the same to an officer of such party, or by prepaid telegram when appropriate, addressed to the party to be notified. Notice deposited in the mail in the manner described above shall be conclusively deemed to be effective, unless otherwise stated herein, from and after the expiration of three days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the party to be notified. For the purposes of notice, the addresses of the parties shall, until changed as hereinafter provided, be as follows:

If to the District, to: Executive Director  
Upper Trinity Regional Water District  
396 West Main Street  
P. O. Drawer 305  
Lewisville, Texas 75067

If to FWSD No. 8-A, to: General Counsel, Denton County FWSD #8-A  
c/o Mr. Frank Van Court  
Leonard, Hurt, Frost, Lilly, & Levin  
816 Congress Ave., Suite 1280  
Austin, TX 78701

The parties hereto shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address by at least fifteen (15) days written notice to the other parties hereto.

**Section 5.05. State or Federal Laws, Rules, Orders or Regulations.** This Contract is subject to all applicable Federal and State laws and any applicable permits, ordinances, rules, orders and regulations of any local, state or federal governmental authority having or asserting jurisdiction, but nothing contained herein shall be construed as a waiver of any right to question or contest any such law, ordinance, order, rule or regulation in any forum having jurisdiction.

**Section 5.06. Remedies Upon Default.** It is not intended hereby to specify (and this Contract shall not be considered as specifying) an exclusive remedy for any default, but all such other remedies (other than termination) existing at law or in equity may be availed of by any party hereto and shall be cumulative. However, recognizing that the District's undertaking to provide and maintain the services of the System is an obligation, failure in the performance of which cannot be adequately compensated in money damages alone, the District agrees, in the event of any default on its part, that Customer shall have available to it the equitable remedy of mandamus and specific performance in addition to any other legal or equitable remedies (other than termination) which may also be available. Recognizing that failure in the performance of Customer's obligations hereunder could not be adequately compensated in money damages alone, Customer agrees in the event of any default on its part that the District shall have available to it the equitable remedy of mandamus and specific performance in addition to any other legal or equitable remedies (other than termination) which may also be available to the District. Notwithstanding anything to the contrary contained in this Contract, any right or remedy or any default hereunder, except the right of the District to receive the Annual Payment which shall never be determined to be waived, shall be deemed to be conclusively waived unless asserted by a proper proceeding at law or in equity within two (2) years plus one (1) day after the occurrence of such default. No waiver or waivers of any breach or default (or any breaches or defaults) by any party hereto or of performance by any other party of any duty or obligation hereunder shall be deemed a waiver thereof in the future, nor shall any such waiver or waivers be deemed or construed to be a waiver of subsequent breaches or defaults of any kind, character or description, under any circumstance.

**Section 5.07. Severability.** The parties hereto specifically agree that in case any one or more of the sections, subsections, provisions, clauses or words of this Contract or the application of such sections, subsections, provisions, clauses or words to any situation or circumstance should be, or should be held to be, for any reason, invalid or unconstitutional, under the laws or constitutions of the State or the United States of America, or in contravention of any such laws or constitutions, such invalidity, unconstitutionality or contravention shall not affect any other sections, subsections, provisions, clauses or words of this Contract or the application of such sections, subsections, provisions, clauses or words to any other situation or circumstance, and it is intended that this Contract shall be severable and shall be construed and applied as if any such invalid or unconstitutional section, subsection, provision, clause or word had not been included herein, and the rights and obligations of the parties hereto shall be construed and remain in force accordingly.

**Section 5.08. Venue.** All amounts due under this Contract, including, but not limited to, payments due under this Contract or damages for the breach of this Contract, shall be paid and be due in Denton County, Texas, which is the County in which the principal administrative offices of the District are located. It is specifically agreed among the parties to this Contract that Denton County, Texas is the place of performance of this Contract; and in the event that any legal proceeding is brought to enforce this Contract or any provision hereof, the same shall be brought in Denton County, Texas.

Upper Trinity Regional Water District  
Northeast Regional Water Reclamation System  
Denton County Fresh Water Supply District #8-A  
Participating Customer Contract

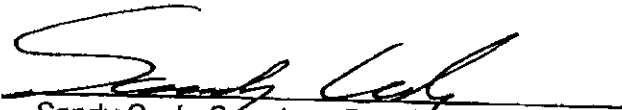
IN WITNESS WHEREOF, the parties hereto acting under authority of their respective governing bodies have caused this Contract to be duly executed in several counterparts, each of which shall constitute an original, all as of the day and year first above written, which is the Contract Date.

UPPER TRINITY REGIONAL WATER DISTRICT



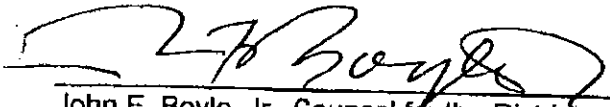
Richard Lubke, President, Board of Directors

ATTEST:

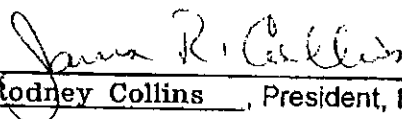
  
Sandy Cash, Secretary, Board of Directors

[District Seal]

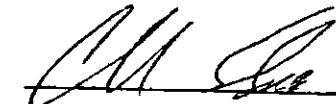
APPROVED AS TO FORM AND LEGALITY:

  
John F. Boyle, Jr., Counsel for the District

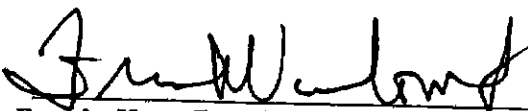
DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO.8-A

  
James Rodney Collins, President, FWSD No. 8-A

ATTEST:

  
Chad T. Snodgrass, Secretary, FWSD No. 8-A

APPROVED AS TO FORM AND LEGALITY:

  
Frank Van Court, Counsel for FWSD No. 8-A

## EXHIBIT A

### UPPER TRINITY REGIONAL WATER DISTRICT NORTHEAST REGIONAL WATER RECLAMATION SYSTEM

### PARTICIPATING CUSTOMER CONTRACT DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 8-A

#### Boundary Map for FWSD and Points of Entry

Due to the topography, the location of treatment plant and the unusual boundaries of FWSD, three Points of Entry are authorized by the Contract. One (1) Point of Entry (for entry and metering) will be located on Gammon Road, South of U. S. 380, one (1) Point of Entry (for entry only) may be located north of U. S. 380, and one (1) Point of Entry (for entry and metering) will be located at the treatment plant. All three (3) Points of Entry may be used for sampling.

**NOTE:** Upon mutual agreement of Customer and District, an updated or corrected Exhibit A may be substituted for this Exhibit A.

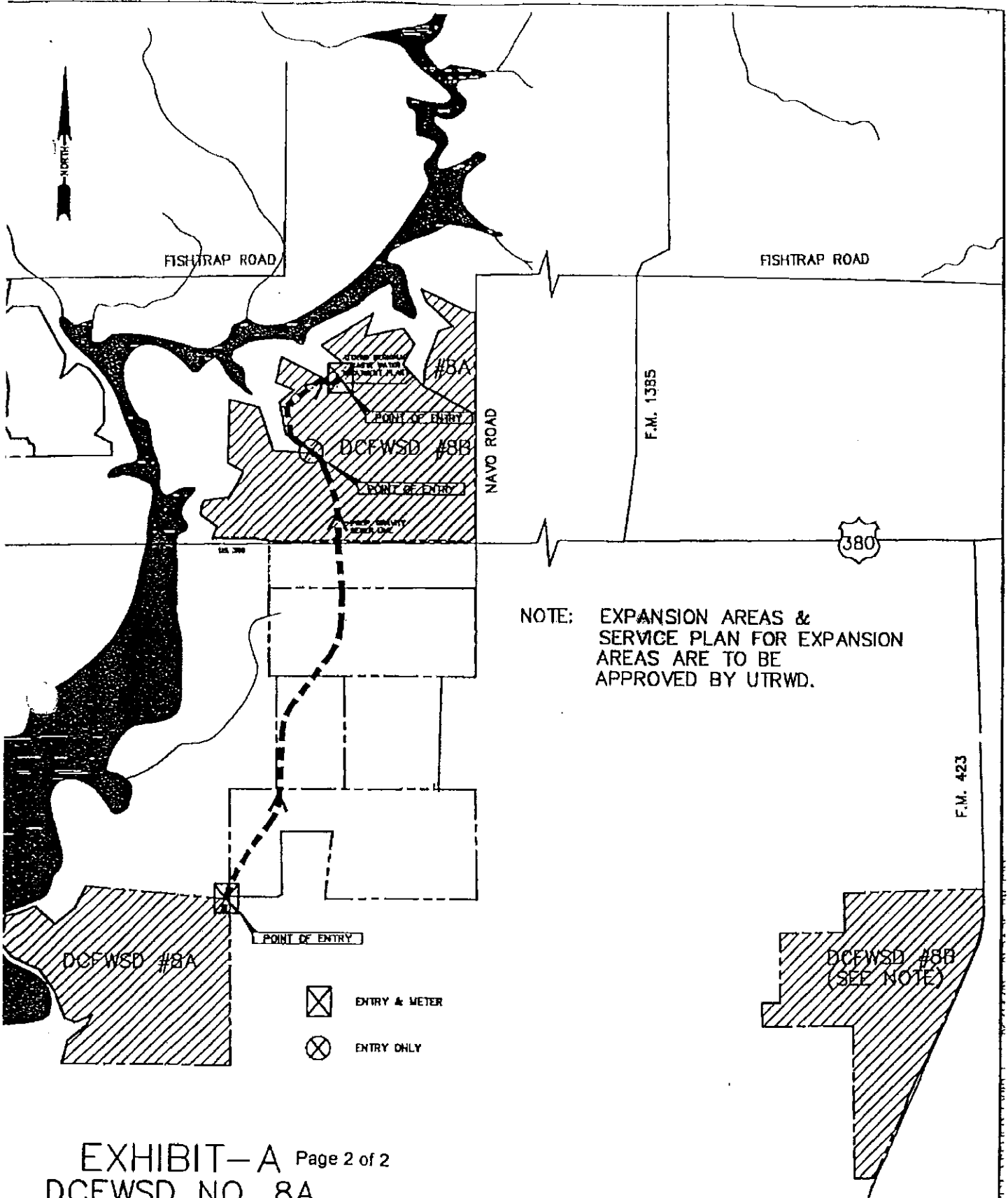


EXHIBIT-A Page 2 of 2  
 DCFWSD NO. 8A  
 BOUNDARY AND  
 JOINT OF ENTRY  
 (SEWER)

Upper Trinity Regional Water District  
 Northeast Regional Water Reclamation System  
 Denton County Fresh Water Supply District #8-A  
 Participating Customer Contract



**Petitt and Associates, Inc.**  
 ENGINEERING & SURVEYING

10720 MILLER ROAD, SUITE 218  
 Dallas, Texas 75238

Tel. No. (214) 221-9955  
 Fax No. (214) 340-3000

## EXHIBIT B

### UPPER TRINITY REGIONAL WATER DISTRICT NORTHEAST REGIONAL WATER RECLAMATION SYSTEM PARTICIPATING CUSTOMER CONTRACT DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 8-A

#### Subscribed Capacities Minimum Flow and Average Flow According to Article II of the Contract

The provisions of this Exhibit B form a part of the Contract and are applicable to the District and to FWSD as if set forth in their entirety in the body of the Contract. The following initial quantities are agreed to for the purposes noted by FWSD.

Phase	Minimum Flow (MGD) for Financial Purposes	Average Annual Flow (MGD) for Subscribed Capacity
Phase 1, 0.5 MGD Planned	0.05 MGD	0.11 MGD
Phase 2, 1.5 MGD Planned	0.10 MGD	0.36 MGD

**Phased Construction.** Construction of treatment plant capacity for the Initial Participating Customers is expected to be accomplished in two (2) or more phases. Phase 1 is scheduled to be 0.5 MGD. Subject to obtaining an appropriate discharge permit, District expects to proceed immediately with Phase 2, a project to expand the treatment plant to at least 1.5 MGD, as required by Initial Participating Customers or others. If appropriate funds for construction are provided by the Initial Participating Customers, District reserves the right to combine Phase 1 and Phase 2 (up to 1.5 MGD) to gain construction cost savings, if the appropriate discharge permit is reasonably expected to be timely issued. When Customer desires additional capacity to provide for future growth requirements, the Customer shall give appropriate notice to the District to allow adequate time for coordination with other Customers and for financing, design and construction. The District then will use such increased capacity as the new subscribed capacity for allocation of cost to Customer as provided in the Contract. It is mutually agreed that capacity for Mustang WSC, the Town of Lincoln Park, other Members and other Customers of District may participate in future phases of System development above an initial capacity of 1.5 MGD expected to be subscribed by FWSD and others in the Project.

## EXHIBIT C

### UPPER TRINITY REGIONAL WATER DISTRICT NORTHEAST REGIONAL WATER RECLAMATION SYSTEM

### PARTICIPATING CUSTOMER CONTRACT DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 8-A

#### Prohibited Discharges and Requirements For Normal Wastewater

The provisions of this Exhibit C form a part of the Contract and are applicable to the District and Customer as if set forth in their entirety in the body of the Contract.

#### Wastes Not Admissible:

Gasoline; cleaning solvents; non emulsified oils and greases; mineral oils; ashes; cinders; sand; gravel; tar; asphalt; ceramic wastes; plastics; other viscous substances; feathers; hair; rags; metal; metal fillings; glass; wood shavings; sawdust; unshredded garbage; toxic, corrosive, explosive or malodorous gases; acetylene generation sludge; cyanides or cyanide or cyanogen compounds capable of liberating hydrocyanic gas on acidification in excess of 2 mg/l by weight as CN; radioactive materials which will permit a transient concentration higher than 100 microcuries per liter; emulsified oil and grease, exclusive of soaps, exceeding on analysis an average of 100 mg/l of ether-soluble matter; acids or alkalis having a pH value lower than 6.0 or higher than 10.0; other similar substances as those named in this paragraph in quantities capable of causing obstruction to the flow of Wastewater in mains or interfere with the operation of the System; and, Wastewater containing specific pollutant concentrations in excess of any of the numerical limitations named hereunder shall be prohibited from discharge to the System:

<u>Pollutant</u>	<u>Maximum Allowable Concentration (ug/l)</u>
Arsenic	100
Barium	1,000
Cadmium	50
Chromium	500
Copper	500
Lead	500
Manganese	1,000
Mercury	5
Nickel	1,000
Selenium	50
Silver	50
Zinc	1,000
Total Toxic Organics	1,000

**Requirements for Normal Wastewater:**

- a) Biochemical Oxygen Demand (B.O.D.). B.O.D. of Wastewater delivered to the System, as determined by standard methods, shall not exceed 250 mg/l.
- b) Total Suspended Solids. Total Suspended Solids delivered to the System as determined by Standard Methods, shall not exceed 250 mg/l.
- c) Hydrogen Ion Concentration (pH). The pH of Wastewater delivered to the System shall not be lower than 6.0 nor higher than 10.0. No acids shall be discharged into the System unless neutralized to a pH of 6.0 or more.
- d) Hydrogen Sulfide Concentration. Dissolved sulfides in Wastewater at the Point of Entry to the System shall not exceed 0.1 mg/l.

**Revisions to the List of Prohibited Discharges:**

- a) In the event there is any conflict between this Exhibit C and applicable regulations of the Texas Natural Resource Conservation Commission or of the United States Environmental Protection Agency, the applicable regulations shall govern.
- b) This Exhibit C is subject to revision as necessary to correlate with, to comply with, and to remain current with future regulations and requirements of Texas Natural Resource Conservation Commission and United States Environmental Protection Agency. If the District determines that a change in this Exhibit C is necessary to respond to such revised regulations pursuant to the Contract, including this Exhibit C, District shall furnish a revised Exhibit C to Customer according to the provisions of the Contract.

## EXHIBIT D

UPPER TRINITY REGIONAL WATER DISTRICT  
SPECIAL PROVISIONS FOR  
DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 8-A  
NORTHEAST REGIONAL WATER RECLAMATION SYSTEM  
CONTRACT FOR WASTEWATER TREATMENT

The provisions of this Exhibit D form a part of the Contract and are applicable to the Upper Trinity Regional Water District (the "District") and to Denton County Fresh Water Supply District No. 8 ("FWSD") as if set forth in their entirety in the body of the Contract.

1. **Creation of FWSD.** Elections held on August 12, 2000 ordered by the temporary directors of the Original FWSD No. 8 pursuant to Chapters 49, 51, and 53 of the Texas Water Code, confirmed the creation of the Original FWSD, pursuant to Article XVI (Section 59), Article III (Section 52) and Article III (Section 52a) of the Constitution of the State of Texas and authorized the exercise of sanitary sewer powers on November 7, 2000. Pursuant to an election held on the 5<sup>th</sup> day of May, 2001, and the subsequent Order declaring results of election to divide Denton County Fresh Water Supply District No. 8 into two districts, dated May 9, 2001 ("Division Order"), FWSD and Denton County Fresh Water Supply District 8-B ("FWSD No. 8-B") were declared to have been legally created with the boundaries as described on Exhibit "A" hereto. Further, pursuant to the Division Order, FWSD succeeded to the powers, rights, authority, privileges and functions of the Original FWSD, and retained all assets and certain liabilities, including, but not limited to, the liability for the repayment of and contracts authorized at elections held on January 20, 2001. FWSD is authorized to conserve, transport and distribute fresh water from any source for domestic and commercial purposes. Also, FWSD is authorized to purchase, construct, own and operate a sanitary sewer system.

2. **Payments From Ad Valorem Taxes and Revenues.** Pursuant to the Original FWSD election held on the 20th day of January 2001, the subsequent Canvassing Order of its Board of Directors dated January 24, 2001, and the Division Order, the FWSD has the authority to levy, establish, assess and collect an ad valorem tax ("Contract Tax") on all taxable property within its boundaries, unlimited as to rate and amount, sufficient to accomplish the payment of FWSD's obligations approved by it and imposed on it by virtue of this Contract. Prior to the District issuing Bonds to expand the treatment plant or to reimburse FWSD for any capital funds provided by FWSD to construct the Project, FWSD hereby covenants that, subject to compliance with Section 49.108, Texas Water Code, as amended, to the extent applicable, it will levy said Contract Tax and will assess and collect such ad valorem tax each year in an amount fully sufficient to accomplish the payment of the obligations approved by it and imposed as it by virtue of this Contract. FWSD covenants to achieve through a Joint Utility Contract the levy of like taxes on FWSD 8-B and any subdivided district of FWSD and FWSD 8-B, to the extent they may be served by the System through the Contract. FWSD further pledges any taxes or revenues (herein "Joint Utility Contract Revenues") to be received from FWSD 8-B and any district created by future division of FWSD and FWSD 8-B into two or more districts, to the payments of such obligations,

and hereby covenants to collect such Joint Utility Contract Revenues in an amount sufficient to satisfy said subdivided district's obligations under an appropriate Joint Utility Contract. Notwithstanding the foregoing, if in advance of the time when ad valorem taxes are scheduled to be assessed and collected for any year, revenues, including revenues from any Joint Utility Contract or other legally available funds are budgeted and appropriated for the payment of FWSD's obligations under this Contract, the amount of ad valorem taxes required to be assessed and collected pursuant to this Paragraph may be reduced to the extent and by the amount of such revenues or other funds budgeted and appropriated for payment of such obligations

3. **Master Plans.** FWSD agrees to maintain master plans for both the water and wastewater systems within its service area. To that end, FWSD agrees to provide the District with an initial copy of such plans and updated master plans for both water and wastewater at least every five years.

4. **Wastewater Collection Systems.** FWSD agrees to install, own, operate and maintain (or to contract with others for operation and maintenance) a wastewater collection system to serve all reasonably foreseeable Wastewater needs within FWSD boundaries, including all retail customers receiving water service pursuant to a separate water supply agreement between FWSD and District. Said wastewater collection system shall be designed, constructed, and operated in accordance with generally accepted standards for municipal wastewater collection systems.

5. **Required to Connect.** FWSD will require customers within the boundaries of its service area to connect to the future wastewater collection system under reasonable rules as the collection system is installed and extended.

6. **Infiltration and Inflow.** FWSD agrees to design, construct and maintain its wastewater collection system as reasonable and necessary to limit infiltration of ground water and inflow of surface water. This requirement is intended to keep peak Wastewater flows entering the System at levels below the maximum amount provided in this Contract and to reduce the quantity of Wastewater being metered for, and charged to, FWSD.

7. **Cost Elements.** Generally, operating expenses will be shared System-wide based on flow. Capital costs shall be allocated directly to the benefiting party. The costs for which FWSD agrees to be responsible and to pay, as its share of the Annual Requirement are as follows:

a) **Treatment Plant Operation and Maintenance Expense:** A full pro rata share based on total FWSD flow, subject to the minimum quantity specified in Exhibit B, including a full pro rata share of cost of future replacement or rehabilitation of capital facilities.

b) **Treatment Plant Capital Costs.** A pro rata share based on the capacity subscribed in this Contract.

c) **Common-To-All Facilities.** All facilities that are installed and intended for the general benefit of, and for use by, participants in the Project and System are considered to be 'common-to-all'. Such facilities may include major trunk lines, lift stations, metering facilities, etc. Capital cost of such facilities shall be shared among all participants according to subscribed capacity. Operation and Maintenance Expense shall be allocated according to actual flows into the System. Delivery and Treatment Facilities are typically designed with extra capacity or "oversize" to accommodate future growth and future Customers. Each participant is responsible for all costs for adequate capacity to accommodate the build-out of their respective service areas. Any extra capacity or oversize for future Customers or participants in the System shall be considered to be Common-to-All Facilities.

d) Delivery Facilities. FWSD shall be responsible for all costs (Capital as well as Operation and Maintenance) for delivery of Wastewater to its Point of Entry and for the trunk line (including lift station and pumping) from its Point of Entry to the Treatment Plant or to Common-To-All facilities. If more than one participant is sharing the use of such Delivery Facilities, costs shall be pro rated.

(e) Oversize for Future. To provide capacity for future growth of FWSD and for service to other Customers in the future, elements of the Project and System will be oversized in a prudent manner. Cost of oversize elements will be borne by Customers on a pro rata basis according to contracted capacity in Exhibit B.

8. Capacity / Phased Development. FWSD expects that the service area within its boundaries will be developed in phases over a five to ten year period. The capacity subscribed herein is the anticipated average annual flow to be generated in a maximum flow year during the initial approximately three years of this Contract. It is the intention of the parties that FWSD and other Initial Participating Customers in the System during said three-year period will jointly support an expansion of the System treatment capacity for the mutual benefit of all participants. In conjunction with planning for said expansion, FWSD shall advise District of its future needs and will subscribe to the appropriate capacity to satisfy its requirements over the planning horizon then mutually agreed for said expansion. If FWSD at any time during the life of the Contract, determines that it will need capacity greater than subscribed herein, it shall give District sufficient advance notice for District to plan, design, finance and construct the appropriate facilities needed to provide the required System capacity.

9. Easements and Property.

(a) FWSD agrees to convey to District, without costs, any easements necessary for District to construct and operate Project facilities within FWSD boundaries. Said easement(s) shall be for the exclusive use of District and shall be conveyed using the District's standard easement documents. Specifically, FWSD agrees to dedicate to District on District's standard form a utility easement, twenty (20) feet wide, generally along the west side of FWSD for the entire distance from U.S. 380 to the treatment plant site on the north side of FWSD or along a route as mutually agreed upon. Further, depending on final design of off-site trunk mains for other participants, other easements may be needed to provide access to the treatment plant site. To enable FWSD to plan for and to install public improvements within its boundaries, District will not unreasonably deny FWSD the right to cross easements of the District with roads, pipelines and utility easements in accordance with standards of the District. Further, any easements to be granted by FWSD to District under this Paragraph shall be subject to rights of existing easements granted prior to January 1, 2001.

(b) FWSD agrees to cooperate with District in providing a site for the Northside Treatment Plant at the location shown on Exhibit A. Specifically, FWSD will cause the landowner to convey, at no cost to District, fee ownership of ten (10) acres to district pursuant to a separate agreement between District and the landowner, which agreement also provides for District to purchase fee ownership of certain additional areas of land. Further, FWSD agrees to provide access to the site by public streets or through dedication of separate fee property, either of which is subject to approval by District, at no cost to District.

10. Assignment or Sale. FWSD hereby agrees that it will not assign, sell, or convey its retail wastewater collection system to any party, without the prior written approval of District, which approval will not be unreasonably denied. Any such approval relating to a Member of the District will be denied

only if the requested sale, assignment or conveyance would cause the interest on any of the Bonds to be or become subject to federal income taxation under the Internal Revenue Code of 1986, as amended. Further, any such assignment, sale or conveyance, if approved, would require the benefiting party to assume all obligations of this Contract.

11. **Capacity for Adjacent Areas.** Each participant in the Project and System is required to provide for future Wastewater flows from adjacent areas that, by reason of topography or sound engineering practices should flow into and through the participant's service area. Accordingly, if requested by District, FWSD does hereby agree to plan, design and construct its internal collection system to include adequate capacity to serve adjacent property within the drainage basin(s) that flow into or through the boundaries of FWSD. The areas to be provided for shall be generally defined by natural drainage patterns. The areas and flows to be so provided for shall be determined by mutual agreement during final design of the Project and the internal collection system. Off-site or on-site Delivery Facilities to the Treatment Plant shall be designed and constructed to accommodate the potential Wastewater flows described above from the adjacent areas outside FWSD boundaries.

12. **Future Customers / Prior Costs.** In the future, any party other than FWSD that desires to discharge Wastewater into the FWSD internal wastewater collection system or into the off-site facilities of the System owned and operated by the District shall first request and receive the District's permission and must provide approved facilities to measure its Wastewater flow into the System. Further, for up to fifteen (15) years from Contract Date, any such requesting entity shall pay appropriate prior costs paid by initial Participating Customers as determined by District for previously constructed facilities to be used to receive and transport the new entity's Wastewater. District will use such funds received from the requesting entity to reimburse FWSD for a pro rata share of prior costs for its on-site internal collection system. As a minimum, said prior costs shall be equal to a pro rata share of actual original cost for the amount of capacity to be contracted to the requesting party. The District may deduct an allowance for depreciation of facilities, based on a twenty-year depreciation period, beginning five (5) years after Contract Date. For off-site facilities in the Project, pursuant to Paragraph 20 of this Exhibit D, the District at its discretion may require a requesting party to pay a pro rata share of any principal and interest payments paid to date by FWSD. Further, such prior Project costs, subject to reimbursement by future participants, shall include an agreed allowance of \$75,000.00 for cost paid by Initial Participating Customers to obtain the original discharge permit for the Northside Plant, which cost shall be allocated on a pro rata basis to the Participants for the first five (5) MGD of capacity in said plant. For on-site facilities, the District at its discretion, may in lieu of pro rata share of prior costs, adopt a connection fee for future Customers based on each MGD of capacity being requested by the benefiting party, which capacity will be determined for the expected two-hour peak flow to be generated by the requesting party. After any such reimbursement by District to FWSD as outlined above, the District will make appropriate adjustment in FWSD's share of the Annual Requirement, and thereafter will require the requesting party (new participant or Customer) to pay its share of the Annual Requirement for the System.

13. **Approval of Future Customers.** Provisions for service by FWSD to any customer (retail or wholesale) in the area outside FWSD boundaries shall require coordination and mutual agreement between FWSD and District, which agreement will not be unreasonably withheld.

(a) For any proposed wholesale Customer, the standard procedure shall be for said Customer to request service directly from the District. Before agreeing to provide such service, the District will conduct a feasibility analysis, including coordination of the point of entry with FWSD and a determination that the granting of such wholesale service will not exceed the available capacity provided for herein for off-site (outside FWSD boundaries) area. Further, the

District will determine availability of capacity within the FWSD collection system and shall respect the prior right of FWSD to meet the needs of its own service area.

(b) For any proposed retail service outside FWSD boundaries, the standard procedure shall be for FWSD to request District's prior approval in writing to provide for coordination of such service and rates. For either wholesale or retail service, fees for prior cost may apply as herein provided.

(c) It is expected that Mustang WSC will provide wastewater collection services in the area adjacent to and near the Project for retail customers within Mustang WSC's service area. Further, Mustang WSC has expressed a desire to participate in System capacity in connection with the first expansion above the planned initial treatment plant capacity of 1.5 MGD. In the meantime, if Mustang WSC requests that FWSD provide service for up to 25 service connections for retail customers, FWSD shall make a recommendation to District whether adequate capacity is available and whether it would be feasible to provide the requested service; neither FWSD nor District will unreasonably deny approval of such service. Such retail service for Mustang WSC customers would be provided under the terms of the Contract, including subparagraphs (a) and (b) immediately proceeding.

14. **Expansion of Service Area.** Under this Contract, FWSD has the right to receive wholesale Wastewater service directly from the District for an agreed service area within its initial boundaries, plus certain additional area, if FWSD chooses to expand its boundaries or service area.

(a) The initially agreed area within its boundaries for this limited purpose is 420 acres. Any additional eligible area will be determined according to FWSD's percentage of capital cost participation in the Project. For each one percentage point (1.0%) of capital cost participation, the additional area authorized to receive service under this Contract shall increase one percentage point (1.0%), up to a maximum of one hundred percent (100%) increase in acreage being served; that is, a maximum of 420 additional acres - - plus an additional 21 acres to account for the plant site to be acquired by District out of FWSD's original boundaries. Any such additional area to be served by the System is subject to approval by District, including a determination by the District that such additional service is feasible and that adequate capacity in the System is available to provide the service. If FWSD so requests the District to provide such additional service from the System, up to the maximum amount provided for in this Paragraph, District will not unreasonably withhold approval. In administering the provisions in this Paragraph, FWSD and District agree that, with approval of District, FWSD may coordinate with other Initial Participating Customers in the System to allow either or both Customers to fully utilize the options for expanded acreage to be served by the System as described above.

(b) Subject to approval by District, FWSD may deliver Wastewater collected from its initial or expanded service area to other locations in the System, including either of two planned treatment plants. FWSD will be responsible for all applicable costs associated with any additional requested Point of Entry into System and shall be required to conduct an engineering study for District review to confirm feasibility of such requested additional Point of Entry into the System.

15. **Extra Capacity.** Under this Contract, FWSD has certain rights to expand its boundaries or to serve additional areas pursuant to the immediately proceeding Paragraph of this Exhibit D. If timely requested by FWSD, District hereby agrees to include reasonable extra capacity in elements of the Project for such potential expansion of the area to be served by FWSD. Before FWSD may use said extra capacity to serve additional areas, FWSD must first obtain the written approval of the District,

which approval will not be unreasonably withheld. This extra capacity shall not be contracted to others by District on a permanent basis without FWSD's prior written approval during the first fifteen years of this Contract. Thereafter, use of any remaining capacity in the Project shall be subject to the District's discretion according to the terms of the foregoing provisions of this Paragraph.

16. **Approval for Expansion Areas.** Pursuant to this Contract, District agrees to transport and treat Wastewater from the area within the boundaries of FWSD as shown in Exhibit A. If in the future FWSD desires to expand or modify the area to be served under this Contract, or to serve additional area pursuant to Paragraph 14 of this Exhibit D; and, if it desires for District to transport and treat Wastewater from said expanded or modified service area, it must first obtain written approval from the District which approval shall be determined according to available capacity, project feasibility and consistent with the Mustang WSC collection system and CCN., if any.

17. **Temporary Service.** If a party other than FWSD is authorized to temporarily discharge Wastewater into the internal collection facilities of FWSD or into the off-site facilities of the Project, said party will be required to pick up a pro rata share of debt service cost and Operation and Maintenance Expense and other applicable System expenses, fees and charges during the period of such temporary use. An offsetting adjustment may be made in the payments owed by FWSD during such period.

18. **State Participation Program / Equity Fee.** FWSD acknowledges that a portion of the System may be funded through the State Participation Program; and, if so, the State will have an equity ownership interest in the System. In such case, the District's policy is to purchase (buy-back) the State's interest over a reasonable period of time; and, to that end, District requires that any entity contracting for new or additional wastewater service capacity to pay an "Equity Fee" established by District. The "Equity Fee" is generally based on the amount of accrued interest cost on that portion of the System owned by the State and upon the amount of System capacity that would be contracted to FWSD or any other party requesting such capacity. Accordingly, FWSD agrees to pay any applicable "Equity Fee" for System capacity requested by FWSD pursuant to this Contract according to the terms established by the District.

19. **Project Capital Funds.** The obligation to pay capital costs for the Project shall be allocated among the Initial Participating Customers in the Project generally according to the terms of this Contract. FWSD acknowledges and agrees that the District may not be able to sell its Bonds on favorable terms to provide the initial capital funds for the Project. Accordingly, FWSD hereby agrees to provide a minimum of fifty percent (50%) of its pro rata share of the Project Cost to District to enable the District to construct the Project at reasonable cost and at the earliest date. Further, pursuant to Paragraph 14 of this Exhibit D, FWSD acknowledges that it may receive certain benefit by providing more than the minimum fifty percent (50%) of such capital funds.

(a) FWSD desires to and does hereby exercise its option under Paragraph 14 above; and hereby elects, covenants and agrees to provide one hundred percent (100%) of the capital funds for its pro rata share (up to 100%) of the Project to enable District to construct the Project under the most favorable terms and conditions. District acknowledges that prior to Contract Date, FWSD has provided certain funds to District to conduct feasibility studies, to prepare an application to State of Texas and obtain the necessary discharge permit, and to design the Project. If additional funds are needed to complete the engineering design for the Project and to prepare documents for construction contracts, FWSD agrees to deposit promptly such supplemental funds as requested by District. In addition, to expedite construction of the proposed treatment plant, FWSD and other Initial Participating Customers agree to provide funds on a pro rata basis (for up to 0.06 MGD capacity) to cover the Town of Lincoln Park's share of cost of the plant if requested by District; which funds will be subject to later

reimbursement according to Paragraph 20 of this Exhibit D, or which funds may be reimbursed at any time by District. Furthermore, no portion of the capacity funded by the Initial Participating Customers may be used to serve areas outside of Lincoln Park's municipal boundaries as they exist on the Contract Date.

(b) After design of the Project has been completed, the District will advertise and take competitive bids for construction of the Project, which construction may be in phases. Further, District may take separate bids for different elements of the Project, such as pipelines, pump stations or treatment works. Upon receipt of bids, District shall determine the lowest apparent bidder and shall calculate the pro rata share of the construction costs for FWSD and each of the other participants. Before a contract (or contracts) for construction is awarded, District shall give FWSD written notice of FWSD's share of the proposed amount of the contract to be awarded. Within forty-five (45) days of said notice, FWSD shall deposit with District its pro rata share of the proposed construction costs for the Project, or portion thereof, being recommended for contract award.

(c) The funds so provided by FWSD for construction, along with pro rata funds from other participants, shall be deposited by District in an interest bearing construction account. District shall not award proposed construction contract(s) until deposit of said funds by FWSD and others. District may withdraw funds from the construction account as required to make periodic progress payments during construction, and to pay Project management costs and final payments upon completion according to the construction contract(s) awarded for the Project. District shall maintain an accounting of all expenditures for construction, which accounting shall be available for review by FWSD upon reasonable notice. Upon completion of construction, FWSD agrees to pay its share, if any, of contract change orders or extra costs required to complete the Project. If such change orders exceed two percent (2%) of the construction costs and if funds are not available in the construction account, FWSD agrees to deposit additional funds during construction, if requested by District.

(d) With each deposit of construction funds, FWSD shall deposit an additional ten percent (10%) to cover the District's cost of Project management: for construction oversight, inspection, testing services, and general overhead of the District for the Project. In a similar manner as for construction costs, District will maintain an accounting of all expenditures for Project Management, which accounting will be available for review by FWSD upon reasonable notice. After payment of all construction costs, change orders, any extra costs and Project management costs, any surplus funds remaining in the interest bearing construction account shall be returned to FWSD and other participants on a pro rata basis.

(e) If District applies for and receives State Participation funds for the Project from Texas Water Development Board, the amount of such funds will be deducted from the amount of funds otherwise required to be deposited by FWSD and other participants.

(f) The District agrees to use its best efforts to construct the Project when and as needed, as jointly determined by District, FWSD and other participants. District agrees that design and construction of the Project will be made in accordance with generally accepted engineering practices. The District's ability to complete the Project may be dependent in part on receiving timely approval from other governmental bodies, including Corps of Engineers, Texas Natural Resource Conservation Commission and Texas Water Development Board. Whether or not the Project is completed, FWSD agrees to pay its pro rata share of cost actually insured according to the terms of this Contract.

20. **Reimbursement of Initial Costs.** (Administration of this Paragraph is to be coordinated with Paragraph 12 of this Exhibit D) It is the mutual intent of District and FWSD to provide for future reimbursement of funds advanced for the cost of design and construction of the Project (not including initial feasibility studies). Such reimbursements by District to FWSD shall be subject to the future stream of revenues from the System being adequate to enable such reimbursement, and specifically shall be subject to the progress of development within FWSD's boundaries and service area. The funds eligible for reimbursement shall be equal to funds actually deposited by FWSD and used by District for design and construction, including the pro rata share of the Project for Lincoln Park and interest earned thereon (herein "Eligible Costs"). Said design and construction costs shall include Project management, change orders, capitalized interest cost during the construction period (for a period not to exceed two (2) years and any other applicable construction costs). Upon completion of the Project, District shall prepare and furnish to FWSD an accounting of the Eligible Costs of the Project for reimbursement, including costs to oversize portions of the Project. Also upon completion of FWSD's internal collection system, FWSD shall prepare and furnish to District an accounting of applicable oversize costs eligible for reimbursement by future Customers. The procedures and funding sources for such future reimbursements are set forth below.

(a) A portion of Eligible Costs to be reimbursed by District will come from fees to be collected from building activity within the FWSD. FWSD will collect a fee from building activity within its boundaries for wastewater treatment capacity. Upon written request with proper showing by FWSD that said building activity fee is neither needed for adequate funding nor consistent with similar development activity in nearby municipalities, the Executive Director of District may waive the requirement for said fee, in whole or in part. The first two hundred (200) building permits for new residences issued within FWSD may, at the option of FWSD, be exempt from said fees. The fees to be established by FWSD shall be equal to at least five hundred dollars (\$500) but not greater than one thousand dollars (\$1,000) per residential unit, or the equivalent thereof. On a quarterly basis, the fees so collected shall be remitted to District with an appropriate accounting thereof. On an annual basis, District will reimburse ninety percent (90%) of said fees to FWSD as a partial reimbursement of Eligible Costs. District shall retain ten percent (10%) to be applied to Project cost as a direct credit.

(b) Reimbursement of the remainder of Eligible Costs by District shall depend on establishing a stream of dependable revenues received by FWSD from retail customers actually connected to FWSD's internal collection system and providing Wastewater flow into the System. When, after at least two (2) years from Contract Date, FWSD determines that it has sufficient regular utility revenues, which may include applicable Contract Tax receipts, to warrant the District issuing Bonds for reimbursement of Eligible Costs to FWSD; then, FWSD may, from time to time, request such reimbursement by the issuance of Bonds (or from other sources available to District); FWSD shall submit appropriate documentation as to adequacy of revenues, which documentation shall be verified by a Certified Public Accountant. District shall review said documentation for accuracy and adequacy. Upon the District being satisfied that a dependable stream of revenues exists and can be reasonably relied upon to warrant issuance of Bonds, District shall issue Bonds (or use alternative funds available to District) from time to time in amounts it determines in its discretion to be prudent for reimbursement of Eligible Costs to FWSD. The District may sell its Bonds in installments of \$500,000 or any multiple thereof, for such purpose in conjunction with other periodic District Bond issues. In the alternative, the District may sell its Bonds to reimburse FWSD in a single installment of not less than \$1,500,000 by means of a separate and distinct Bond issue. However, the District shall be obligated to sell the Bonds for purposes of reimbursing FWSD, whether by a single installment or multiple installments, at such times and in such amounts as determined by District. In making such determination, District shall verify that the annual payments being paid by FWSD

to District are sufficient to amortize such Bond issues in accordance with the District's standard and customary financing structure.

(c) Certain costs will be subject to refund by District after pro rata payment is received from other future Customers. For up to fifteen (15) years from Contract Date, future Customers will be required to reimburse on a pro rata basis the prior cost of capacity provided through oversizing of pipelines and other facilities of the Project, and for oversizing of FWSD's internal collection system, if used by future Customers. The amount to be collected shall include an allowance to cover applicable costs other than actual construction costs, in that the total amount to be collected shall be based on one hundred ten percent (110%) of actual construction costs. An agreed value of \$137,500.00 for the ten (10) acres of land donated by FWSD for the treatment plant site shall be included in the total costs for which future participants will be required to pay a pro rata share. Until all Eligible Costs have been reimbursed, any payments received from future customers for pro rata reimbursement of prior costs will be subject to refund to FWSD. After Eligible Costs have been reimbursed under Paragraph (a) and (b) above, District will retain such pro rata payments to help retire its Bonds. When said pro rata share of actual costs are to be reimbursed to FWSD, the District will retain the extra ten percent (10%) collected, to be applied as a direct credit to Project costs. Any such pro rata payments received by District from future customers for oversize costs of FWSD's internal collection system shall be reimbursed to FWSD without retainage.

21. **Phased Construction/Participation in Phase 2.** It is currently contemplated by FWSD, District and other Initial Participating Customers that the Project and System will be constructed in phases, leading to a total treatment capacity of approximately 1.5 MGD to serve future development for the Initial Participating Customers. Phase 1 is expected to have capacity to treat up to 0.5 MGD; Phase 2 may provide at least an additional 1.0 MGD of treatment capacity. Depending on whether a dependable stream of revenues from retail customers has been established, District may not be able to issue its Bonds for Phase 2 construction. If District does not issue its Bonds, and if FWSD and other Initial Participating Customers deposit the necessary capital funds in a similar manner as provided herein for Phase 1 construction, District will proceed with Phase 2. If FWSD and other Initial Participating Customers so advance funds for Phase 2 construction, FWSD and the others will be given the first opportunity to subscribe for said capacity. The amount to be subscribed by each participant will be determined at that time by mutual agreement of the parties and District. Subject to the terms of Exhibit B hereto, other parties, including Mustang WSC and Town of Lincoln Park, will likewise have an opportunity to subscribe to capacity as part of Phase 1 or Phase 2 and later phases.

22. **Eminent Domain.** In obtaining easements and property for the Project, District and FWSD acknowledge that the use of the power of eminent domain may be required, if and when negotiations are not successful in obtaining the required parcels. FWSD hereby confirms and agrees that it has the power of eminent domain which may be exercised within and without the boundaries of FWSD. Accordingly, FWSD is agreeable to use its power of eminent domain if requested by District concerning the acquisition of any specific parcel of property or an easement required for the Project.

23. **Contingency for Service.** Recognizing that development within the boundaries of FWSD is expected to proceed rather quickly after the Contract Date, FWSD and District agree to proceed to implement and complete the Project in the shortest practicable time, and to use best efforts to have the Project in operating condition prior to completion of dwelling units within FWSD. However, in the event that dwelling units are completed prior to the Project being fully operational, FWSD may arrange for the construction of a specially designed holding tank. Said holding tank is not part of the Project and shall be ahead of the Point of Entry. FWSD shall own the tank and shall be responsible for monitoring and operating the tank, avoiding spills and providing security therefor. District and FWSD agree that FWSD

may contract with licensed waste hauler(s) to pump and transport Wastewater (at FWSD's expense) from the holding tank to a District treatment plant. If it becomes necessary for FWSD to deliver Wastewater from FWSD's holding tank to a District treatment plant by tank truck, FWSD agrees to pay the District's reasonable treatment and overhead charges, in addition to all other cost, fees and charges applicable under this Contract.

24. **Provision to Subdivide.** Section 53.029, Texas Water Code, authorizes a fresh water supply district under certain circumstances to subdivide into two or more new districts. Pursuant to the Division Order, the Original FWSD No. 8 has divided into two (2) new districts, thereby creating FWSD and FWSD 8-B. Nothing contained in this Contract shall limit the authority of FWSD or FWSD 8-B to subdivide, provided the District is notified in writing at least sixty (60) days in advance of such proposed subdivision; and, provided that the appropriate share of the obligations under this Contract are being assumed by the new subdivided districts in a manner that is approved in writing by the District. With respect to FWSD 8-B, FWSD represents and confirms that no rights or obligations under this Contract have been assigned to or assumed by FWSD 8-B. However, assignment to or assumption of such rights and obligations by FWSD 8-B will be accomplished as soon as practicable, the manner shall be subject to approval in writing by the District. Further, to the extent served by the System through this Contract, FWSD further pledges any taxes or revenues (herein "Joint Utility Contract Revenues") to be received from FWSD 8-B, and any district created by future division of FWSD and FWSD 8-B into two or more districts, to the payments of such obligations, and hereby covenants to collect such Joint Utility Contract Revenues in an amount sufficient to satisfy said subdivided district's obligations under an appropriate Joint Utility Contract. Instruments and contracts related to such proposal to divide shall be submitted to District for its review and approval. Review and approval by the District shall be limited to fiscal responsibility and operational compatibility. The foregoing provisions of this Paragraph notwithstanding, FWSD covenants that it will be entirely responsible for providing adequate funds to District to fulfill the obligations of this Contract, that it will enter into a Joint Utility Contract with FWSD 8-B and any subdivided district of FWSD and FWSD 8-B, the terms of which shall require prior approval by District; and, that District will not be required to look to FWSD 8-B or any subdivided district of FWSD and FWSD 8-B to meet the obligations and requirements of this Contract. The District agrees to approve or disapprove such proposal by FWSD to subdivide within forty-five (45) days of receipt of written notice, and such approval shall not be unreasonably withheld.

25. **Transfer to a Municipality.** FWSD or any district created therefrom pursuant to Section 53.029 of the Texas Water Code, retains the right to transfer, assign and convey its rights, titles, interests and responsibilities under this Contract to any city, town or village that annexes said district in its entirety and assumes the responsibilities of this Contract as a matter of law or agrees to assume said rights, titles, interests and responsibilities in their entirety. Any other transfer, assignment and conveyance must be submitted to the District in writing for its approval. The District shall approve or disapprove said request within 120 days of receipt of written request and such approval shall not be unreasonably withheld.

26. **Standards/Specifications.** As a condition of receiving water under this Contract, FWSD agrees to design, construct, operate and maintain its wastewater collection system to generally accepted municipal standards and applicable specifications published by North Central Texas Council of Governments. All pipelines shall be minimum four (4) inch diameter with sufficient capacity for build-out of FWSD including upstream areas required to be served. Further, pipes, fittings and manholes shall conform to generally accepted specifications of typical municipal wastewater utilities.

27. **Contract for Operation.** FWSD agrees and acknowledges that Mustang Water Supply Corporation (MWSC) has applied for a Certificate of Convenience and Necessity (CCN) for wastewater service within the boundaries of FWSD. Accordingly, FWSD agrees to contract with MWSC for

operation of FWSD's retail wastewater collection system or for such other services mutually agreed by FWSD and MWSC.

28. **Bonds Not Subject to Federal Income Tax.** The District recognizes that FWSD and MWSC have entered into, or will enter into, one or more agreements concerning coordination and operation of the wastewater collection system to be constructed to provide retail wastewater service within the boundaries of FWSD. In regard to such agreement(s), FWSD hereby covenants and agrees that it will not use or operate said retail collection system, or permit the use or operation of said system or of the District's System in any manner that could cause the interest on any of the District's Bonds to be or to become subject to federal income taxation under the Internal Revenue Code of 1986 or any amendments thereto in effect on the date of issue of such Bonds.

29. **Approval of Operating Contracts.** FWSD agrees that in regard to an agreement with MWSC or any private party to operate or maintain its wastewater collection system, it will award such operating agreement(s) pursuant to Qualified Management Contracts, in compliance with the Internal Revenue Code. Further it will award such agreement(s) only after written approval by the District and its Bond Counsel, concluding that the proposed operating agreement will not adversely affect the tax exempt status of the District's Bonds, notes, and other obligations. FWSD agrees to provide to District for its review and approval any new or amended agreement or contract to operate the wastewater collection system. Each new or amended contract shall include provisions that such private operator takes the contract subject in all respects to this Contract. The District's review and approval of any new or amended agreements or contracts with a private operator to operate FWSD's wastewater collection system shall not be unreasonably withheld and shall only be withheld if such agreements or contract could adversely affect the tax exempt status of the District's Bonds, notes, and other obligations, in the opinion of the District's Bond Counsel. FWSD agrees to include the necessary provisions in its operating agreement to satisfy the Internal Revenue Code requirements. If FWSD contracts with MWSC after MWSC converts to a public entity that is qualified to issue tax exempt municipal bonds, any such operating contract or agreement will not require prior approval by District; however, FWSD shall provide notice to District with a copy of such contract.

30. **Approval to Convey.** FWSD hereby agrees that it will not assign, sell, or convey its retail wastewater collection system to any party, including MWSC, without the prior written approval of District, which approval will not be unreasonably denied. Furthermore, any such approval relating to MWSC will be denied only if any requested sale, assignment or conveyance would cause the interest on any of the Bonds to be or become subject to federal income taxation under the Internal Revenue Code of 1986, as amended. Further, any such assignment, sale or conveyance if approved would require the benefiting party to assume all obligations of this Contract.

31. **Non-Member Customer Rates.** FWSD agrees and understands that this Contract provides for FWSD to be a Customer of the District's Northeast Regional Water Reclamation System as herein defined; and further, that FWSD is not entitled to be a Participating Member or Participating Utility of said System. The special privileges enjoyed by Participating Members and Participating Utilities are derived from their having carried the risks and costs of developing and organizing the District and developing service programs after the District was created by the State Legislature in 1989. Nevertheless, it is hereby acknowledged that this Contract, as compared to similar contracts with Participating Members and Participating Utilities, provides for FWSD to receive wastewater service under reasonably comparable terms. However, FWSD shall not be entitled to a direct representative on the Board, but will be represented by an at-large representative. Further, FWSD agrees that it is reasonable and necessary for the District to charge FWSD a higher "Customer" rate for wastewater service than the "Member" rate otherwise charged by District to Participating Members and Participating Utilities, which higher rates are agreed to be fully justified as a matter of equity and law. It

is mutually agreed that the Customer rates and charges for services hereunder shall never be more than seven percent (7%) above like rates charged by District to Participating Members and Participating Utilities of District; and, it is further agreed that the extra percentage shall apply only to the variable volume rate and not to fixed or capital costs portions of rates and charges. Further, it is mutually agreed that FWSD shall be exempt from the Administrative Payment defined in Section 1.02 of this Contract.

32. **FWSD May Obtain Easement.** If requested by FWSD, District will authorize FWSD to use its own personnel and resources, without reimbursement, to negotiate for and obtain any property, easements and permits for the Project. Said property, easements and permits shall be obtained in the name of the District on standard forms of District. District shall use its funds to pay the actual cost of said property and easements, either on a contemporaneous basis or reimbursement basis, at the option of the District. In obtaining such property and easements, FWSD agrees to follow the rules, guidelines and procedures of the District.

33. **Revisions of Service Area Boundaries.** The provisions of the separate water contract between FWSD and District shall apply concerning revisions of service area boundaries for FWSD under this Contract.

34. **Alternative Metering Provision.** Subject to prior written approval by the District's Executive Director, FWSD may propose that the amount of Wastewater delivered by FWSD to District at the Point of Delivery be determined by summation of water meter readings for all retail and other usage within FWSD's distribution system. Such approval by the Executive Director will be given only if such change is in the best interest of the District and will promote increased efficiency. Further, such approval shall be granted only if an acceptable and reliable method is developed and approved for determination of the volume of flow from within FWSD's system. In the alternative, the Executive Director on his own initiative may authorize such system or an alternative system for determination of Wastewater delivered by FWSD.

35. **Construction of District Facilities.** In conjunction with development of infrastructure within FWSD's boundaries, it may be mutually convenient for FWSD to construct certain facilities for District. If so mutually agreed, District and FWSD may proceed with joint plans for design and construction on a cost reimbursement basis according to the following procedures.

(a) design shall be in accordance with District standards and generally accepted engineering practice. Unless the plans and specifications are prepared by District, all plans, specifications and contract documents relating to District facilities shall be submitted to District for review and approval by staff prior to FWSD advertising for construction bids. Such plans, specifications and contract documents shall clearly identify and itemize all District facilities to be constructed to allow the associated cost to be determined.

(b) FWSD shall serve as project manager for both parties and shall advertise, award and contract for construction of District facilities contemplated herein in full compliance with Sections 49.271 - 49.273 and 49.275 of the Water Code. Prior to award of contract for construction of District facilities, FWSD shall provide District with full and complete bid packet, including bid tabulation and recommendation of award by FWSD's engineer. After consideration by its Board of Directors, District shall promptly notify FWSD of its action. If District concurs, FWSD shall proceed to award and execute the contract according to the terms and conditions contained herein. FWSD shall be responsible for field engineering and other activities to assure the facility is constructed according to plans and specifications. District shall have the right to inspect construction of District facilities as the work progresses and the right of final acceptance

or rejection of completed work. Upon completion of construction and final acceptance by District, full fee simple ownership of the facility and its appurtenances shall be vested in District without further action by the parties.

(c) FWSD shall submit the contractor's request for monthly progress payment with its recommendation to District for review and concurrence. Within ten (10) days after such concurrence, District shall reimburse FWSD it's share of such payment due the contractor. Construction Change Orders, if any, which do not exceed three percent (3.0%) of the original contract amount for construction of District facilities in the aggregate, or fifteen thousand dollars (\$15,000) individually, may be approved on behalf of District by its Executive Director. Change Orders which exceed the three percent (3.0%), or the fifteen thousand dollars guideline shall require approval in advance by District's Board of Directors. Any Change Order relating to construction of District facilities must be approved by District prior to execution.

**APPENDIX D**

FORM OF CO-BOND COUNSEL'S OPINION

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# BRACEWELL

May \_\_, 2026

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UPPER TRINITY REGIONAL WATER DISTRICT  
NORTHEAST REGIONAL WATER RECLAMATION SYSTEM  
REVENUE BONDS  
SERIES 2026

WE HAVE ACTED as co-bond counsel for Upper Trinity Regional Water District (the “Issuer”) in connection with the hereinafter described bonds (the “Bonds”):

UPPER TRINITY REGIONAL WATER DISTRICT NORTHEAST REGIONAL WATER  
RECLAMATION SYSTEM REVENUE BONDS, SERIES 2026

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the resolution adopted by the Board of Directors of the Issuer on February 19, 2026 (the “Bond Resolution”) and the pricing certificate (the “Pricing Certificate”) executed pursuant to the terms of the Bonds Resolution (the Bond Resolution and the Pricing Certificate are collectively referred to as the “Resolution”) authorizing their issuance.

WE HAVE ACTED as co-bond counsel for the purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as co-bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; customary certificates of officers, agents and representatives of the Issuer, and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the

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opinions herein. We have also examined executed Bond No. 1 of this issue. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Resolution.

IN PROVIDING THE OPINIONS set forth herein, we have relied on representations and certifications of the Issuer and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the Issuer and such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Resolution, including, but not limited to, covenants relating to the tax-exempt status of the Bonds.

BASED ON SUCH EXAMINATION, AND IN RELIANCE ON SUCH REPRESENTATIONS, CERTIFICATIONS, AND ASSUMPTIONS, IT IS OUR OPINION THAT:

(A) 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, therefore, the Bonds constitute valid and legally binding special obligations of the Issuer;

(B) The Bonds are payable from and secured by a lien on and pledge of the Pledged Revenues derived from the Issuer's Northeast Regional Water Reclamation System, as defined and described in the Resolution; and

(C) Interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax on individuals, but we observe that such interest is taken into account in computing the alternative minimum tax on certain corporations.

THE RIGHTS OF THE OWNERS are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

WE EXPRESS NO OPINION as to the amount or timing of interest on the Bonds or, except as stated above, any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Bonds. This opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, the laws of the United States of America. Further, in the event that the representations or certifications of the Issuer and other parties are determined to be inaccurate or incomplete or the Issuer fails to comply with the covenants of the Resolution, interest on the Bonds could become includable in gross income for federal income tax purposes from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

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OUR OPINIONS ARE BASED on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

Municipal Advisory Services  
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