

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

## PRELIMINARY OFFICIAL STATEMENT

Dated April 16, 2024

**Rating:**  
**Moody's: "A1"**  
**Insurance: Applied For**  
**(See "RATING" herein)**

### NEW ISSUE – Book-Entry-Only

In the opinion of 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.



**\$111,370,000\***  
**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
*(A political subdivision of the State of Texas located within Bell County)*  
**WATER SYSTEM REVENUE BONDS, SERIES 2024**

**Dated: May 23, 2024**

**Due: July 10, as shown on the inside cover page**

**Interest to Accrue from the Date of Initial Delivery (defined below)**

**PAYMENT TERMS . . .** The \$111,370,000\* Bell County Water Control and Improvement District No. 1 Water System Revenue Bonds, Series 2024 (the "Bonds"), will be dated May 23, 2024 (the "Dated Date"). Interest on the Bonds will accrue from the Date of Initial Delivery of the Bonds and will be payable on January 10, 2025 and on each July 10 and January 10 thereafter until the earlier of maturity or prior redemption. The Bonds will be issued in denominations of \$5,000 of principal amount or any integral multiple thereof. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The District (as defined herein) intends to utilize the book-entry-only system of The Depository Trust Company, New York, New York ("DTC") for all payments of principal, premium, if any, and interest on the Bonds, but reserves the right on its behalf or on behalf of DTC to discontinue such system. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, National Association (see "THE BONDS – Book-Entry-Only System" herein).

**AUTHORITY FOR ISSUANCE . . .** The Bonds are being issued pursuant to the provisions of: (i) the Constitution and the general laws of the State of Texas, including Chapter 9005, Texas Special District Laws Code, and Chapter 1371, Texas Government Code, and (ii) an order (the "Bond Order") adopted by the Board of Directors of the Bell County Water Control and Improvement District No. 1 (the "District") and a pricing certificate (the "Pricing Certificate") to be executed pursuant to the Bond Order. The Pricing Certificate and the Bond Order are referred to herein collectively as the "Order."

**SECURITY FOR THE BONDS . . .** The Bonds constitute special obligations of the District which, together with any Bonds Similarly Secured (as defined in the Order) previously issued and outstanding or hereafter issued by the District, are payable from and secured solely by a lien on and pledge of the Pledged Revenues (as defined in the Order) derived from the District's water supply and transmission system (the "Water System" or the "System"). "Pledged Revenues" consist primarily of amounts received by the District pursuant to the terms of water supply contracts between the District and each of its water customers as more fully described in "THE WATER SYSTEM – Water Contracts." See "THE BONDS – Source of Payment and Security" and "APPENDIX C – Summary of Certain Provisions of the Bond Order." The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance raised by taxation or from any other sources or properties of the District, Bell County, the State of Texas or any other political subdivision of the State of Texas. The District is not authorized to levy any tax in payment of the Bonds. The District reserves the right to issue Additional Parity Bonds without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under the Order, law or otherwise. See "THE BONDS" herein.

**PURPOSE . . .** The Bonds are being issued to construct improvements to the District's Water System, including expansion of and improvements to the District's Lake Belton Water Treatment Plant and improvements to the District's transmission system, to make a deposit to the Bond Reserve Fund and to pay costs associated with the issuance of the Bonds. See "THE BONDS – Authorization and Purpose."

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**CUSIP PREFIX: 078043**  
**MATURITY SCHEDULE**  
**See Inside Cover Page**

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**LEGALITY . . .** The Bonds are offered for delivery when, as and if issued and received by the underwriters named below (the "Underwriters") and subject to, among other matters, the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Bond Counsel, Austin, Texas (see "APPENDIX C – Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas.

**DELIVERY . . .** Delivery of the Bonds is expected through the facilities of DTC on May 23, 2024 (the "Date of Initial Delivery").

**RAYMOND JAMES**

**SAMCO CAPITAL**

**BAIRD**

\*Preliminary, subject to change.

## MATURITY SCHEDULE\*

<u>Maturity (July 10)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Numbers<sup>(1)</sup></u>
2025	\$ 1,935,000			
2026	2,540,000			
2027	2,670,000			
2028	2,815,000			
2029	2,955,000			
2030	3,110,000			
2031	3,275,000			
2032	3,445,000			
2033	3,625,000			
2034	3,820,000			
2035	4,020,000			
2036	4,240,000			
2037	4,445,000			
2038	4,685,000			
2039	4,925,000			
2040	5,180,000			
2041	5,455,000			
2042	5,740,000			
2043	6,035,000			
2044	6,355,000			
2045	5,405,000			
2046	5,695,000			
2047	6,000,000			
2048	6,325,000			
2049	6,675,000			

### (Interest Accrues From the Date of Initial Delivery)

\*Preliminary, subject to change.

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is 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 CUSIP Services. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. None of the District, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

**REDEMPTION . . .** The District reserves the right, at its option, to redeem Bonds maturing on and after July 10, 20\_\_\_, in whole or in part, in integral multiples of \$5,000 on July 10, 20\_\_\_ or any date thereafter, at a price equal to the par value thereof plus accrued interest to the date of redemption (see the “THE BONDS – Redemption Provisions – Optional Redemption”). Additionally, the Bonds may be subject to mandatory sinking fund redemption in the event the Underwriters aggregate two or more consecutive maturities as Term Bonds (see “THE BONDS – Redemption Provisions – Mandatory Sinking Fund Redemption”).

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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 the information permitted by the Rule.

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

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the Underwriters of the Bonds.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the 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. No representation is made by the District regarding the use, presentation and interpretation of the financial information of the District made by third parties, including the Municipal Securities Rulemaking Board.

None of the District, the Underwriters or the Financial Advisor make any representation regarding the information contained in this Official Statement regarding DTC or its book-entry-only system or the provider of any municipal bond insurance policy, if any, and its municipal bond insurance policy, as described or incorporated herein by reference under the caption “BOND INSURANCE,” as such information has been provided by DTC and the insurance provider, respectively. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau for the convenience of the owners of the Bonds.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, OR EXEMPTED, SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

*THIS OFFICIAL STATEMENT CONTAINS “FORWARD-LOOKING” STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.*

INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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**OFFICIAL STATEMENT SUMMARY**

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

**THE BONDS**

<i>Description</i> .....	Bell County Water Control and Improvement District No. 1 Water System Revenue Bonds, Series 2024 (the “Bonds”), in the aggregate principal amount of \$111,370,000* maturing on the dates and in the principal amounts set forth on the inside cover page. See “THE BONDS – Description.”
<i>Redemption</i> .....	The District reserves the right, at its option, to redeem Bonds maturing on and after July 10, 20___, in whole or in part, in integral multiples of \$5,000 on July 10, 20___ or any date thereafter, at a price equal to the par value thereof plus accrued interest to the date of redemption (see the “THE BONDS – Redemption Provisions – Optional Redemption”). Additionally, the Bonds may be subject to mandatory sinking fund redemption in the event the Underwriters aggregate two or more consecutive maturities as Term Bonds (see “THE BONDS – Redemption Provisions – Mandatory Sinking Fund Redemption”).
<i>Purpose</i> .....	The Bonds are being issued to construct improvements to the District’s water supply and transmission system (the “Water System”), including expansion of and improvements to the District’s Lake Belton Water Treatment Plant and improvements to the District’s transmission system, to make a deposit to the Bond Reserve Fund and to pay costs associated with the issuance of the Bonds. See “THE BONDS – Purpose.”
<i>Authority for Issuance</i> .....	The Bonds are being issued pursuant to the provisions of: (i) the Constitution and the general laws of the State of Texas, including Chapter 9005, Texas Special District Laws Code, Chapter 1371, Texas Government Code, and (ii) an order (the “Bond Order”) adopted by the Board of Directors of the Bell County Water Control and Improvement District No. 1 (the “District”) and a pricing certificate to be executed pursuant to the Bond Order. See “THE BONDS – Authority for Issuance.”
<i>Source and Security for Payment</i> .....	The Bonds, together and on a parity with any outstanding Bonds Similarly Secured, are payable from and secured solely by a lien on and pledge of the Pledged Revenues of the District’s Water System. See “THE BONDS – Source of Payment and Security” and “THE WATER SYSTEM.”
<i>Bond Counsel</i> .....	Bracewell LLP, Austin, Texas.
<i>Financial Advisor</i> .....	Specialized Public Finance Inc., Austin, Texas.
<i>Paying Agent/Registrar</i> .....	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

**THE DISTRICT**

<i>Description</i> .....	The Bell County Water Control and Improvement District No. 1 (the “District”) is located entirely within Bell County, Texas, and is a political subdivision of the State of Texas. The District was created by an order adopted by the Board of Water Engineers of the State of Texas on March 10, 1952, pursuant to the authority conferred by Chapter 3A, Title 128, Vernon’s Texas Civil Statutes (codified as Chapter 51, Texas Water Code). The District operates as a water control and improvement district under the provisions of Chapter 9005, Texas Special District Local Laws Code, Chapters 49 and 51, Texas Water Code, and Article XVI Section 59 of the Texas Constitution. The District covers western Bell County and a portion of Coryell County and covers approximately 182.3 square miles. See “THE DISTRICT.”
<i>Population</i> .....	Approximately 300,000 (source: The District).

\*Preliminary, subject to change.

*Rating* ..... The Bonds and the outstanding debt of the District have been rated “A1” by Moody’s Investors Service, Inc. (“Moody’s”) without regard to credit enhancement.

*Municipal Bond Insurance*..... The District has made application to municipal bond insurance companies to have the payment of the principal of and the interest on the Bonds insured by a municipal bond insurance policy. The District will consider the purchase of bond insurance after analyzing the financial benefit based upon the bids received. The District will notify the Underwriters upon obtaining a commitment from a bond insurance company concerning this matter. The final Official Statement will disclose, to the extent necessary, any relevant information relating to any municipal bond insurance policy and the provider thereof. See “BOND INSURANCE” herein.

*Payment Record*..... The District has not defaulted on any previously issued bonds.

**OFFICIALS, STAFF AND CONSULTANTS**

**OFFICIALS**

<u>Board of Directors</u>	<u>Term Expires</u>
Robert R. Robinson, III President	November 2026
Kenny Wells Vice-President	November 2024
Sandra Blankenship Secretary	November 2024
Ricky Wilson Director	November 2026
Brian Dosa Director	November 2024
Dale Treadway Director	November 2024
Richard Grandy, Sr. Director	November 2024
Joyce Jones Director	November 2026

**ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Richard Garrett, P.E.	General Manager	9 Years

**CONSULTANTS AND ADVISORS**

Engineers ..... Camp Dresser & McKee Inc.  
Austin, Texas

Bond Counsel ..... Bracewell LLP  
Austin, Texas

Financial Advisor..... Specialized Public Finance Inc.  
Austin, Texas

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## OFFICIAL STATEMENT

\$111,370,000\*

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
*(A political subdivision of the State of Texas located within Bell County)*  
**WATER SYSTEM REVENUE BONDS, SERIES 2024**

### INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Bell County Water Control and Improvement District No. 1 (the “District”) of its \$111,370,000\* Water System Revenue Bonds, Series 2024 (the “Bonds”).

This Official Statement includes descriptions, among others, of the Bonds, the bond order (the “Bond Order”) adopted by the Board of Directors of the District and a pricing certificate (the “Pricing Certificate” and, together with the Bond Order, the “Order”) to be executed pursuant to the Bond Order. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents described herein may be obtained from Specialized Public Finance Inc. (the “Financial Advisor”) at 248 Addie Roy Road, Suite B-103, Austin, Texas 78746. Capitalized terms used but not defined herein shall have the meanings assigned to them in the Order.

### THE BONDS

**DESCRIPTION . . .** The Bonds mature on the dates and in the principal amounts set forth on the inside cover page. The Bonds will be dated May 23, 2024. Interest will accrue from the later of the Date of Initial Delivery of the Bonds or the most recent interest payment date to which interest has been paid or provided for and will be payable on January 10, 2025 and on each July 10 and January 10 thereafter until the earlier of maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued pursuant to the Order, in fully registered form only, in denominations of \$5,000 of principal amounts or any integral multiple thereof and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the Book-Entry-Only System described herein.

**No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry-Only System” herein.

**AUTHORITY FOR ISSUANCE . . .** The Bonds are being issued pursuant to the provisions of: (i) the Constitution and the general laws of the State of Texas, including Chapter 9005, Texas Special District Local Laws Code, and Chapter 1371, Texas Government Code, and (ii) the Order. The Bonds are being issued to construct improvements to the District’s Water System, including expansion of and improvements to the District’s Lake Belton Water Treatment Plant and improvements to the District’s transmission system, to make a deposit to the Bond Reserve Fund and to pay costs associated with the issuance of the Bonds.

**SOURCE OF PAYMENT AND SECURITY . . .** *Pledge* – The Bonds, together with any previously issued and outstanding parity obligations and any Additional Parity Bonds issued hereafter (collectively, the “Bonds Similarly Secured”), and the interest thereon, are payable from and secured solely by a first lien on and pledge of the Pledged Revenues of the District’s water supply and transmission system (the “Water System” or the “System”). The Pledged Revenues consist of the Net Revenues of the System and any additional revenues, income, receipts or other resources of the System, including, without limitation, any grants, donations or income received in connection with the Water System from the United States of America, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter may be pledged to the payment of the Bonds Similarly Secured. The Net Revenues consist primarily of amounts received by the District pursuant to the terms of water supply contracts between the District and each of its water supply customers as more fully described under “THE WATER SYSTEM – Water Contracts” herein.

*Principal and Interest Fund* – Bonds Similarly Secured are secured by monies and investments on deposit from time to time in the Principal and Interest Fund established separate and apart from other funds of the District for the purpose of paying debt service on Bonds Similarly Secured.

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\*Preliminary, subject to change.

*Bond Reserve Fund* – Bonds Similarly Secured are further secured by monies and investments on deposit in the Bond Reserve Fund established to provide payment of debt service on Bonds Similarly Secured in the event that there are insufficient funds available for such purpose in the Principal and Interest Fund. The District covenants in the Order to accumulate and maintain an amount equal to the average annual debt service on outstanding Bonds Similarly Secured (the “Required Reserve”) as calculated on the date of issuance of a series of Additional Parity Bonds. On the delivery date for the Bonds, a portion of the proceeds of the Bonds in the amount of \$ \_\_\_\_\_ will be deposited to the Bond Reserve Fund, thereby making the aggregate amount on deposit in the Bond Reserve Fund equal to the Required Reserve for the Bonds Similarly Secured, being \$ \_\_\_\_\_. If and whenever the balance in the Bond Reserve Fund is reduced to less than the Required Reserve, monthly deposits (after making required transfers to the Principal and Interest Fund) equal to at least 1/60<sup>th</sup> of the Required Reserve shall be made to the Bond Reserve Fund until an amount equal to the Required Reserve is on deposit therein. See “APPENDIX C – Summary of Certain Provisions of the Bond Order.”

**RATES . . .** The District covenants and agrees in the Order for the benefit of the owners of the Bonds Similarly Secured that it will at all times fix, maintain and collect rates and charges for services of the Water System necessary to produce Gross Revenues sufficient to pay Current Expenses and, together with any other Pledged Revenues, to make required deposits to the Principal and Interest Fund and the Bond Reserve Fund, to pay debt service on Bonds Similarly Secured when due, and to pay any other obligations of the Water System for which the District may become liable. See “THE WATER SYSTEM – Water Contracts.”

**FUTURE BORROWING . . .** The District reserves the right to issue, for any lawful purpose, including refunding purposes, such Additional Parity Bonds as the District may hereafter be authorized to issue, which Additional Parity Bonds, when issued and delivered, may be payable from and secured by a lien on and pledge of the Pledged Revenues on a parity with the lien and pledge securing the Bonds Similarly Secured. In addition, the District reserves the right to issue additional bonds, which when issued and delivered, shall be secured by a lien against the revenues of the Water System that is junior and subordinate to the lien and pledge that secures the Bonds Similarly Secured. Any issuance of Additional Parity Bonds will require approval of the District’s Board of Directors and will be subject to the terms and provisions of the Bond Order and the District’s orders relating to the Prior Bonds. See “RISK FACTORS – Additional Debt” and “APPENDIX C – Summary of Certain Provisions of the Bond Order.”

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

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

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of



their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

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

**REDEMPTION PROVISIONS . . . Optional Redemption.** The District reserves the right, at its option, to redeem Bonds maturing on and after July 10, 20\_\_\_, in whole or in part, in integral multiples of \$5,000, on July 10, 20\_\_\_ or any date thereafter, at a price equal to the par value thereof plus accrued interest to the date of redemption. If less than all of such Bonds are redeemed at any time, the maturities of such Bonds and the principal amounts thereof (in integral multiples of \$5,000) to be redeemed shall be selected by the District. The Paying Agent/Registrar (or DTC while the Bonds are in book-entry-only form) shall determine by lot the Bonds, or portion thereof, within such maturity to be redeemed.

*Mandatory Sinking Fund Redemption.* The Bonds may be subject to mandatory sinking fund redemption in the event the Underwriters elect to aggregate two or more consecutive maturities as Term Bonds.

*Notice of Redemption.* Not less than thirty (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 Owners of the Bonds to be redeemed 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.

In the Order, 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 (i) 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 (ii) 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 Registered Owners. Any Bonds subject to conditional redemption and such redemption has been rescinded will remain Outstanding, and the rescission of such redemption will 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.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE DISTRICT IN THE 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.

**DTC REDEMPTION PROVISIONS . . .** The Paying Agent/Registrar and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants hold Bonds, or beneficial owners of the selection of portions of the Bonds for redemption.

**DEFEASANCE . . .** The Order provides that the Bonds may be discharged, refunded or defeased in any manner then permitted by applicable law.

**REGISTRATION AND TRANSFER . . .** So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep a register of owners (the "Register") at a designated payment/transfer office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Order.

In the event the Book-Entry-Only system should be discontinued by DTC (or a successor securities depository) or the use of such Book-Entry-Only system is discontinued by the District, each Bond shall be transferable only upon the presentation and surrender of such Bond at the designated payment/transfer office of the Paying Agent/Registrar, initially in Pittsburgh, Pennsylvania (the "Designated Payment/Transfer Office"), duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and accruing interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the Designated Payment/Transfer Office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond so delivered shall be entitled to the benefits and security of the Order to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding interest payment date or to transfer or exchange any Bond called for redemption during the 30 day period prior to the date fixed for redemption.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond.

**RECORD DATE . . .** The Record Date for payment of interest on the Bonds on January 10, is the next preceding December 15 and for July 10, the next preceding June 15, whether or not such dates are business days.

**PAYING AGENT/REGISTRAR . . .** In the Order the District has covenanted to maintain a paying agent/registrar so long as the Bonds are outstanding. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, National Association. The Order provides that the District may replace the paying agent/registrar. Any replacement paying agent/registrar is required to be a financial institution or other entity qualified to act as paying agent/registrar under applicable law. The District will cause to be given to Registered Owners a notice of any change in the paying agent/registrar and the designated payment/transfer therefor.

**LOST, STOLEN OR DESTROYED BONDS . . .** Upon the presentation and surrender to the Designated Payment/Transfer Office of the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation and an indemnity bond from the Registered Owner, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered Owners of lost, stolen or destroyed bonds will be required to pay the District's costs to replace such bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

**REMEDIES IN EVENT OF DEFAULT . . .** The Order provides that, in addition to all other rights and remedies of any Registered Owner provided by the laws of the State of Texas, in the event the District defaults in the observance of performance of any covenant in the Order including payment when due of the principal of and interest on the Bonds, any registered owner may apply for a writ of mandamus from a court of competent jurisdiction requiring the Board of Directors or other officers of the District to observe or perform such covenants.

The Order provides no additional remedies to a registered owner. Specifically, the Order does not provide for an appointment of a trustee to protect and enforce the interests of the Registered Owners or for the acceleration of maturity of the Bonds upon the occurrence of a default in the District's obligations. Consequently, the remedy of mandamus is a remedy that may have to be enforced from year to year by the Registered Owners. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to observe and perform the covenants and obligations in the Order. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, Texas Government Code ("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 the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "THE BONDS – Authority for Issuance"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's governmental immunity from a suit for money damages, outside of Chapter 1371, registered owners may not be able to bring such a suit against the District for breach of the Bonds or covenants in the Order. 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 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 bond counsel will note that all opinions with respect to the rights of the registered owners of the Bonds are subject to the applicable provisions of 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.

**SPECIFIC TAX COVENANTS . . .** In the Order the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed with proceeds of the Bonds by persons other than state or local governmental units, and the manner in which the proceeds of the Bonds are to be invested, not to knowingly take or omit to take any action within its control

that, if taken or omitted, respectively, would cause the interest on the Bonds to be includable in the Owner's gross income. See "TAX MATTERS" herein.

**AMENDMENTS TO BOND ORDER . . .** The District may without the consent of or notice to any Registered Owner amend the Order in any manner not detrimental to the interest of the Registered Owners, including the curing of an ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the owners of a majority in principal amount of the Bonds Similarly Secured then outstanding, amend, add to, or rescind any of the provisions of the Order, except that, without the consent of the owners of all of the Bonds affected, no such amendment, addition, or rescission may (i) affect the rights of the Registered Owners of less than all of the Bonds then outstanding; (ii) make any change in the maturities of the Bonds; (iii) reduce the rate of interest borne by any of the Bonds; (iv) reduce the amount of the principal payable on the Bonds; (v) modify the terms of payment of or interest on the Bonds or impose any conditions with respect to such payment; or (vi) change the minimum percentages necessary for consent to such amendment. Notice of a proposed amendment and of adoption of such amendment will be given in accordance with the provisions of the Order.

**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/(Discount)  
Total Sources of Funds

Uses of Funds

Deposit to Project Fund  
Deposit to Bond Reserve Fund  
Underwriters' Discount  
Costs of Issuance  
Rounding Amount  
Total Uses of Funds

**THE DISTRICT**

**GENERAL . . .** The District is headquartered within the corporate limits of the City of Killeen, Texas. The District operates the Water System and a sanitary sewer system (the "Sanitary Sewer System"), each of which is operated as a separate enterprise on a separate fiscal basis. In addition, the District has issued certain special project bonds for the construction of water and wastewater facilities (the "Special Projects"), which are operated as separate enterprises on a separate fiscal basis from the Water System and the Sanitary Sewer System. See "THE DISTRICT – Special Project Bonds" below. Revenues of the Water System are not pledged to secure payment of debt service on obligations (or for payment of operation and maintenance costs) related to the Sanitary Sewer System or the Special Projects; and no revenues of the Sanitary Sewer System or of the Special Projects are pledged to secure payment of debt service on obligations (or for payment of operation and maintenance costs) related to the Water System, including the Bonds. The District DOES NOT have authority to levy ad valorem taxes.

**CREATION AND PURPOSE . . .** The District was created by an order adopted by the Board of Water Engineers of the State of Texas on March 10, 1952, pursuant to the authority conferred by Chapter 3A, Title 128, Vernon's Texas Civil Statutes (codified as Chapter 51, Texas Water Code). In 1955, the Texas Legislature adopted a special act (now codified in Chapter 9005, Texas Special District Local Laws Code ("Chapter 9005")) which enlarged the boundaries of the District and granted certain powers to the District supplementing those originally conferred. In addition to the order originally creating the District and such special act, the powers, purposes and operations of the District are generally governed by the provisions of Chapters 49 and 51 of the Texas Water Code. In 2019, Chapter 9005 was amended to modify the boundaries of the District and to modify the future composition of the Board of Directors.

The purposes of the District include, among other things, controlling, storing, preserving and distributing water. In order to fulfill its purposes, the District is authorized to construct, maintain and operate water supply and wastewater treatment facilities and may issue revenue bonds, tax-supported bonds, or bonds payable out of both operation and tax revenues to provide funds to construct and acquire such facilities. The District's principal function is to provide wholesale water supply and sewage treatment services. The District provides water to seven major customers, which are the Cities of Killeen, Copperas Cove, Harker Heights, and Belton, and Bell County WCID No. 3 (Nolanville), 439 Water Supply Corporation and Fort Cavazos Military Reservation ("Fort Cavazos"). See "THE WATER SYSTEM." The District has three principal sewage treatment service customers, the City of Killeen, the City of Harker Heights and Fort Cavazos. The District maintains separate books and records for the Water System and the Sanitary Sewer System. In addition, the District has issued multiple series of Special Project Bonds for the purpose of constructing certain water and wastewater facilities to provide water and sewer services to Fort Cavazos. Neither the revenues of the Sanitary Sewer System nor the revenues received in connection with the Special Projects are pledged or available to pay the Bonds.

The District presently contains over 182 square miles in western Bell County and a portion of Coryell County. No financial assistance from any federal or state government agency is pledged or expected to provide for the payment of debt service on the

Bonds. An application has been made on behalf of the District to the U.S. government for grant funds relating to the improvements being financed with a portion of the proceeds of an issue of outstanding Prior Bonds. No assurances can be provided that any such grant funds will be received by the District. If received by the District, such grant funds will not constitute Pledged Revenues. The District currently anticipates using any such funds, if received, by the District, to pay the costs of certain improvements to the Water System or to optionally redeem a portion of its outstanding Prior Bonds. See “THE BONDS – Source of Payment and Security” herein.

The District serves a population of approximately 300,000 people and can treat and deliver over 107 million gallons of water daily.

In 2010, the District expanded its Water Treatment Plant. Construction included adding a new 4 million gallon clearwell, a raw water pump station, chemical feed lines, upgrading the SCADA system, and increasing pumping capacity.

The District’s drinking water comes from Lake Belton and Lake Stillhouse Hollow. The purposes of Lake Belton are flood control and conservation (water supply). Lake Belton has a capacity of 1,074,500 acre-feet of water, of that amount 372,000 acre-feet is reserved for water supply. The purposes of Lake Stillhouse Hollow are flood control and water supply. Also, Lake Stillhouse Hollow has a capacity of 616,660 acre-feet of water. Of that amount, 226,060 acre-feet is reserved for water supply. One acre-foot equals one acre of land covered with water one foot deep, or 325,850 gallons of water.

The District also owns and operates three wastewater treatment facilities with a total capacity of 30 million gallons per day which serve the City of Killeen, City of Harker Heights and Fort Cavazos.

The District is governed by a Board of Directors who are elected by the qualified voters of the District. Members of the board serve without compensation. The members of the Board of Directors of the District establish the management policies of the District and have general supervision of the District’s business affairs. The day-to-day operations of the District are primarily the responsibility of the District’s General Manager.

**SANITARY SEWER SYSTEM . . .** The District operates a Sanitary Sewer System as a separate enterprise apart from the operation of the Water System. No revenues of the Sanitary Sewer System are pledged to secure payment of debt on obligations (or for payment of operation and maintenance costs) related to the Water System, including the Bonds. As of April 1, 2024, the District’s outstanding indebtedness of the Sanitary Sewer System was as follows:

<u>Issue</u>	<u>Outstanding Principal Amount</u>
Sanitary Sewer System Revenue & Refunding Bonds, Series 2014	\$ 12,925,000

**SPECIAL PROJECT BONDS . . .** The District has issued \$14,145,000 of special project bonds (the “Special Project Bonds”) for the construction of water and wastewater facilities that are secured by and payable solely from certain revenues deposited to a replacement reserve fund (the “Contract Fund”) created under certain water supply and sanitary sewer service contracts between the District and the United States of America. As of April 1, 2024, the District’s outstanding indebtedness of such Special Project Bonds was as follows:

<u>Issue</u>	<u>Outstanding Principal Amount</u>
Special Project Refunding Bonds, Taxable Series 2013A	\$ 1,060,000
Special Project Refunding Bonds, Taxable Series 2013B	380,000
Total	<u>\$ 1,440,000</u>

Such Special Project Bonds constitute “Special Project Bonds” as defined in the Order. The funds in the Contract Fund **do not** constitute pledged revenues for purposes of the District’s Sanitary Sewer System or Water System debt and **are not** pledged or available to pay debt service on the Bonds or any other obligation of the Water System or the Sanitary Sewer System.

The information presented above is provided strictly on an informative basis and is not intended to represent monies available to pay debt service on the Bonds. For information regarding the monies pledged for payment of the Bonds, see “THE BONDS – Source of Payment and Security” and “APPENDIX C – Summary of Certain Provisions of the Bond Order.”

## THE WATER SYSTEM

**GENERAL . . .** The Water System is operated on property and, in part, through facilities leased by the District from the United States of America, acting through the Secretary of the Army under a lease entered into in February 1956, as amended and supplemented, and expiring on December 31, 2050 (the “Lease”). The Lease requires the District to supply water to Fort Cavazos. Upon expiration or earlier termination of the Lease, the leased property (with the exception of Plants No. 2, 3 and 4) is to revert to the United States. The Lease payments are currently a fixed annual sum of \$28,300, payable in monthly installments, which annual amount became effective on May 1, 2021 pursuant to Supplemental Agreement #5 to the Lease, executed on April 28, 2021 (“Supplement #5”). Pursuant to Supplement #5, the United States of America reserves the right to review and proportionally adjust the fair market rental value of the leased property, in accordance with comparable rental market value, at ten-year intervals beginning May 1, 2031.

The District boundary covers approximately 182 square miles and includes the Cities of Belton, Nolanville, Harker Heights, Killeen and Copperas Cove as well as a large unincorporated area served by 439 Water Supply Corporation and the Bell County portion of the Fort Cavazos Military Reservation. No financial assistance from any federal or state government agency is pledged or expected to provide for the payment of debt service on the Bonds.

The District serves a population in excess of 300,000 people and can treat and deliver over 107 million gallons of water daily.

The District obtains drinking water from Lake Belton and Lake Stillhouse Hollow. The purposes of Lake Belton are flood control and conservation (water supply). Lake Belton has a capacity of 1,074,500 acre-feet of water, of that amount 372,000 acre-feet is reserved for water supply. The purposes of Lake Stillhouse Hollow are flood control and water supply. Also, Lake Stillhouse Hollow has a capacity of 616,660 acre-feet of water. Of that amount, 226,060 acre-feet is reserved for water supply. One acre-foot equals one acre of land covered with water one foot deep, or 325,850 gallons of water.

The District also owns and operates three wastewater treatment facilities with a total capacity of 30 million gallons per day which serve the City of Killeen, the City of Harker Heights, and Fort Cavazos.

The District is authorized to divert and use water from Lake Belton under a permit issued by the Texas Commission on Environmental Quality (the "TCEQ") and under the terms of two separate contracts entered into in 1992 and 2006 between the District and the Brazos River Authority, a political subdivision of the State of Texas. Under the 1992 contract, the District has contracted to purchase up to 49,509 acre feet of water per year from Lake Belton, in Bell County, Texas. The 1992 contract expires on December 31, 2041. Under the 2006 contract, the District has contracted to purchase up to an additional 13,000 acre feet of system water from Lake Belton. The 2006 contract expires on December 31, 2031; provided, that the 2006 contract shall be extended thereafter at the written request of the District under the terms and conditions of the Brazos River Authority's standard long-term water availability contract at that time for so long as, and to the extent that, the Brazos River Authority continues to have the right and ability to make available to the District the amount of water made available to the District thereunder. The District operates its facility according to the Texas Water Code and is regulated by the TCEQ.

Fort Cavazos has independent authority to divert and use water from Lake Belton in amounts up to 12,000 acre feet per year. The District treats such water and delivers it to Fort Cavazos.

The raw water supply facilities of the Water System involve primarily an intake tower and a pumping station situated on Lake Belton and three pipelines which convey the raw water from Lake Belton to mixing chambers in the treatment works. The treatment works consist of several components, usually referred to as Plant No. 1, Plant No. 2, Plant No. 3 and Plant No. 4. Plant No. 1 was constructed in 1956, and has a treatment capacity of approximately 11.5 million gallons of water per day. The principal elements of Plant No. 1 are flocculation chambers, settling basins, rapid sand filters and various pumps, support facilities, chemical facilities, electrical and control systems. In 1965, additions to the treatment works (Plant No. 2) were installed to increase the treatment capacity by approximately 17 million gallons of water per day, thus resulting in a combined treatment capacity of 28.5 million gallons per day. The additional components were designed to permit either independent or connective flows through the two plants. In 1978, additions to the treatment works (Plant No. 3) were installed to increase the treatment capacity by approximately 25 million gallons of water per day, thus resulting in a combined treatment capacity of 53.5 million gallons per day. In 1997, additions to the treatment works (Plant No. 4) were installed to increase the treatment capacity by approximately 27 million gallons of water per day, thus resulting in a combined treatment capacity of 80 million gallons per day. The District completed a final 10 million gallons per day expansion in 2010, which increased treatment capacity to 90.5 million gallons per day.

Currently, four pipelines convey water from the treatment works to the District's customers. Two of the pipelines, a 30-inch pipeline constructed in 1956 and a 24-inch pipeline constructed in 1965, run initially to the town of Nolanville, approximately seven miles from the treatment plant where the 30-inch pipeline intercepts a 24-inch and an 18-inch pipeline. From this point, a 36-inch pipeline, a 24-inch pipeline and the 18-inch pipeline run parallel for approximately 2 miles and connects with a new 36-inch ductile iron pipeline installed in 2004 and an 18-inch pipeline which runs approximately eight miles where they pass two five million gallon ground storage tanks and the Killeen Booster Station and proceed to terminate on Fort Cavazos. In 1970, a 21-inch pipeline was installed from the treatment plant on Lake Belton to serve the City of Belton. This pipeline is approximately seven miles long. In 1975, a 48-inch high pressure pipeline was constructed from Plant No. 3 nine miles to two ground storage tanks; from there a 54-inch line delivers water six miles to a termination point on Fort Cavazos. At this termination point, all of the District's pipelines are connected to three five million gallon ground storage reservoirs. In 2007, a 36-inch new pipeline replaced the 24-inch pipeline which runs from the City of Nolanville to the City of Killeen storage tanks and terminates on Fort Cavazos at the 3 five million gallon storage tanks. This project allows the District to meet its contractual obligations to all its members. The District has no responsibility for the distribution networks of its customers. The rate of flow from the pipelines of the District to the customers' storage tanks is controlled by a supervisory control and data acquisition system that regulates the flow as needed by the customers.

In July 2021, the District completed construction of a new 17 million gallon per day water treatment plant and conveyance facilities located on Lake Stillhouse, including a new 36-inch pipeline from the plant to the City of Killeen. The new project serves the City of Killeen, the City of Copperas Cove, the City of Harker Heights, the Bell County Water Control and Improvement District #3 and 439 Water Supply Corporation.

The District’s customers generally maintain their own storage facilities. The District does, however, maintain six storage tanks, which have an aggregate capacity of approximately 33 million gallons, to provide a water supply in the event of an emergency or periodic high withdrawal rates by one or more of its customers.

**WATER CONTRACTS . . .** The District is under contract to sell water to the United States of America (for use at Fort Cavazos), and to the Cities of Killeen, Copperas Cove, Harker Heights and Belton, Bell County Water Control and Improvement District No. 3 and 439 Water Supply Corporation. The following table sets forth the quantities of water sold to each of the seven customers identified in the preceding sentence during the fiscal year ended April 30, 2023, and the amounts paid by such customers to the District during such period for water purchased from the District:

Customer	Gallons Delivered	Water Sales Revenue	Percentage of Sales Revenue	Percent of Water Sales Delivered
City of Killeen	6,119,497,940	\$ 4,613,155	46%	46%
City of Harker Heights	1,863,709,000	1,401,422	14%	14%
Fort Cavazos	1,587,996,100	1,198,239	12%	12%
City of Copperas Cove	1,641,970,000	1,240,106	12%	12%
City of Belton	1,354,057,320	1,018,405	10%	10%
439 Water Supply Corp.	448,231,520	336,150	3%	3%
Bell County WCID #3	332,213,721	249,260	3%	3%
Total	13,347,675,601	\$ 10,056,737	100%	100%

The contract between the District and the United States of America regarding Fort Cavazos (the “Fort Cavazos Contract”) obligates the District to supply up to 16 million gallons of water per day at prices negotiated as frequently as annually. The United States of America may terminate the contract at any time for convenience upon 30 days’ notice, and all payments are subject to appropriation. The District has never experienced a failure by the United States of America to make payments required under the Fort Cavazos Contract.

The Amended and Restated Water Supply Contracts, dated as of April 1, 2004, as amended (the “Water Contracts”), by and between the District and each of its six civilian resale water customers (the “Civilian Resale Customers”) contain substantially similar terms. See “APPENDIX D – Summary of Certain Provisions of the Water Contracts.” Pursuant to their respective Water Contracts, the Civilian Resale Customers have each agreed to pay fixed charges, as described in the Water Contracts, that, in the aggregate, are sufficient to pay the debt service on the District’s Water System debt, including the Bonds. Such fixed charges to be paid by the Civilian Resale Customers, expressed as a percentage of the total debt service payable on the District’s Water System debt (after giving effect to the issuance of the Bonds), are as follows:

City of Killeen.....	27.5%
City of Copperas Cove.....	32.3%
City of Harker Heights.....	11.7%
City of Belton.....	18.1%
Bell County WCID #3.....	3.1%
439 Water Supply Corp.....	7.4%

Under the Fort Cavazos Contract, the United States of America **does not** pay any of the fixed charges relating to the District’s Water System debt, including the Bonds.

**CUSTOMERS OF THE WATER SYSTEM . . .** For the fiscal year ended April 30, 2023, the Cities of Killeen, Copperas Cove, Belton and Harker Heights (the “Major Customers”) accounted for approximately 81% of the District’s water sales by volume and approximately 82% of the District’s aggregate water sales revenues. Fort Cavazos, as an arm of the United States of America, accounted for 12% of the District’s water sales for the fiscal year ended April 30, 2023. See “APPENDIX E – Information Relating to the Major Customers” for additional information regarding the Major Customers. Because they represent no more than 5% of the total water sales of the District, additional information regarding Bell County Water Control and Improvement District No. 3 and 439 Water Supply Corporation has not been included in APPENDIX E of this Official Statement.

The following information concerning the Civilian Resale Customers of the Water System was obtained by the District from each customer:

**City of Killeen** – The City of Killeen (“Killeen”) is a central Texas city located in Bell County on U.S. Highway 190, a major U.S. highway that intersects Interstate Highway 35 approximately 17 miles east of Killeen and U.S. Highways 281 and 182 approximately 30 miles to the west of Killeen. Waco is located 65 miles to the north of Killeen and Austin is 60 miles south of Killeen. Killeen encompasses an area of 31.1 square miles. The governing body of Killeen is comprised of a mayor, seven council members and a city manager.

Killeen was founded in 1882 by the Santa Fe Railroad and named in honor of a civil employee of the railroad, Frank P. Killeen. In 1884, Killeen had a population of 350 and consisted of a post office, a cotton gin and two grain mills. The 1941 population of 1,265 rose to 7,100 in 1950, due primarily to the activation of Fort Cavazos, a military base on Killeen’s northern border, which

began functioning in 1943 and was designated a permanent military installation in 1950. Killeen has noted significant population increases. Their 2010 census population was 127,921 and has grown steadily since then to a currently estimated population of 160,328.

***City of Copperas Cove*** – The City of Copperas Cove (“Copperas Cove”), located approximately 8 miles west of Fort Cavazos, is a rapidly growing residential center. The 2010 census population of Copperas Cove was 32,032, as compared with the currently estimated population of 37,225. The rapid growth is believed to be primarily attributable to the demand for family housing of the active military personnel assigned to Fort Cavazos and retired military personnel who desire to live near the major military establishment to utilize military retirement services. The basic business and industrial establishments of Copperas Cove are believed to be related to military activity at Fort Cavazos or residential building. Copperas Cove currently obtains all of its water from the District.

***City of Harker Heights*** – The City of Harker Heights (“Harker Heights”) is a predominantly residential community located on U.S. Highway 190 adjacent to Killen’s east city limits. Harker Heights encompasses an area of 3,178 acres. Its economic base is closely linked to that of Killeen, Fort Cavazos and Copperas Cove. Harker Heights residents are principally employed in the adjacent cities or are retired military personnel. The 2010 Census population was 26,700 and is currently estimated to be 34,495. Harker Heights currently obtains all of its water from the District.

***City of Belton*** – The City of Belton (“Belton”) is located in central Texas on Interstate Highway 35 approximately 17 miles east of the District, 45 miles south of Waco and 60 miles north of Austin. Belton is the county seat of Bell County and is an agricultural, governmental and commercial center in the area. A significant portion of Belton’s population is comprised of retired military personnel once stationed at Fort Cavazos. Industrial activities in the Belton area include the manufacturing of mobile homes, industrial drilling products, 3D printing, and ready mix concrete. The currently estimated population is 24,610. Belton currently obtains all of its water from the District.

***Bell County Water Control and Improvement District No. 3*** – Bell County Water Control and Improvement District No. 3 (“WCID No. 3”) was created to provide a municipal water supply and sanitary sewer system for the City of Nolanville (“Nolanville”). Nolanville is located on U.S. Highway 190 between Belton and Killeen. Nolanville is primarily a residential community for people employed in Killeen and Fort Cavazos and retired military personnel. The predominant living structures in the area are mobile homes and the residents of Nolanville are more transient than those in the surrounding municipalities. WCID No. 3 covers an area of approximately one square mile. WCID No. 3’s currently estimated population is approximately 3,000 people. WCID No. 3 currently obtains all of its water from the District.

***439 Water Supply Corporation*** – 439 Water Supply Corporation (the “Corporation”) is a non-profit membership corporation which was formed in 1969 and financed by the Farmers Home Administration to provide a municipal water supply to a group of rural residents, farmers and ranchers who reside along Texas Highway 439 between Killeen and Lake Belton. As the corporation’s principal creditor, the Farmers Home Administration retains the right, among other things, to approve the Corporation’s resale rates. The water is used primarily for domestic purposes and a small portion issued for livestock. The Corporation reports that it has frequently experienced water shortages on peak summer days, primarily due to high peak demands and system capacities. The Corporation currently obtains all of its water from the District.

## **BOND INSURANCE**

The District has made application to municipal bond insurance companies to have the payment of the principal of and the interest on the Bonds insured by a municipal bond insurance policy. The District will consider the purchase of bond insurance after analyzing the financial benefit based upon the bids received. The District will notify the Underwriters upon obtaining a commitment from a bond insurance company concerning this matter. The final Official Statement will disclose, to the extent necessary, any relevant information relating to any municipal bond insurance policy and the provider thereof.

## **BOND INSURANCE RISKS**

The following risk factors related to municipal bond insurance policies generally apply:

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy (as defined herein) for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against a redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy, however, such payments will be made by the Bond Insurer at such time and in such amounts as would have been due absence such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.



Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer's consent may be required in connection with amendments to any applicable Bond documents. In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the monies received by the Paying Agent/Registrar pursuant to the Bond Order. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claims-paying ability. The Bond Insurer's financial strength and claims-paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See "BOND INSURANCE" herein.

The obligations of the Bond Insurer under the Policy are contractual obligations and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the District nor the Initial Purchasers have made independent investigation into the claims-paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims-paying ability of the Bond Insurer, particularly over the life of the investment.

## **RISK FACTORS**

**IMPACT OF FORT CAVAZOS ON LOCAL ECONOMY . . .** The principal source of funds to pay the principal of and interest on the Bonds is expected to be payments received by the District from the customers of the System, excluding Fort Cavazos. The U.S. Army installation Fort Cavazos is located on the west and north of Killeen. Comprised of 335 square miles, it is one of the largest United States Military installations in the world. Fort Cavazos is currently home of III Corps Headquarters, the 1<sup>st</sup> Cavalry Division, the Fourth Infantry Division, 13<sup>th</sup> Corps Support Command, 3<sup>rd</sup> Signal Brigade, 21<sup>st</sup> Air Cavalry Brigade, 89<sup>th</sup> Military Police Brigade, 504<sup>th</sup> Military Intelligence Brigade, 13<sup>th</sup> Finance Group, 3<sup>rd</sup> Personnel Group and other units and detachments. West Fort Cavazos is the home of the U.S. Army's Operational Test Command.

The Base is estimated to provide over \$10 Billion in economic impact annually to the Texas State economy. The total population on base (officers and enlisted personnel) is currently over 55,000. The District supplies substantially all of Fort Cavazos's water and wastewater service needs.

The regional economy is significantly affected by the large number of military personnel stationed at Fort Cavazos. Any substantial or sustained reduction in the population of Fort Cavazos (whether as a result of troop deployments for military engagements, base realignments and restructuring of the size and location of active military bases, or otherwise) could adversely affect the regional economy and the financial condition of the District's customers. A substantial or sustained reduction in the number of military personnel stationed at Fort Cavazos could also have a direct adverse affect on Fort Cavazos's demand for water and wastewater services under the Fort Cavazos Contract, which would result in a reduction in revenues to the District for such services.

**REGISTERED OWNERS' REMEDIES AND EFFECTS OF BANKRUPTCY . . .** The Order provides that in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due any Registered Owner may seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the District to make such payment. Such rights are in addition to other rights the Registered Owners may be provided by the laws of the State.

The Order does not specifically provide other remedies to a Registered Owner in the event of a default by the District, nor does it provide for the appointment of a trustee to protect and enforce the interest of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be exercised annually. No trustee has been appointed to act for the benefit of the Registered Owners of the Bonds. Therefore, such owners will be forced to bear the costs of any action to enforce the Order or the District's obligations thereunder. Although such owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property.

The enforceability of the rights and remedies of the Registered Owners may be limited to bankruptcy, reorganization or other similar laws affecting the rights of creditors of political subdivisions such as the District. If the District files for protection under such laws, it could, among other things, restructure the terms of payment of the Bonds, obtain a reduction of the interest rate on the Bonds or force Registered Owners of the bonds to accept less than full payment. A filing by the District under any of such laws also is likely to produce significant procedural delays, resulting in late payment of amounts due on the Bonds. Under Texas law, the District must obtain the approval of the Texas Commission on Environmental Quality prior to filing bankruptcy. Such law requires that the Texas Commission on Environmental Quality investigate the financial condition of the District and authorize the District to proceed only if the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

**ADDITIONAL DEBT . . .** The District has the statutory authority and reserves the right in the Order to issue additional debt secured by the Pledged Revenues, either on a parity basis or on a junior lien basis, as well as to issue indebtedness of the District payable from revenues of the District other than Pledged Revenues and, if authorized by a majority of voters at a District-wide election, indebtedness payable from ad valorem taxes. See “APPENDIX C – Summary of Certain Provisions of the Bond Order.”

**ENFORCEABILITY OF WATER CONTRACTS . . .** The Water Contracts referred to under “THE WATER SYSTEM – Water Contracts” obligate the District’s Civilian Resale Customers to make certain payments related to the cost of financing capital expenditures of the District based on the amounts of water supply services to which such Customers are entitled, even if such Customers do not take or receive water supply services from the District. There is, however, no guarantee or assurance that a court would order the Civilian Resale Customers to make payments to the District if no water supply services were provided to such Customers or if services were reduced. Note: the contracts require the Civilian Resale Customers to obtain ALL of their water from the District.

**CONTRACT WITH THE UNITED STATES GOVERNMENT . . .** The obligation of the United States of America to pay for water supply services provided to it by the District under the terms of the Fort Cavazos Contract is subject to appropriation. Further, as indicated above under “THE WATER SYSTEM – Water Contracts,” the United States of America may, at its option, terminate the Fort Cavazos Contract on thirty days’ advance written notice. The District has never experienced a failure by the United States of America to pay for water supply services provided to Fort Cavazos.

### WATER SYSTEM DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 4/30	Prior Bonds			The Bonds <sup>(1)</sup>			Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2024	\$ 3,955,000	\$ 2,895,042	\$ 6,850,042	\$ -	\$ -	\$ -	\$ 6,850,042
2025	3,815,000	3,173,996	6,988,996	-	3,608,401	3,608,401	10,597,397
2026	3,985,000	3,009,142	6,994,142	1,935,000	5,673,750	7,608,750	14,602,892
2027	4,135,000	2,841,288	6,976,288	2,540,000	5,560,294	8,100,294	15,076,582
2028	4,290,000	2,669,818	6,959,818	2,670,000	5,427,713	8,097,713	15,057,531
2029	4,465,000	2,489,918	6,954,918	2,815,000	5,288,119	8,103,119	15,058,037
2030	4,440,000	2,302,874	6,742,874	2,955,000	5,141,250	8,096,250	14,839,124
2031	3,975,000	2,118,150	6,093,150	3,110,000	4,986,844	8,096,844	14,189,994
2032	4,145,000	1,934,495	6,079,495	3,275,000	4,824,263	8,099,263	14,178,758
2033	4,340,000	1,741,448	6,081,448	3,445,000	4,653,113	8,098,113	14,179,560
2034	4,190,000	1,544,400	5,734,400	3,625,000	4,473,019	8,098,019	13,832,419
2035	4,415,000	1,341,494	5,756,494	3,820,000	4,283,344	8,103,344	13,859,838
2036	4,630,000	1,126,591	5,756,591	4,020,000	4,083,563	8,103,563	13,860,153
2037	4,860,000	900,094	5,760,094	4,240,000	3,873,038	8,113,038	13,873,131
2038	5,085,000	664,719	5,749,719	4,445,000	3,651,638	8,096,638	13,846,356
2039	5,315,000	442,994	5,757,994	4,685,000	3,418,856	8,103,856	13,861,850
2040	5,525,000	227,272	5,752,272	4,925,000	3,173,794	8,098,794	13,851,066
2041	1,045,000	93,650	1,138,650	5,180,000	2,916,056	8,096,056	9,234,706
2042	715,000	55,125	770,125	5,455,000	2,644,763	8,099,763	8,869,888
2043	745,000	18,625	763,625	5,740,000	2,359,144	8,099,144	8,862,769
2044	-	-	-	6,035,000	2,058,675	8,093,675	8,093,675
2045	-	-	-	6,355,000	1,742,456	8,097,456	8,097,456
2046	-	-	-	5,405,000	1,438,369	6,843,369	6,843,369
2047	-	-	-	5,695,000	1,146,994	6,841,994	6,841,994
2048	-	-	-	6,000,000	840,000	6,840,000	6,840,000
2049	-	-	-	6,325,000	516,469	6,841,469	6,841,469
2050	-	-	-	6,675,000	175,219	6,850,219	6,850,219
	<u>\$ 78,070,000</u>	<u>\$ 31,591,133</u>	<u>\$ 109,661,133</u>	<u>\$ 111,370,000</u>	<u>\$ 87,959,139</u>	<u>\$ 199,329,139</u>	<u>\$ 308,990,272</u>

(1) Interest on the Bonds calculated at an assumed rate for purposes of illustration. Preliminary, subject to change.

Average Annual Debt Service Requirements (2024-2050).....	\$ 11,444,084 <sup>(1)</sup>
Maximum Annual Debt Service Requirements (2027).....	\$ 15,076,582 <sup>(1)</sup>

(1) Preliminary, subject to change.

## INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT

The District may invest its investable funds (including certificate proceeds and money pledged to the payment of or as security for bonds or other indebtedness issued by the District or obligations under a lease, installment sale, or other agreement of the District) in investments authorized by State law in accordance with investment policies approved by the Board of Directors. Both State law and the District's investment policies are subject to change.

**AUTHORIZED INVESTMENTS . . .** Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the District Board or a designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State 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), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "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 United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, certificate proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including

letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of certificate proceeds invested under such contract.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, other than the prohibited obligations described below, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service, if the District Board authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code.

The District may also contract with an investment management firm registered (x) under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.), or (y) 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 ordinance, order or resolution.

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

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

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

**ADDITIONAL PROVISIONS . . .** Under State law the District is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or 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 District Board; (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (5) provide specific investment training for the treasurer, chief financial officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the District's monthly average fund balance, excluding certificate proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of certificate proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding certificate proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

## CURRENT INVESTMENTS

As of December 31, 2023, the District’s investable funds were invested in the following categories:

<u>Water System Investments</u>	<u>Market Value</u>	<u>% of Total</u>
TexPool	\$ 9,047,853	26.76%
Texas Class	24,757,650	73.24%
	<u>\$ 33,805,503</u>	<u>100.00%</u>

## LEGAL MATTERS

**LEGAL OPINIONS . . .** The District will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that under existing law the interest on the Bonds is excludable from gross income for federal income tax and is not a specific preference item for purposes of the alternative minimum tax. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information relating to the Bonds and the Order under the captions “THE BONDS” (except for the information under the subcaptions “– Future Borrowing,” “– Book-Entry-Only System,” “– DTC Redemption Provisions,” “Remedies in Event of Default” and “Sources and Uses of Proceeds”), “TAX MATTERS,” “CONTINUING DISCLOSURE OF INFORMATION” (except the information under the subcaption “Availability of Information”), “LEGAL MATTERS – Legal Opinions,” “– Registration and Qualification of Bonds for Sale,” “– Legal Investments and Eligibility to Secure Public Funds in Texas” and in APPENDICES C and D, and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions fairly and accurately describe the provisions thereof. Such firm has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm’s limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The legal fee to be paid to Underwriters’ counsel is contingent upon the sale and delivery of the Bonds.

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

**REGISTRATION AND QUALIFICATION OF BONDS FOR SALE . . .** No registration statement relating to the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. It is the obligation of the Underwriters to register or qualify sale of the Bonds under securities laws of any jurisdiction which so requires. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds will not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

**LEGAL INVESTMENT 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 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 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.

The District makes no representation that the Bonds will be acceptable to banks, savings and loan associations or public entities for investment purposes or to secure deposits of public funds. The District has made no investigation of other laws, regulations or investment criteria which might apply to or otherwise limit the availability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds and as to the acceptability of the Bonds for investment or collateral purposes.

## 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, 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 proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States, and requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The District has covenanted in the Order that it will comply with these requirements.

Bond Counsel’s opinion will assume continuing compliance with the covenants of the Order pertaining to those sections of the Code which affect the excludability from gross income of interest on the Bonds 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 Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Order or if the foregoing representations should be 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.

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

Bond Counsel’s opinion is based on existing law, which is subject to change. Such opinion is further based on Bond Counsel’s knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinion is not a guarantee of result and is not binding on the Service; rather, such opinion represents Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinion. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local bonds 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 of the Bonds 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.

**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 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 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 Bond.

**TAX ACCOUNTING TREATMENT OF OID BONDS . . .** If the issue price of a maturity of the Bonds is less than the stated redemption price payable at maturity of such Bonds (the “OID Bonds”), and (ii) the initial offering price to the public of such OID Bond constitutes original issue discount with respect to such OID Bond in the hands of any owner who has purchased such OID 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 OID Bond equal to that portion of the amount of such original issue discount allocable to the period that such OID 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 “– Collateral Tax Consequences” and “– Tax Legislative Changes” generally applies 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 OID Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such OID Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such OID 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 OID 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 inside cover page of this Official Statement. Neither the Issuer nor Bond Counsel has made any investigation or offers any comfort that the OID Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each OID 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 OID 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 OID Bonds.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of OID 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 OID 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 OID Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such OID 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 proposed, pending or future legislation.

## CONTINUING DISCLOSURE OF INFORMATION

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

As used in this section, the term “Financial Obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in Securities and Exchange Commission Rule 15c2-12 (the “Rule”)) has been provided to the MSRB consistent with the Rule.

**ANNUAL REPORTS . . .** The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement included in the captions “THE WATER SYSTEM,” “WATER SYSTEM DEBT SERVICE REQUIREMENTS,” and “INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT – Current Investments” and in APPENDIX B. The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2024. The District will provide the updated information in an electronic format, all as prescribed by the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements of the District if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District’s current fiscal year end is April 30. Accordingly, it must provide updated information by October 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

**CIVILIAN RESALE CUSTOMERS . . .** The Water Supply Contracts between the District and each of the Civilian Resale Customers require that each such Customer provide annually to the MSRB, within 180 days after the end of their respective fiscal years, financial information and operating data of the general type included in their respective annual financial statements for so long as such Civilian Resale Customer is considered an “obligated person” within the meaning of the Rule. (Financial information and operating data for Civilian Resale Customers who represent no more than 5% of the total water sales of the District is not included in this Official Statement, and thus no annual financial information and operating data for such customers is required to be provided to the MSRB.) The financial statements of each of the Civilian Resale Customers are required to be (i) prepared in accordance with the accounting principles such Customer may be required to employ from time to time pursuant to State law, and (ii) audited, if such Customer commissions an audit of such statements and the audit is completed within the required time. If the audit is not completed within the required time, such Customer shall provide the audited financial statements to the MSRB when and if it becomes available. Historically, the annual financial statements provided to the MSRB by such Civilian Resale Customers has included the type of financial information and operating data contained in APPENDIX E to this Official Statement.

**NOTICE OF CERTAIN EVENTS . . .** The District will provide notice to the MSRB of any of the following events with respect to the Bonds in a timely manner and not more than 10 business days after the occurrence of the event: (i) principal and interest payment delinquencies; (ii) nonpayment related defaults, if material; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) 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; (vii) modifications to rights of Owners, if material; (viii) bond calls, if material and tender offers; (ix) defeasance; (x) release, substitution, or sale of property securing repayment of the Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (xiii) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (xiv) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material; (xv) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

For these purposes, (a) any event described in clause (xii) in the 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 (xv) and (xvi) in the preceding paragraph and the definition of Financial Obligation in this section to have the meanings ascribed to them in SEC Release No. 34-83885, dated August 20, 2018.

**AVAILABILITY OF INFORMATION . . .** The District has agreed to provide the information only to the MSRB, accompanied by identifying information and in an electronic format, as prescribed by the MSRB. The MSRB has prescribed that such information must be filed with the MSRB pursuant to its EMMA System. The MSRB has made the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB 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 events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or 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 amend or repeal the agreement in the Order if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent an underwriter from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next 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.

## **LITIGATION**

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

## **RATING**

The Bonds and the outstanding debt of the District have been rated “A1” by Moody’s Investors Service, Inc. (“Moody’s”) without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The rating reflects only the view of such organization, and none of the District, the Financial Advisor or the Underwriters make any 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.

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## OTHER INFORMATION

**SOURCES AND COMPILATION OF INFORMATION . . .** The financial data and other information contained in this Official Statement has been obtained primarily from the District's and the respective Civilian Resale Customer's records, and information from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District, the Financial Advisor or the Underwriters as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District to such effect. Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions and other related information set forth in this Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of the provisions of such documents, and reference is made to such documents for further information.

**FINANCIAL ADVISOR . . .** Specialized Public Finance Inc. is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement. In its capacity as Financial Advisor, Specialized Public Finance Inc. has compiled and edited this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

**FORWARD-LOOKING STATEMENTS . . .** The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

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

**UNDERWRITING . . .** The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at the initial offering prices set forth on page 2 of this Official Statement, less 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 Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

**MISCELLANEOUS . . .** The Order authorizing the issuance of the Bonds will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriters.

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

**APPENDIX A**

**Form of Bond Counsel's Opinion**

# BRACEWELL

[Closing Date]

\$ \_\_\_\_\_  
BELL COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
WATER SYSTEM REVENUE BONDS, SERIES 2024

We have represented Bell County Water Control and Improvement District No. 1 (the “Issuer”), as its bond counsel in connection with an issue of bonds (the “Bonds”) described as follows:

BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1 WATER SYSTEM REVENUE BONDS, SERIES 2024, dated May 23, 2024.

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 order adopted by the Board of Directors of the Issuer authorizing their issuance (the “Bond Order”) and the Pricing Certificate executed by an authorized officer of the Issuer (the “Pricing Certificate, and together with the Bond Order, the “Order”).

We have represented the Issuer as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas (the “State”) 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. Capitalized terms used herein and not otherwise defined are used with the meanings assigned to such terms in the Order.

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of certain proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript of proceedings contains certified copies of certain proceedings of the Issuer, customary certificates, opinions and other documents executed by officers, agents and representatives of the Issuer, the Issuer’s financial advisor, the Underwriter and other parties involved with the issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the “Service”) as we have deemed relevant.

**Bracewell LLP**

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bracewell.com

# BRACEWELL

[Closing Date]

Page 2

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 Order, 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 subject to the assumptions, qualifications and limitations set forth herein, 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 presently effective and that therefore the Bonds constitute valid and legally binding obligations of the Issuer;
- (B) The Bonds are payable from and secured by a lien on and pledge of the Pledged Revenues of the Issuer's Water System, as defined and described in the Bond Order; 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 of the Bonds 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.

The Issuer has reserved the right to issue Additional Parity Bonds and Junior Lien Water Revenue Bonds, subject to the restrictions contained in the Bond Order, secured by liens on the Pledged Revenues of the Issuer's Water System that are on a parity with, or junior and subordinate to, respectively, the lien on the Pledged Revenues securing the Bonds.

We express no opinion as to the amount or timing of interest on the Bonds or, except as stated herein, 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 and, to the extent applicable, the laws of the United States of America. Further, in the event that the information submitted to us or the representations of the Issuer or other parties upon which we have relied are determined to be inaccurate or incomplete or the Issuer fails to comply with the covenants of the Order, 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.

# BRACEWELL

[Closing Date]  
Page 3

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.

IM-#10313699.1

**APPENDIX B**

**Audited Financial Statement of the District  
For the Year Ended April 30, 2023**



**LOTT, VERNON & COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

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POST OFFICE BOX 160 800/460/4783  
TEMPLE, TEXAS 76503 FAX 254/778/4792

KILLEEN • COPPERAS COVE • TEMPLE

*Member of  
American Institute & Texas Society of  
Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Bell County Water Control and Improvement District #1  
Killeen, Texas

### **Opinions**

We have audited the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and Statement of Cash Flows of Bell County Water Control and Improvement District #1 (The "District") as of and for the year ended April 30, 2023, and the related notes to the basic financial statements, which collectively comprise the Bell County Water Control and Improvement District #1's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Bell County Water Control and Improvement District #1, as of April 30, 2023, 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. 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 of Bell County Water Control and Improvement District #1, 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.

### **Basis for Opinions**

As described in Note 3 to the financial statements, in fiscal year ending April 30, 2023, the District adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

### **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 of Bell County Water Control and Improvement District #1'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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the of Bell County Water Control and Improvement District #1'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 of Bell County Water Control and Improvement District #1's ability to continue as a going concern for a reasonable period of time.

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

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedules (i.e. Combined, Water, and Sewer), the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of District Pension Contributions, and the Notes to Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of District Pension Contributions as listed in the Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

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

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

A handwritten signature in blue ink that reads "Jatt, Vernon + Co. P.C." The signature is written in a cursive, flowing style.

Temple, Texas

August 14, 2023

## MANAGEMENT’S DISCUSSION AND ANALYSIS

As management of Bell County Water Control and Improvement District #1 (BCWCID #1), we offer readers of BCWCID #1’s annual financial statements this narrative overview and analysis of the financial activities of BCWCID #1 for the fiscal year ended April 30, 2023. We encourage readers to consider the information presented here in conjunction with the District’s financial statements, which follow this section.

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

BCWCID #1 is reporting under the Governmental Accounting Standards Board (GASB) Statement 34 – Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments model. This annual report consists of four parts – *management’s discussion and analysis, the basic financial statements, required supplementary information and an optional section of other supplementary information*. The basic financial statements are comprised of the water and sewer proprietary fund financial statements presented in the form of a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows that provides both long-term and short-term information about the District’s overall financial status.

### **Financial Statements**

**Proprietary funds** – Services for which the District charges customers a fee and the expenses of providing those services are generally reported in proprietary funds. They present net position as the difference between all of the District’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The change in net position is the difference between the current year’s revenue and expenses; which are accounted for regardless of when cash is received or paid.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. BCWCID #1 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The basic financial statements can be found on pages listed in the table of contents.

**Notes to the financial statements** – The notes to the financial statements as listed in the table of contents provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

## **FINANCIAL ANALYSIS**

The following analysis discusses the financial position and changes to the financial position for BCWCID #1 as a whole as of and for the year ended April 30, 2023. The prior year’s financial position and results have been presented for comparative purposes.

## Net Position

The following table reflects the condensed Statement of Net Position as of and for the years ended April 30, 2023 and April 30, 2022:

### Condensed Statement of Net Position

	<u>2022</u>	<u>2023</u>
Current assets	\$ 28,589,453	\$ 31,271,971
Restricted assets	20,748,832	25,086,507
Capital assets	159,375,507	160,171,733
Other assets	<u>2,308,779</u>	<u>1,568,677</u>
Total assets	<u>211,022,571</u>	<u>218,098,888</u>
Deferred outflow of resources	<u>1,495,391</u>	<u>1,762,512</u>
Current liabilities	9,360,697	10,102,086
Long-term liabilities	<u>90,883,425</u>	<u>95,771,544</u>
Total liabilities	<u>100,244,122</u>	<u>105,873,630</u>
Deferred inflow of resources	<u>1,430,722</u>	<u>341,113</u>
Net position		
Invested in capital assets, net of related debt	67,153,306	65,440,420
Restricted	15,329,888	16,856,434
Unrestricted	<u>28,359,924</u>	<u>31,349,803</u>
Total net position	<u>\$ 110,843,118</u>	<u>\$ 113,646,657</u>

The net position of BCWCID #1 totaled \$113,646,657 at April 30, 2023. Net position consists of three components. The first portion of net position (\$65,440,420 or 57.6%) reflects BCWCID #1's investment in capital assets net of accumulated depreciation and any related debt used to acquire or construct those assets.

The second portion is restricted assets (\$16,856,434 or 14.8%) which reflects BCWCID #1's net position restricted for debt service and maintenance, operation, and replacement (MO&R) and construction.

The last portion consists of unrestricted net position (\$31,349,803 or 27.6%), which may be used to meet the ongoing District's obligation to its customers and creditors.

## Changes in Net Position

BCWCID #1's total revenues for the fiscal year ended April 30, 2023 were \$30,044,202. The total cost of all programs and services was \$27,240,663. The following table presents a summary of the changes in net position for the fiscal years ended April 30, 2023 and April 30, 2022:

	<u>2022</u>	<u>2023</u>
Operating revenues	\$ 25,907,035	\$ 27,496,459
Non-operating revenues	1,191,644	2,547,743
Total Revenues	<u>27,098,679</u>	<u>30,044,202</u>
Operating expenses	18,304,703	22,135,354
Non-operating expenses	<u>3,912,639</u>	<u>5,105,309</u>
Total Expenses	<u>22,217,342</u>	<u>27,240,663</u>
Increase (decrease) in net position	4,881,337	2,803,539
Net position at beginning of year	<u>105,961,781</u>	<u>110,843,118</u>
Net position at end of year	<u>\$ 110,843,118</u>	<u>\$ 113,646,657</u>

Operating revenues increased by \$1,589,424 primarily due to increases of \$1,163,365 in municipality sales and \$370,986 in contractual charges. Non-operating revenues increased by \$1,356,099. Operating expenses increased by \$3,830,651 in the current year due to increases in several areas but bigger increases in chemicals, depreciation, maintenance and salaries. Non-operating expenses increased by \$1,192,670 primarily due to the bond issuance cost that occurred during the 2023 fiscal year.

## **FINANCIAL ANALYSIS OF THE BCWCID #1'S FUNDS**

As noted earlier, the BCWCID #1 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Budgetary Highlights**

Amendments to the adopted budget may occur throughout the year in a legally permissible manner (see pages 17 and 48-50 for more information on budget policies). As seen on pages 48 to 50, there were Board approved amendments made to the adopted budget for operating costs in the fiscal year ending April 30, 2023. The difference between total revenues and expenses in relation to budgetary estimates resulted in a favorable variance of \$2,203,041. During the year water revenue was higher than budgetary estimates by \$801,321 and sewer revenue was below budgetary estimates by \$255,800. The higher water revenue was attributed to an abnormally dry year when gallons treated exceeded projected by 11.1%. Expenditures for both funds remained below the budgetary estimates by \$1,228,951 and \$428,569 respectively.

The water fund was below budget due to controls on chemicals, electricity, salaries, and maintenance to offset increasing costs. The electricity savings are attributed to the District's continued participation in a demand response program that seeks to reduce usage during peak system demand. The below budget maintenance costs are attributed to intake cleaning and repairs and leak repairs being less than budgeted. Below budget expenses for the sewer department are due to controls on electricity, maintenance, and salaries to offset other increasing costs.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets (Net of Accumulated Depreciation)**

The following table provides a breakdown of the capital asset balances net of accumulated depreciation at April 30, 2023. During the fiscal year, \$3,157,901 was expended on the Belton transmission line. In addition, \$3,892,664 was expended on the Standby Generation project in Belton. These projects are still in construction in progress at fiscal year-end. On the wastewater side, the STP # 1 Rehabilitation and plant expansion projects are still ongoing. Additional information on the District's capital assets may be found in Note 8.

	<b>Capital Assets</b>		
	Water Fund	Sewer Fund	Total
Building and Pipeline	\$ 150,067,433	\$ 78,566,296	\$ 228,633,729
Furniture and Fixtures	157,492	207,512	365,004
Land	821,463	359,014	1,180,477
Machinery & Equipment	22,916,528	10,985,807	33,902,335
Vehicles	513,440	930,555	1,443,995
Construction in Progress	10,155,311	510,353	10,665,664
Right of Use Assets	461,617	253,102	714,719
Total	<u>\$ 185,093,284</u>	<u>\$ 91,812,639</u>	<u>\$ 276,905,923</u>
Depreciation	\$ 66,802,131	\$ 49,866,841	\$ 116,668,972
Amortization - Right of Use Assets	15,918	49,300	65,218
Accumulated Depreciation/Amortization:	<u>\$ 66,818,049</u>	<u>\$ 49,916,141</u>	<u>\$ 116,734,190</u>
Capital Assets, net of accumulated depreciation/amortization	<u>\$ 118,275,235</u>	<u>\$ 41,896,498</u>	<u>\$ 160,171,733</u>

### **Long Term Debt**

At April 30, 2023, BCWCID #1 has total debt outstanding of \$102,216,865 in Revenue Bonds, including net discounts and premiums of \$6,656,865. Further details can be found in Note 9 of the Financial Statements.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Bell County Water Control and Improvement District #1 finances for all those with an interest in the BCWCID #1's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be requested from the BCWCID #1's Finance Department at 201 South 38<sup>th</sup> St, Killeen, TX 76543 or by calling (254) 501-9243.

## **BASIC FINANCIAL STATEMENTS**



**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**STATEMENT OF NET POSITION**  
**April 30, 2023**

<u>ASSETS</u>	<b>PROPRIETARY FUND TYPES</b>		
	<b>ENTERPRISE FUNDS</b>		
	<b>WATER SYSTEM</b>	<b>SEWER SYSTEM</b>	<b>TOTAL</b>
<b>CURRENT ASSETS</b>			
Cash and Equivalents - Operating fund	\$ 18,233,418	\$ 10,497,673	\$ 28,731,091
Accounts receivable	1,462,892	801,077	2,263,969
Other Current Asset	-	1,902	1,902
Chemicals inventories (Note 7)	208,720	19,200	227,920
Prepays	23,140	23,949	47,089
Total Current Assets	19,928,170	11,343,801	31,271,971
<b>RESTRICTED ASSETS</b>			
Cash and Equivalents - Interest and sinking funds			
Civilians	3,939,199	2,659,814	6,599,013
Military	474,389	-	474,389
Total Cash and Equivalents - Interest and sinking funds	4,413,588	2,659,814	7,073,402
Cash and Equivalents - Maintenance, repair and replacement funds			
Civilians	547,585	54,670	602,255
Military	3,520,709	-	3,520,709
Total Cash and Equivalents - Maintenance, repair and replacement funds	4,068,294	54,670	4,122,964
Cash and Equivalents - Bond reserve funds			
Civilians	13,381,130	-	13,381,130
Military	-	506,371	506,371
Total Cash and Equivalents - Bond reserve funds	13,381,130	506,371	13,887,501
Cash and Equivalents - Construction fund			
Investments - Construction fund	1,131	1,509	2,640
Interest Receivable	-	-	-
Total Restricted Assets	21,864,143	3,222,364	25,086,507
<b>OTHER ASSETS</b>			
Net Pension Asset (Note 12)	698,365	600,884	1,299,249
Unamortized Bond Insurance	261,785	7,643	269,428
Total Other Assets	960,150	608,527	1,568,677
<b>CAPITAL ASSETS - At Cost</b>			
Building and pipeline	150,067,433	78,566,296	228,633,729
Furniture and Fixtures	157,492	207,512	365,004
Land	821,463	359,014	1,180,477
Machinery and equipment	22,916,528	10,985,807	33,902,335
Vehicles	513,440	930,555	1,443,995
Construction in progress (Note 17)	10,155,311	510,353	10,665,664
Right of Use Assets	461,617	253,102	714,719
	185,093,284	91,812,639	276,905,923
Accumulated depreciation (Note 8)	66,802,131	49,866,841	116,668,972
Accumulated amortization (Note 8)	15,918	49,300	65,218
	66,818,049	49,916,141	116,734,190
Total Capital Assets	118,275,235	41,896,498	160,171,733
Total Noncurrent Assets	141,099,528	45,727,389	186,826,917
<b>Total Assets</b>	<b>\$ 161,027,698</b>	<b>\$ 57,071,190</b>	<b>\$ 218,098,888</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows Related to Pensions (Note 12)	\$ 291,192	\$ 247,175	\$ 538,367
Deferred Loss on Refunding of Debt - net	1,114,269	109,876	1,224,145
<b>Total Deferred Outflows of Resources</b>	<b>\$ 1,405,461</b>	<b>\$ 357,051</b>	<b>\$ 1,762,512</b>

**The accompanying notes are an integral part of these financial statements**

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**April 30, 2023**

<u><b>LIABILITIES</b></u>	<b>PROPRIETARY FUND TYPES</b>		
	<b>ENTERPRISE FUNDS</b>		
	<b>WATER SYSTEM</b>	<b>SEWER SYSTEM</b>	<b>TOTAL</b>
<b>CURRENT LIABILITIES (Payable from Current Assets)</b>			
Accounts payable	\$ 541,532	\$ 299,462	\$ 840,994
Retainage payable	-	-	-
Accrued vacation and sick leave	183,072	184,287	367,359
Total Current Liabilities Payable from Current Assets	724,604	483,749	1,208,353
<b>CURRENT LIABILITIES (Payable from Restricted Assets)</b>			
Accounts payable	145,767	-	145,767
Accrued interest payable (bond and lease)	878,998	162,804	1,041,802
Retainage payable	626,164	-	626,164
Revenue bonds and notes payable - due within one year (Note 9)	4,115,000	2,965,000	7,080,000
Total Current Liabilities Payable from Restricted Assets	5,765,929	3,127,804	8,893,733
Total Current Liabilities	6,490,533	3,611,553	10,102,086
<b>LONG-TERM LIABILITIES</b>			
Net Pension Liability (Note 12)	-	-	-
Lease Liability	433,317	201,362	634,679
Revenue bonds and notes payable, net of discount and premium (Note 9)	85,946,865	16,270,000	102,216,865
Less current maturities	(4,115,000)	(2,965,000)	(7,080,000)
Total Long-Term Liabilities	82,265,182	13,506,362	95,771,544
<b>Total Liabilities</b>	<b>\$ 88,755,715</b>	<b>\$ 17,117,915</b>	<b>\$ 105,873,630</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows Related to Pensions (Note 12)	\$ 183,353	\$ 157,760	\$ 341,113
Total Deferred Inflows of Resources	\$ 183,353	\$ 157,760	\$ 341,113
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	\$ 39,907,849	\$ 25,532,571	\$ 65,440,420
Restricted for debt service	9,108,046	3,009,859	12,117,905
Restricted for maintenance, operation & replacement	4,068,295	54,670	4,122,965
Restricted for Construction	614,055	1,509	615,564
Unrestricted	19,795,846	11,553,957	31,349,803
<b>Total Net Position</b>	<b>\$ 73,494,091</b>	<b>\$ 40,152,566</b>	<b>\$ 113,646,657</b>

The accompanying notes are an integral part of these financial statements

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEAR ENDED APRIL 30, 2023**

	PROPRIETARY FUND TYPES		
	ENTERPRISE FUNDS		
	WATER SYSTEM	SEWER SYSTEM	TOTAL
<b>Operating Revenues</b>			
Metered sales			
Fort Cavazos	\$ 1,198,239	\$ 1,005,772	\$ 2,204,011
Municipalities and non-profit enterprises	8,858,498	3,961,084	12,819,582
Others	104,584	-	104,584
Compost revenue and other services	-	164,164	164,164
Contractual charges (Note 15)	6,828,061	3,010,992	9,839,053
Other operating revenue	6,042	19,245	25,287
System water revenue (Note 15)	1,122,000	-	1,122,000
Option water revenue (Note 15)	1,217,778	-	1,217,778
Total Operating Revenues	<u>19,335,202</u>	<u>8,161,257</u>	<u>27,496,459</u>
<b>Operating Expenses</b>			
Audit Fees	21,850	21,850	43,700
Chemicals	1,234,275	454,641	1,688,916
Depreciation (Note 8)	5,968,151	2,588,652	8,556,803
Lease Amortization (Note 8)	15,918	49,300	65,218
Electricity	1,980,261	525,820	2,506,081
Insurance expense	136,728	136,728	273,456
Legal	7,907	4,809	12,716
Maintenance	1,331,664	469,693	1,801,357
Supplies	105,837	29,734	135,571
Salaries and employee benefits	2,007,458	1,746,098	3,753,556
Payroll taxes	116,137	102,682	218,819
Transportation	44,931	95,270	140,201
Outside laboratory testing	19,370	16,591	35,961
Compost Land Lease	-	-	-
Lease - Other	-	-	-
Dues and Fees	7,118	158,586	165,704
Purchase of option water (Note 15)	1,151,671	-	1,151,671
Purchase of system water (Note 15)	1,144,000	-	1,144,000
Engineering Fees	2,241	13,123	15,364
Other operating expenses	141,879	284,381	426,260
Total Operating Expenses	<u>15,437,396</u>	<u>6,697,958</u>	<u>22,135,354</u>
Operating Income	3,897,806	1,463,299	5,361,105
<b>Non-Operating Revenues (Expenses)</b>			
Interest income			
Unrestricted	707,898	275,379	983,277
Restricted	369,509	50,456	419,965
Unrealized Gain (Loss) on Investments	-	-	-
Realized Gain (Loss) on Investments	-	-	-
MO&R non-exchange revenues	599,120	502,886	1,102,006
Civilian Construction Reimbursement (Note 18)	-	-	-
Miscellaneous income	5,320	7,965	13,285
Watermaster revenue - Brazos River Authority	29,210	-	29,210
Watermaster expense - Brazos River Authority	(29,210)	-	(29,210)
Gain (Loss) on sale of assets	-	-	-
Investment expense	-	-	-
Bond issue cost expense	(1,371,766)	-	(1,371,766)
Bond interest expense	(2,730,342)	(482,414)	(3,212,756)
Non-bond interest expense	(20,526)	(8,098)	(28,624)
Amortization	(385,672)	(77,281)	(462,953)
Total Non-Operating Revenues (Expenses)	<u>(2,826,459)</u>	<u>268,893</u>	<u>(2,557,566)</u>
Change in Net Position Before Operating Transfers	1,071,347	1,732,192	2,803,539
Transfers In (Out)	117,390	(117,390)	-
<b>Changes in Net Position</b>	<u>1,188,737</u>	<u>1,614,802</u>	<u>2,803,539</u>
<b>Total Net Position--Beginning</b>	<u>72,305,354</u>	<u>38,537,764</u>	<u>110,843,118</u>
<b>Total Net Position--Ending</b>	<u>\$ 73,494,091</u>	<u>\$ 40,152,566</u>	<u>\$ 113,646,657</u>

The accompanying notes are an integral part of these financial statements

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED APRIL 30, 2023**

	<b>PROPRIETARY FUND TYPES</b>		
	<b>ENTERPRISE FUNDS</b>		
	<b>WATER SYSTEM</b>	<b>SEWER SYSTEM</b>	<b>TOTAL</b>
<b>Cash Flows From Operating Activities:</b>			
Cash received from customers	\$ 19,178,702	\$ 8,025,725	\$ 27,204,427
Cash payments to suppliers for goods & services	(7,418,329)	(2,079,165)	(9,497,494)
Cash payments to or on behalf of employees	(2,241,499)	(1,868,813)	(4,110,312)
Net Cash Provided By Operating Activities	<u>9,518,874</u>	<u>4,077,747</u>	<u>13,596,621</u>
<b>Cash Flows From Capital &amp; Related Financing Activities:</b>			
Principal paid on bond maturities	(3,555,000)	(2,785,000)	(6,340,000)
Principal paid on bond refunding	(51,220,000)	-	(51,220,000)
Interest paid on bonds	(3,421,027)	(503,005)	(3,924,032)
Interest paid - other	(20,526)	(8,098)	(28,624)
Bond issue costs	(1,682,490)	-	(1,682,490)
Proceeds from bond issuances	63,041,184	201,362	63,242,546
Payment for capital assets	(8,257,241)	(1,161,006)	(9,418,247)
Proceeds from sale of capital assets	-	-	-
MO&R non-exchange and other revenues	604,440	510,851	1,115,291
Civilian Construction Reimbursement	-	-	-
Transfers in (out)	117,390	(117,390)	-
Net Cash From Capital & Related Financing Activities	<u>(4,393,270)</u>	<u>(3,862,286)</u>	<u>(8,255,556)</u>
<b>Cash Flows From Investing Activities:</b>			
Sale (Purchase) of Investments	-	-	-
Interest on investments	1,077,407	325,835	1,403,242
Investment Expenses	-	-	-
Net Cash Provided By (Used For) Investing Activities	<u>1,077,407</u>	<u>325,835</u>	<u>1,403,242</u>
Net Increase (Decrease) In Cash And Cash Equivalents	6,203,011	541,296	6,744,307
Cash And Cash Equivalents At Beginning Of Year	<u>33,894,550</u>	<u>13,178,741</u>	<u>47,073,291</u>
Cash And Cash Equivalents At End Of Year	<u>\$ 40,097,561</u>	<u>\$ 13,720,037</u>	<u>\$ 53,817,598</u>

**Significant Non-Cash Transactions**

None

**The accompanying notes are an integral part of these financial statements**

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED APRIL 30, 2023**  
**(CONTINUED)**

	<b>PROPRIETARY FUND TYPES</b>		
	<b>ENTERPRISE FUNDS</b>		
	<b>WATER SYSTEM</b>	<b>SEWER SYSTEM</b>	<b>TOTAL</b>
Reconciliation Of Operating Income To Net Cash Provided By			
Operating Activities:			
Operating income	\$ 3,897,806	\$ 1,463,299	\$ 5,361,105
Adjustments to reconcile operating income to net cash provided by			
operating activities:			
Depreciation and Lease Amortization	5,984,069	2,637,952	8,622,021
Non Cash Pension	(206,186)	(108,918)	(315,104)
Change in assets, liabilities and fund equity:			
(Increase) decrease in accounts receivable	(156,500)	(135,532)	(292,032)
(Increase) decrease in inventory	(35,807)	43,461	7,654
(Increase) decrease in prepaid insurance	4,939	4,883	9,822
(Increase) decrease in other current assets	-	(1,330)	(1,330)
Increase (decrease) in accounts payable	(312,111)	84,723	(227,388)
Increase (decrease) in retainage payable	242,084	-	242,084
Increase (decrease) in accrued vacation and sick leave	100,580	89,209	189,789
Total Adjustments	<u>5,621,068</u>	<u>2,614,448</u>	<u>8,235,516</u>
Net Cash Provided By Operating Activities	<u>\$ 9,518,874</u>	<u>\$ 4,077,747</u>	<u>\$ 13,596,621</u>

**DISCLOSURE OF ACCOUNTING POLICY**

See Note 3 for accounting policy regarding cash and cash equivalents.

**The accompanying notes are an integral part of these financial statements**

## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 1 - CREATION OF THE DISTRICT**

Bell County Water Control and Improvement District #1, a political subdivision of the State of Texas, was created by an Order adopted by the Board of Water Engineers of the State of Texas on March 10, 1952, pursuant to the authority conferred by Chapter 3A, Title 128, Vernon's Texas Civil Statutes. In 1955, the Texas Legislature adopted a special act which enlarged the boundary of the District and granted certain powers to the District supplementing those originally conferred. The current District boundary was established in 1984 when the boundary was expanded to match the then city limits of Killeen. In addition to the Order originally creating the District and such special act, the powers, purposes, and operations of the District are governed by the provisions of Chapter 51 of the Texas Water Code. The purposes of the District include, among other things, controlling, storing, preserving, and distributing water, and owning and operating a sewer system which receives, transports, and disposes of waste. In order to fulfill such purposes, the District is authorized to construct, maintain, and operate water supply and sewage treatment facilities and may issue revenue bonds, tax-supported bonds, or bonds payable out of both operating and tax revenues, to provide funds to construct and acquire such facilities.

The District is governed by a Board of Directors who are elected by the qualified voters of the District. Members of the board serve without compensation. The members of the Board of Directors of the District establish the management policies of the District and have general supervision of the District's business affairs. The day to day operations of the District are primarily the responsibility of the District's General Manager.

**NOTE 2 - FINANCIAL REPORTING ENTITY**

Generally accepted accounting principles require that this financial statement present the District (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board) and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. Based on the application of the foregoing criterion, the accompanying financial statements of the District include only the two Proprietary (Enterprise) Funds of the District.

Accordingly, the following entities: Cities of Killeen, Copperas Cove, Belton, and Harker Heights; Bell County Water Control and Improvement District No. 3, and 439 Water Corporation are excluded from the accompanying financial statements.

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the District conform to generally accepted accounting principles as applied to state and local governments. The following is a summary of the more significant policies.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)**

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved “Basic Financial Statements and Management Discussion and Analysis for State and Local Governments” (Statement No. 34) as a new model for governmental financial reporting. The District implemented GASB Statement No. 34 in fiscal year 2004. The basic financial statements include both government-wide (based on the District as a whole) and proprietary fund financial statements. Both use the economic resources measurement focus and accrual basis of accounting. In the GASB 34 reporting model, the focus is on the district as a whole.

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position are government-wide financial statements. They report information on all of the District’s activities with most of the inter-fund activity removed.

**FUND ACCOUNTING**

The accounts of the District are organized and operated as two Proprietary (Enterprise) Funds, each of which is considered to be a separate accounting entity. The operations of each enterprise fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, fund equity/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, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**PENSIONS**

For the year ended April 30, 2016 and subsequent years, the District has implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. GASB 68, which governs the specifics of reporting public pension plan obligations for employers, is required to be implemented for TCDRS employer fiscal years ending June 15, 2015 or later.

Three key ways that GASB 68 affects employer financial statements are:

- 1) GASB 68 requires a liability for pension obligations, known as the Net Pension Liability, to be recognized on the balance sheets (i.e. Statement of Net Position) of participating employers.
- 2) Changes in the Net Pension Liability from year-to-year will be recognized as Pension Expense on the income statement or reported as deferred inflows/outflows of resources, depending on the type of change.
- 3) Deferred inflows/outflows of resources will need to be reported. These are amounts that are not entirely recognized when they occur. They are recognized over a period of time. See Note 12 for further discussion regarding GASB 68.



**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements and the proprietary fund financial statements both use the economic resources measurement focus and the accrual basis of accounting. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Revenues are recognized when they are earned and their expenses are recognized when they are incurred regardless of the timing of cash flows. With this measurement focus, all assets and all liabilities associated with each fund are included on the Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position on the Statement of Net Position.

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of one year or less from the date of acquisition.

**INVESTMENTS**

Investments are stated at fair value, except for investments in Texpool, which is stated at amortized cost, which approximates fair value. For the year ended April 30, 2017 and subsequent fiscal years, the District has implemented GASB Statement No. 72, Fair Value Measurement and Application (Statement No. 72), and GASB Statement No. 79, Certain External Investment Pools and Pool Participants, (Statement No. 79). Statement No. 72 addresses the accounting and reporting issues related to fair value measurements. Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. It also establishes additional disclosure requirements for entities that participate in such external investment pools. The adoption of these standards did not have a significant impact on the District's financial statements.

**FAIR VALUE MEASUREMENTS**

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)**

Quoted prices for similar assets or liabilities in active markets;  
Quoted prices for identical or similar assets or liabilities in markets that are inactive;  
Inputs other than quoted prices that are observable for the asset or liability;  
Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect the District’s own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the District’s own data.

**BUDGET**

Proprietary (enterprise) fund budgets are prepared on the accrual basis of accounting for both the Water System and the Sewer System. Bell County Water Control and Improvement District #1 annually adopts a budget for each enterprise fund by rate orders appropriating funds in conjunction with the setting of water and sewer disposal rates.

**INVENTORIES**

Inventories of chemicals are recorded at cost and are expensed as used by the first-in, first-out method.

**CAPITAL ASSETS**

Property, plant, and equipment with an initial, individual cost of more than \$5,000 are recorded at cost. Depreciation is computed using the straight-line method with the half year convention. When assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is reflected in non-operations for the period. The cost of replacements, maintenance and repairs that do not extend the asset’s useful life is charged to operations as incurred. Significant upgrades, expansions, renewals and betterments are capitalized. Calculated depreciation on capital assets is charged as a current year operating expense. Interest costs associated with construction financed through tax-exempt borrowings are capitalized as part of the acquired asset cost.

**BOND ISSUE COSTS**

Pursuant to GASB 65, bond issue costs are expensed as incurred.

**TRANSACTIONS BETWEEN FUNDS**

Advances between funds are accounted for in the appropriate inter-fund receivable and payable accounts when appropriate. Transfers between the funds are recorded as appropriate, mainly due to the water fund holding and accounting for sewer maintenance operation and repair non-exchange revenues.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)**

**VACATION AND SICK PAY**

Accruals for vacation and sick pay expenses are reflected in the accounts for unpaid vacation, sick leave, and compensatory time earned by employees. In the event of termination, resignation, or retirement, all employees who have at least five years in service will be reimbursed for accumulated vacation time and sick pay up to 160 hours.

**ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**OPERATING AND NON-OPERATING ACTIVITIES**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, producing and delivering goods in connection with principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for water and sewer sales. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expense.

**RESTRICTED AND UNRESTRICTED RESOURCES**

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

**NON-EXCHANGE TRANSACTIONS**

Maintenance operation and repair provisions received from the Army qualify as a non-exchange transaction under the definitions described in GASB 33.

**LEASES**

The District changed accounting policies related to Leases by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 87, Leases, in fiscal year ending April 30, 2023.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 4 - BOND INTEREST**

Interest on the Bonds is payable by check or draft, dated as of the interest payment date, and mailed by the Paying Agent on that date to the Registered Owners as shown on the Bond Registration Books as of the close of business on the Record Date, or by other such customary banking arrangements acceptable to the Paying Agent and the Registered Owner at the expense and risk of the Registered Owner.

**NOTE 5 - PLEDGE OF REVENUES**

The water revenue bonds, and the interest thereon, are payable and secured by an irrevocable lien on and pledge of pledged revenues, subject and subordinate only to the written lease agreement between the District and the United States of America, dated February 24, 1956, as amended, and such pledged revenues are further pledged to the establishment and maintenance of the bond principal and interest fund and the bond reserve fund.

The sewer revenue bonds, and the interest thereon, are payable and secured by an irrevocable lien on and pledge of pledged revenues, and the pledged revenues are further pledged to the establishment and maintenance of the interest and sinking fund and the bond reserve fund.

The Water System Revenue Bonds, Series 2007A, 2014, and 2022A; the Water System Revenue Refunding Bonds series 2012, 2014, 2015, 2016, 2020, and 2023; and the Sewer System Revenue Refunding Bonds, Series 2014 are payable from a subordinated lien on and pledge of the net revenues of the District's water and sanitary sewer system after the payment of operation and maintenance expenses, respectively. Under contracts with municipalities and non-profit enterprises purchasing water and sewage treatment from the District, debt service on all District bonds is included in water and sewer fixed charges to District customers. These contracts, accordingly, make all debt of the District self-supporting. No taxes have ever been levied by the District and the District does not anticipate the necessity of levying taxes in the future.

**NOTE 6 – AGREEMENT WITH THE U.S. ARMY**

Effective October 1, 2002, the District's management amended contract DAKF48-74-C-0128 with the U.S. Army. This amendment (P00042) allows the District to collect, from the U.S. Army for the benefit of Fort Cavazos, a Replacement Reserve Rate (RRR) equal to 50% of the current water and wastewater service rates. The RRR is in addition to the rate billed to Fort Cavazos on a monthly basis for water and wastewater services. Amounts collected for the RRR are deposited into a separate account that is set aside for both the water and wastewater replacement reserve and is also used to fund any debt service related to water and wastewater replacements, improvements or expansion projects that benefit Fort Cavazos.

The balance of this account may not exceed \$5,000,000. Once the \$5,000,000 limit has been reached, billing of the RRR must be suspended until authorized expenditures are made and the balance is reduced below the limit. The replacement reserve funds may only be used for water and wastewater repair and replacement projects approved by the U.S. Army. At April 30, 2023, the balance in the replacement reserve account was \$3,520,709.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 7 - INVENTORIES**

As of April 30, 2023, inventories consisted of:

	<b>WATER SYSTEM</b>	<b>SEWER SYSTEM</b>	<b>TOTAL</b>
Chemicals	\$ 208,720	\$ 19,200	\$ 227,920
	\$ 208,720	\$ 19,200	\$ 227,920

**NOTE 8 - CAPITAL ASSETS & DEPRECIATION**

The analysis of Capital Asset activity and Depreciation activity, based on the useful lives shown below, was:

	<b>Balances at Beginning of Year</b>	<b>Additions/ Transfers</b>	<b>Deletions/ Transfers</b>	<b>Balances at End of Year</b>
Construction in Progress	\$ 2,787,587	\$ 7,878,077		\$ 10,665,664
Land and Easements	1,180,477			1,180,477
<b>Total Nondepreciable Capital Assets</b>	<b>3,968,064</b>	<b>7,878,077</b>	<b>-</b>	<b>11,846,141</b>
Water System	150,028,881	38,552		150,067,433
Sanitary Sewer System	78,566,296			78,566,296
Vehicles	1,356,445	87,550		1,443,995
Furniture and Fixtures	227,078	137,926		365,004
Machinery and Equipment	33,340,912	561,423		33,902,335
<b>Total Depreciable Capital Assets</b>	<b>263,519,612</b>	<b>825,451</b>	<b>-</b>	<b>264,345,063</b>
Right of Use Assets	-	714,719	-	714,719
<b>Total Capital Assets</b>	<b>\$ 267,487,676</b>	<b>\$ 9,418,247</b>	<b>\$ -</b>	<b>\$ 276,905,923</b>
<b>Accumulated Depreciation/Amortization:</b>				
	<b>Useful Lives</b>			
Transportation equipment	5-10 yrs	\$ 793,581	\$ 137,618	\$ 931,199
Plant, Office, and other equipment	5-20 yrs	10,209,197	2,148,459	12,357,656
Building and pipelines	30-50 yrs	97,109,391	6,270,726	103,380,117
<b>Total Accumulated Depreciation:</b>		<b>108,112,169</b>	<b>8,556,803</b>	<b>116,668,972</b>
Accumulated Amortization - Right of Use Assets		-	65,218	65,218
<b>Capital Assets, net of accumulated depreciation/amortization</b>		<b>\$ 159,375,507</b>	<b>\$ 796,226</b>	<b>\$ 160,171,733</b>

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 9 - REVENUE BONDS PAYABLE**

Revenue bonds outstanding at April 30, 2023, were as follows:

	Balance May 1, 2022	Additions	Retirements	Balance April 30, 2023	Current Maturities
<b>WATER SYSTEM:</b>					
Water Revenue Bonds, Series 2007A	1,275,000	-	95,000	1,180,000	100,000
Water Revenue Refunding Bonds, Series 2012	4,490,000	-	3,975,000	515,000	515,000
Water Revenue Refunding Bonds, Series 2013A	1,375,000	-	155,000	1,220,000	160,000
Water Revenue Bonds Series 2014	49,020,000	-	48,365,000	655,000	655,000
Water Revenue Refunding Bonds, Series 2014	3,660,000	-	990,000	2,670,000	1,025,000
Water Revenue Refunding Bonds, Series 2015	7,700,000	-	755,000	6,945,000	795,000
Water Revenue Refunding Bonds, Series 2016	2,470,000	-	175,000	2,295,000	175,000
Water Revenue Refunding Bonds, Series 2020	6,000,000	-	265,000	5,735,000	270,000
Water Revenue Bonds Series, 2022A		9,570,000		9,570,000	
Water Revenue Refunding Bonds, Series 2023		48,505,000		48,505,000	420,000
Water System Bonds Payable	75,990,000	58,075,000	54,775,000	79,290,000	4,115,000
Net Premium/(Discount) On Bonds	2,178,425	4,668,053	189,613	6,656,865	-
Total Water System	<u>78,168,425</u>	<u>62,743,053</u>	<u>54,964,613</u>	<u>85,946,865</u>	<u>4,115,000</u>
<b>SEWER SYSTEM:</b>					
Sewer Revenue Refunding Bonds, Series 2013B	1,120,000	-	365,000	755,000	375,000
Sewer Revenue Refunding Bonds, Series 2014	17,935,000	-	2,420,000	15,515,000	2,590,000
Total Sewer System	<u>19,055,000</u>	<u>-</u>	<u>2,785,000</u>	<u>16,270,000</u>	<u>2,965,000</u>
<b>TOTAL</b>	<u>\$ 97,223,425</u>	<u>\$ 62,743,053</u>	<u>\$ 57,749,613</u>	<u>\$ 102,216,865</u>	<u>\$ 7,080,000</u>

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 9 - REVENUE BONDS PAYABLE - (Continued)**

The following is a schedule of maturities and sinking fund requirements for all long-term borrowings for each of the five years following the balance sheet date and to maturity:

Year Ended April 30	Water System		Sewer System		Total
	Principal	Interest	Principal	Interest	
2024	4,115,000	2,934,393	2,965,000	425,776	10,440,169
2025	3,980,000	3,205,862	3,045,000	338,215	10,569,077
2026	4,155,000	3,035,548	2,745,000	254,547	10,190,095
2027	4,310,000	2,862,071	2,825,000	174,782	10,171,853
2028	4,470,000	2,684,814	2,905,000	92,725	10,152,539
2029-2033	21,735,000	10,598,947	1,785,000	25,562	34,144,509
2034-2038	23,180,000	5,577,297			28,757,297
2039-2043	13,345,000	837,666			14,182,666
<b>TOTAL</b>	<b>\$ 79,290,000</b>	<b>\$ 31,736,598</b>	<b>\$ 16,270,000</b>	<b>\$ 1,311,606</b>	<b>\$ 128,608,204</b>

Disclosures related to the provision of the bond resolutions in which the District's revenues are pledged for debt service requirements is presented in Note 5 - Pledge of Revenues.

**Defeased Debt Outstanding**

In prior years, the District defeased certain outstanding revenue bonds by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the District's financial statements.

There were no defeased bonds outstanding as of April 30, 2023.

**Redemption of Bonds**

On September 6, 2012, the District exercised its right to issue \$7,400,000 Water System Revenue Refunding Bonds, Series 2012 with rates of 2.0%-4.5% to refund and legally defease \$6,915,000 of Water System Revenue Bonds, Series 2004. The net proceeds of \$7,635,314 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As of April 30, 2023, the outstanding maturity on the refunded debt was \$0. Prior to this fiscal year, \$1,985,000 of the Series 2004 Bonds were refunded. As of April 30, 2023, the outstanding maturity on this portion of the refunded debt was \$0.

The advanced refunding of the 2004 Bonds resulted in a \$720,314 difference between the net carrying amount of the old debt and the reacquisition price. The difference, reported in the financial statements as a deferred outflow of resources, is being amortized over the shorter life of the refunded debt or remaining life of the old debt, in accordance with GASB 65. This transaction resulted in a reduction of cash outflows of \$1,032,545 through July 10, 2029 and an economic gain (the difference between the present value of the old debt and the new debt service payments) of \$802,360.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 9 - REVENUE BONDS PAYABLE - (Continued)**

On April 18, 2013, the District exercised its right to issue \$2,435,000 Special Project Revenue Refunding Bonds, Taxable Series 2013A with a rate of 3.26% to refund and legally defease \$2,175,000 of Special Project Bonds, Taxable Series 2004A. The net proceeds of \$2,366,970 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As of April 30, 2023, the outstanding maturity on the refunded debt was \$0.

The advanced refunding of the 2004A Bonds resulted in a \$191,970 difference between the net carrying amount of the old debt and the reacquisition price. The difference, reported in the financial statements as a deferred outflow of resources, is being amortized over the shorter life of the refunded debt or remaining life of the old debt, in accordance with GASB 65. This transaction resulted in a reduction of cash outflows of \$363,345 through July 10, 2029 and an economic gain (the difference between the present value of the old debt and the new debt service payments) of \$271,947.

On April 18, 2013, the District exercised its right to issue \$3,585,000 Special Project Refunding Bonds, Taxable Series 2013B with a rate of 3.26% to refund and legally defease \$3,165,000 of Special Project Bonds, Taxable Series 2004B. The net proceeds of \$3,491,894 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As of April 30, 2023, the outstanding maturity on the refunded debt was \$0.

The advanced refunding of the 2004B Bonds resulted in a \$326,894 difference between the net carrying amount of the old debt and the reacquisition price. The difference, reported in the financial statements as a deferred outflow of resources, is being amortized over the shorter life of the refunded debt or remaining life of the old debt, in accordance with GASB 65. This transaction resulted in a reduction of cash outflows of \$21,655 through July 10, 2024 and an economic gain (the difference between the present value of the old debt and the new debt service payments) of \$13,644.

On April 15, 2014, the District exercised its right to issue \$7,790,000 Water System Revenue Refunding Bonds, Series 2014 with a rate of 2.70% to refund and legally defease \$7,395,000 of Water System Revenue Refunding Bonds, Series 2004. The net proceeds of \$7,565,838 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As of April 30, 2023, the outstanding amount on the refunding debt was \$0.

The advanced refunding of the 2004 Refunding Bonds resulted in a \$170,338 difference between the net carrying amount of the old debt and the reacquisition price. The difference, reported in the financial statements as a deferred outflow of resources, is being amortized over the shorter life of the refunded debt or the remaining life of the old debt, in accordance with GASB 65. This transaction resulted in an increase of cash outflows of \$868,940 through July 10, 2028 and an economic gain (the difference between the present value of the old debt and the new debt service payments) of \$191,267.



**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 9 - REVENUE BONDS PAYABLE - (Continued)**

On September 9, 2014, the District exercised its right to issue \$32,490,000 Sanitary Sewer System Revenue and Refunding Bonds, Series 2014 with a rate of 2.864% to refund and legally defease \$24,310,000 of Sanitary System Revenue Bonds, Series 2004. The net proceeds of \$24,733,965 (after payment of related issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As of April 30, 2023, the outstanding amount on the refunding debt was \$0.

The refunding of the 2004 Bonds resulted in a \$423,965 difference between the net carrying amount of the old debt and the reacquisition price. The difference, reported in the financial statements as a deferred outflow of resources, is being amortized over the shorter life of the refunded debt or remaining life of the old debt, in accordance with GASB 65. This transaction resulted in a decrease of cash outflows of \$967,962.85 through July 10, 2025 and an economic gain (the difference between the present value of the old debt and the new debt service payments) of \$91,856.

On June 18, 2015, the District exercised its right to issue \$9,060,000 Water System Revenue Refunding Bonds, Series 2015 at a rate (NIC basis) of 2.95% to refund and legally defease \$4,480,000 of Water System Revenue Bonds, Series 2006 and \$3,840,000 of Water System Revenue Bonds, Series 2007. The net proceeds of \$9,137,252 (after payment of related issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds until their date of redemption. As of April 30, 2023, the outstanding amount on the refunding debt was \$0 and \$0 for Series 2006 and 2007 bonds respectively.

The refunding of the 2006 and 2007 Bonds resulted in a \$605,689 difference between the net carrying amount of the old debt and the reacquisition price. The difference, reported in the financial statements as a deferred outflow of resources, is being amortized over the shorter life of the refunded debt or remaining life of the old debt, in accordance with GASB 65. This transaction resulted in a decrease of cash outflows of \$1,550,739 through July 10, 2032 and an economic gain (the difference between the present value of the old debt and the new debt service payments) of \$1,076,011.

On November 9, 2016, the District exercised its right to issue \$4,130,000 Water System Revenue Refunding Bonds, Series 2016 at a rate (NIC basis) of 3.00% to refund and legally defease \$655,000 of Water System Revenue Bonds, Series 2006, \$720,000 of Water System Revenue Bonds, Series 2007 and \$2,635,000 of Water System Revenue Bonds, Series 2008. The net proceeds of \$4,270,702 (after payment of related issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds until their date of redemption. As of April 30, 2023, the outstanding amount on the refunding debt was \$0 and \$0 and \$0 for Series 2006 and 2007 and 2008 bonds respectively.

The refunding of the 2006, 2007 and 2008 Bonds resulted in a \$205,702 difference between the net carrying amount of the old debt and the reacquisition price. The difference, reported in the financial statements as a deferred outflow of resources, is being amortized over the shorter life of the refunded debt or remaining life of the old debt, in accordance with GASB 65. This transaction resulted in a decrease of cash outflows of \$354,041 through July 10, 2034 and an economic gain (the difference between the present value of the old debt and the new debt service payments) of \$206,081.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 9 - REVENUE BONDS PAYABLE - (Continued)**

On April 10, 2023 the District exercised its right to issue \$48,505,000 Water System Revenue Refunding Bonds, Series 2023 with a rate of 4.76% to refund and legally defease \$51,220,000 of Sanitary System Revenue Bonds, Series 2012 and 2014. The net proceeds of \$621,943 (after payment of related issuance costs) were used to purchase U.S. securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As of April 30, 2023, the outstanding amount on the refunding debt was \$1,170,000.

The refunding of the 2012 and 2014 Bonds resulted in a \$629,293 difference between the net carrying amount of the old debt and the reacquisition price. The difference, reported in the financial statements as a deferred outflow of resources, is being amortized over the shorter life of the refunded debt or remaining life of the old debt, in accordance with GASB 65. This transaction resulted in a net present value debt service savings for the District.

**NOTE 10 – BOND COVENANT REQUIREMENTS AND COMPLIANCE STATUS**

Although the District issues bonds to fund water and sewer projects, the bond covenants for the bonds issued for the benefit of Fort Cavazos water and sewer projects are slightly different than the District's other bonds. Therefore, the District has three types of bonds-Special Projects Bonds which include water and sewer bond issued to fund projects benefiting Fort Cavazos; Water Bonds for civilian water projects and Sewer Bonds for civilian sewer projects. The District's Water System, Sewer System and Special Project bond covenants require the District to establish the following restricted reserve funds, which are to be kept separate from other District funds:

**Principal and Interest Fund** - to be used to pay for the annual principal and interest payments on the outstanding bonds. The District finances this fund through monthly billings to its member entities.

**Contingency Fund** - to be used to pay for any unusual maintenance, operations and repairs/replacement expenses. The Water System Contingency Fund is financed through \$12,000 annual deposits from the General Fund until the fund balance is \$500,000. The Sewer System Contingency Fund is financed through \$6,000 annual deposits from the General Fund until the fund balance is \$50,000. A Contingency Fund is not required for the Special Projects Bonds.

**Bond Reserve Fund** - to be used in the event the Principal and Interest Fund has insufficient money to make the semi-annual interest and annual principal payments. The Reserve Fund must accumulate a balance equal to the average annual debt service of outstanding bonds. The reserve amount shall be calculated on a Fiscal Year basis and recalculated only when any additional debt is issued. The District has 60 months to accumulate the required amount any time new debt is issued. The District has a right to fund this reserve with an insurance policy or surety bond.

When the District issued the Series 2014 Sanitary Sewer Revenue and Refunding Bonds on September 9, 2014, the Bond Reserve Fund covenant was amended to allow the suspension of the accumulation of the Bond Reserve Fund as long as the City of Killeen maintains a debt service coverage ratio of 1.35 times. In the event Killeen's debt service coverage ratio falls below the required coverage amount, the District will then have to fund the reserve in the manner described above. According to the City of Killeen's 2022 Combined Annual Financial Report, for the fiscal year ended September 30, 2022, Killeen's debt service coverage ratio was 3.54 times so a bond reserve fund is not required as of the District's fiscal year end.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 10 – BOND COVENANT REQUIREMENTS AND COMPLIANCE STATUS (continued)**

At April 30, 2023, the District’s status of the various reserve funds is as follows:

**Principal and Interest Fund**

	WATER SYSTEM	SEWER SYSTEM	SPECIAL PROJECTS
Required Reserve - Principal & Interest Payment due 7/10/23 (prorated for FYE)	\$ 3,870,604	\$ 2,180,023	\$ 442,321
Amount in Reserve	3,939,199	2,659,814	474,389
Fund Reserve Excess (Deficiency)	\$ 68,595	\$ 479,791	\$ 32,068

The district is in compliance with the Principal and Interest Fund covenants at April 30, 2023.

**Contingency Fund**

	WATER SYSTEM	SEWER SYSTEM
Required Reserve	\$ 500,000	\$ 50,000
Amount in Reserve	547,585	54,670
Fund Reserve Excess (Deficiency)	\$ 47,585	\$ 4,670

The District is in compliance with the Contingency Fund covenants at April 30, 2023.

**Bond Reserve Fund**

	WATER SYSTEM	SEWER SYSTEM	SPECIAL PROJECTS
Required Reserve - Average Annual Debt Service	\$ 5,483,057	Not applicable (1)	\$ 419,542
Amount in Reserve	13,381,130		506,371
Fund Reserve Excess (Deficiency)	\$ 7,898,073		\$ 86,829

(1) As noted above, the District is not required to fund a Sewer Bond Reserve as long as the City of Killeen meets debt service coverage requirements.

The District is in compliance with the Bond Reserve Fund covenants at April 30, 2023.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 11- RESTRICTED NET POSITION**

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, requires net position be displayed in three components-net investment in capital assets, restricted and unrestricted. Portions of the District's net position are restricted for debt service, maintenance, operation and replacement expenses and construction.

**Restricted for Debt Service**

Net Position restricted for Debt Service includes the assets the District holds less the related liabilities payable from these assets to meet the bond covenants for the Principal and Interest and Bond Reserve funds. A schedule of changes in Net Position is as follows:

	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
Reserve Balance, MAY 1, 2022	\$ 9,002,911	\$ 2,833,674	\$ 11,836,585
Additions	105,135	149,115	254,250
Reductions	<u>-</u>	<u>27,070</u>	<u>27,070</u>
Reserve Balance, APRIL 30, 2023	<u>\$ 9,108,046</u>	<u>\$ 3,009,859</u>	<u>\$ 12,117,905</u>

**Restricted for Maintenance, Operation and Replacement**

Net Position restricted for maintenance, operation and replacement includes the assets the District holds to meet the bond covenants that require the District to establish a \$500,000 and \$50,000 Contingency Fund for the Water System and Sewer System bonds, respectively (see note 10). Also included in this restriction is the requirement to establish a Replacement Reserve, which is required by the District's contract with the U.S. Army (see note 6). A schedule of changes in Net Position is as follows:

	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
Reserve Balance, MAY 1, 2022	\$ 3,246,538	\$ 53,045	\$ 3,299,583
Additions	821,757	1,625	823,382
Reductions	<u>-</u>	<u>-</u>	<u>-</u>
Reserve Balance, APRIL 30, 2023	<u>\$ 4,068,295</u>	<u>\$ 54,670</u>	<u>\$ 4,122,965</u>

**Restricted for Construction**

Net Position restricted for Construction includes the assets the District holds less the related liabilities payable from these assets to construct infrastructure assets. A schedule of changes in Net Position is as follows:

	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
Reserve Balance, MAY 1, 2022	\$ 192,211	\$ 1,509	\$ 193,720
Additions	3,375,792		3,375,792
Reductions	<u>(2,953,948)</u>	<u>-</u>	<u>(2,953,948)</u>
Reserve Balance, APRIL 30, 2023	<u>\$ 614,055</u>	<u>\$ 1,509</u>	<u>\$ 615,564</u>

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 12 - EMPLOYEE BENEFIT PLANS**

**Plan Description**

Bell County Water Control and Improvement District #1 participates in the Texas County & District Retirement System (TCDRS), which is a statewide, agent multiple-employer, public employee retirement system. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 850 active participating counties and districts throughout Texas. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034. The plan provisions are adopted by the governing body of the employer, within the options available in the Texas State statutes governing TCDRS ("TCDRS Act"). Members can retire at age 60 and above with 8 or more years of service but must leave their accumulated contributions in the plan to receive any employer finance benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

A brief description of benefit terms:

- 1) All full- and part-time employees in a non-temporary position participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.
- 2) The plan provides retirement, disability and survivor benefits.
- 3) TCDRS is a savings-based plan. For the district's plan, 7% of each employee's pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage (current match is 200%) and is then converted to a monthly benefit.
- 4) There are no automatic COLAs. Each year, the district may elect an ad hoc COLA for its retirees (if any).
- 5) Benefit terms are established under the TCDRS Act. They may be amended as of Jan. 1 each year, but must remain in conformity with the Act.

Membership information is shown in the chart below:

Members	Dec. 31, 2021	Dec. 31, 2022
Number of inactive employees entitled to but not yet receiving benefits:	41	46
Number of active employees:	51	47
Average monthly salary*:	\$4,876	\$5,214
Average age*:	47.86	48.48
Average length of service in years*:	11.12	11.94
<b>Inactive Employees (or their Beneficiaries) Receiving Benefits</b>		
Number of benefit recipients:	27	25
Average monthly benefit:	\$1,329	\$1,216

\*Averages reported for active employees.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)**

The district's contribution rate is calculated annually on an actuarial basis, although the employer may elect to contribute at a higher rate. The Bell County Water Control and Improvement District #1 contribution rate is based on the TCDRS funding policy adopted by the TCDRS Board of Trustees and must conform with the TCDRS Act. The employee contribution rates are set by the district and are currently 7%.

The most recent comprehensive annual financial report for TCDRS can be found at the following link, [www.tcdrs.org](http://www.tcdrs.org).

**Contributions**

The employer has chosen a variable rate plan under the provisions of the TCDRS Act. A combination of three elements funds each employer's plan: employee deposits, employer contributions and investment income.

- The deposit rate for employees is 4%, 5%, 6% or 7% of compensation, as adopted by the employer's governing body. The District has adopted a 7% employee contribution rate.
- Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. Employer contribution rates are determined annually and approved by the TCDRS Board of Trustees. The District has adopted a 10% employer contribution rate.
- Investment income funds a large part of the benefits employees earn.

Pursuant to state law, employers participating in the system must pay 100% of their actuarially determined required contributions on an annual basis. Each employer has the opportunity to make additional contributions in excess of its annual required contribution rate either by adopting an elected rate that is higher than the required rate or by making additional contributions on an ad hoc basis. Employers may make additional contributions to pay down their liabilities faster, pre-fund benefit enhancements and/or buffer against future adverse experience.

In addition, employers annually review their plans and may adjust benefits and costs based on their local needs and budgets. Although accrued benefits may not be reduced, employers may reduce future benefit accruals and immediately reduce costs.

**Net Pension Liability / Asset**

The District's net pension liability / asset was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability /asset was determined by an actuarial valuation as of that date.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)**

*Actuarial Assumptions*

The total pension liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Valuation Timing:** Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

**Actuarial Cost Method:** Entry Age Normal. Individual entry age normal cost method, as required by GASB 68, used for GASB calculations. Note that a slightly different version of the entry age normal cost method is used for the funding actuarial valuation.

**Amortization Method:**

Recognition of economic/demographic gains or losses - Straight-Line amortization over Expected Working Life

Recognition of assumptions changes or inputs - Straight-Line amortization over Expected Working Life

**Asset Valuation Method:**

Smoothing Period – 5 years

Recognition Method – non-asymptotic

Corridor – None

**Inflation:** 2.50%

**Salary Increases:** The annual salary increases rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.00% (made up of 2.50% inflation and 0.50% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.7% per year for a career employee.

**Investment Rate of Return:** 7.60%, gross of administrative expenses

**Cost of Living Adjustments:** Cost-of-Living Adjustments for Bell County Water Control and Improvement District #1 are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.

**Mortality Rate:**

Depositing members - 135% of Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Employees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

Service retirees, beneficiaries and non-depositing members - 135% of Pub-2010 General Retirees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)**

Disabled retirees - 160% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

**Retirement Age:** The amount of service an employee needs to earn a future benefit is called the vesting requirement. When an employee is vested, he or she has the right to a monthly benefit at age 60 or older. Employers may choose 5-, 8- or 10-year vesting. The vesting requirement for your employees is 8 years of service. In addition, employees may retire before age 60 if they meet one of the following requirements, set by the employer:

- “Rule of” eligibility — Under these rules, a vested employee can retire if their age plus years of service time add up to at least 75 or 80. Your plan requirement is Rule of 75.
- 20-year or 30-year retirement at any age — This lets employees retire when they have at least 20 or 30 years of service time. Your plan requirement is 20 years of service.

Retirees elect to receive their lifetime benefit by choosing from one of seven actuarially equivalent payment options.

**Turnover:** New employees are assumed to replace any terminated members and have similar entry ages.

*Long Term Expected Rate of Return:*

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS’ investment consultant, Cliffwater LLC. The numbers shown are based on January 2023 information for a 10-year time horizon.

Note that the valuation assumption for the long-term expected return is re-assessed in detail at a minimum of every four years, and is set based on a long-term time horizon. The TCDRS Board of Trustees adopted the current assumption at their March 2021 meeting. The assumption for the long-term expected return is reviewed annually for continued compliance with the relevant actuarial standards of practice. Milliman relies on the expertise of Cliffwater in this assessment.



**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)**

Asset Class	Benchmark	Target Allocation <sup>(1)</sup>	Geometric Real Rate of Return <sup>(2)</sup>
U.S. Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.95%
Global Equities	MSCI World (net) Index	2.50%	4.95%
Int'l Equities - Developed Markets	MSCI World Ex USA (net) Index	5.00%	4.95%
Int'l Equities - Emerging Markets	MSCI Emerging Markets (net) Index	6.00%	4.95%
Investment-Grade Bonds	Bloomberg U.S. Aggregate Bond Index	3.00%	2.40%
Strategic Credit	FTSE High-Yield Cash-Pay Index	9.00%	3.39%
Direct Lending	Morningstar LSTA US Leveraged Loan TR USD Index	16.00%	6.95%
Distressed Debt	Cambridge Associates Distressed Securities Index <sup>(3)</sup>	4.00%	7.60%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships	Alerian MLP Index	2.00%	5.30%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index <sup>(4)</sup>	6.00%	5.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index <sup>(5)</sup>	25.00%	7.95%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	2.90%
Cash Equivalents	90-Day U. S. Treasury	2.00%	0.20%

<sup>(1)</sup> Target asset allocation adopted at the March 2023 TCDRS Board meeting.

<sup>(2)</sup> Geometric real rates of return equal the expected return for the asset class minus the assumed inflation rate of 2.3%, per Cliffwater's 2023 capital market assumptions.

<sup>(3)</sup> Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

<sup>(4)</sup> Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

<sup>(5)</sup> Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)**

*Discount Rate*

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 7.60%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.50%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

*Changes in Net Pension Liability / (Asset)*

Changes in the District's net pension liability / (asset) for the valuation year ended December 31, 2022 are as follows:

	<b>Changes in Net Pension Liability / (Asset)</b>		
<b>Changes in Net Pension Liability / (Asset)</b>	<b>Total Pension Liability (a)</b>	<b>Fiduciary Net Position (b)</b>	<b>Net Pension Liability/ (Asset) (a) - (b)</b>
Balances as of December 31, 2021	\$ 9,835,745	\$ 11,991,417	\$ (2,155,671)
Changes for the year:			
Service cost	378,509		378,509
Interest on total pension liability(1)	759,818		759,818
Effect of plan changes(2)	-		-
Effect of economic/demographic gains or losses	(446,841)		(446,841)
Effect of assumptions changes or inputs	-		-
Refund of contributions	(57,760)	(57,760)	-
Benefit payments	(383,648)	(383,648)	-
Administrative expenses		(6,672)	6,672
Member contributions		218,139	(218,139)
Net investment income		(710,490)	710,490
Employer contributions		311,626	(311,626)
Other(3)		22,461	(22,461)
Balances as of December 31, 2022	<b>\$ 10,085,823</b>	<b>\$ 11,385,073</b>	<b>\$ (1,299,249)</b>

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) No plan changes valued.

(3) Relates to allocation of system-wide items.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)**

*Sensitivity Analysis*

The following presents the net pension liability of the employer, calculated using the discount rate of 7.60%, as well as what the Bell County Water Control and Improvement District #1 net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60%) or 1 percentage point higher (8.60%) than the current rate.

	<b>1% Decrease 6.60%</b>	<b>Current Discount Rate 7.60%</b>	<b>1% Increase 8.60%</b>
Total pension liability	\$ 11,355,466	\$ 10,085,824	\$ 9,007,642
Fiduciary net position	\$ 11,385,073	\$ 11,385,073	\$ 11,385,073
Net pension liability/ (asset)	<u>\$ (29,607)</u>	<u>\$ (1,299,249)</u>	<u>\$ (2,377,431)</u>

**Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources**

For the year ended April 30, 2023, the District recognized pension expense of (\$33,128) for the Water System and \$34,916 for the Sewer System. As of April 30, 2023, the deferred outflows and inflows are as follows:

<b>Deferred Outflow of Resources:</b>	<b>Water System</b>	<b>Sewer System</b>	<b>Total</b>
Differences between expected and actual experience	\$ 34,534	\$ 29,713	\$ 64,247
Changes of assumptions	63,505	54,642	118,147
Net difference between projected and actual earnings	133,260	114,659	247,919
Contributions made subsequent to measurement date	<u>59,893</u>	<u>48,161</u>	<u>108,054</u>
<b>Total Deferred Outflow of Resources:</b>	<b>\$ 291,192</b>	<b>\$ 247,175</b>	<b>\$ 538,367</b>

<b>Deferred Inflow of Resources:</b>	<b>Water System</b>	<b>Sewer System</b>	<b>Total</b>
Differences between expected and actual experience	\$ 183,353	\$ 157,760	\$ 341,113
Changes of assumptions	-	-	-
Net difference between projected and actual earnings	-	-	-
Contributions made subsequent to measurement date	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Deferred Inflow of Resources:</b>	<b>\$ 183,353</b>	<b>\$ 157,760</b>	<b>\$ 341,113</b>

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)**

The \$108,054 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended April 30, 2023. The remaining amounts currently reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**Year Ended APRIL 30, 2023:**

2024	(164,005)
2025	(115,170)
2026	43,232
2027	325,143
2028	-
Thereafter	-

**Payable to the Pension Plan**

At April 30, 2023, the District had no payable due for the outstanding amount of contributions to the pension plan required for the year ended April 30, 2023.

**Social Security Coverage**

All employees of the district are covered by Social Security. The cost of such coverage for the year ended April 30, 2023 is included in payroll taxes expense and amounted to \$128,316 and \$102,439 for the Water System and Sewer System, respectively.

Bell County Water Control and Improvement District #1 entered into an agreement to participate in Social Security on May 1, 1956. Such contract is with the Employees Retirement System of Texas which administers social security for governmental entities for subdivisions of the State of Texas.

**403(B) Plan**

The District implemented a 403(b) plan on January 1, 1999, allowing employees to contribute up to the lesser of 20% of their gross income or the annual limit set by the Internal Revenue Service. In addition, individuals aged 50 and older are allowed to contribute an additional amount as a catch-up contribution subject to the Internal Revenue Service limits.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 13 - DEPOSITS, SECURITIES, AND INVESTMENTS**

At April 30, 2023, the District had the following deposits and investments:

	Credit Quality Ratings	Fair Value	Weighted Average Maturity	Fair Value Measurements Using Significant Other Observable Inputs (Level 2)
<b>Water:</b>				
<u>Unrestricted Cash and Investments:</u>				
Cash and cash equivalents:				
Deposits with a financial institution	Not Rated	\$ 7,000,154	n/a	n/a
Texas Class	AAAm	11,233,264	48 days	n/a
Total Unrestricted Cash and cash equivalents:		18,233,418		
<u>Restricted Cash and Investments:</u>				
Cash and cash equivalents:				
Deposits with a financial institution	Not Rated	4,929,164	n/a	n/a
Texas Class	AAAm	11,389,758	48 days	n/a
Texpool	AAAm	5,545,221	29 days	n/a
Total Restricted Cash and cash equivalents:		21,864,143		
Investments:				
None		-		
Total Restricted Investments:		-		
<b>Total Cash and Investments - Water:</b>		<b>\$ 40,097,561</b>		

Note: TexPool and Texas Class rating is based on Standard and Poor's.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 13 - DEPOSITS, SECURITIES, AND INVESTMENTS (continued)**

Deposits and investments at April 30, 2023 continued:

	Credit Quality Ratings	Fair Value	Weighted Average Maturity	Fair Value Measurements Using Significant Other Observable Inputs (Level 2)
<b>Sewer:</b>				
<u>Unrestricted Cash and Investments:</u>				
Cash and cash equivalents:				
Deposits with a financial institution	Not Rated	\$ 3,682,811	n/a	n/a
Texas Class	AAAm	6,814,862	48 days	n/a
Total Unrestricted Cash and cash equivalents:		10,497,673		
<u>Restricted Cash and Investments:</u>				
Cash and cash equivalents:				
Deposits with a financial institution	Not Rated	2,083,618	n/a	n/a
Texpool	AAAm	1,138,746	29 days	n/a
Total Restricted Cash and cash equivalents:		3,222,364		
Investments:				
None		-		n/a
Total Restricted Investments:		-		
<b>Total Cash and Investments - Sewer:</b>		<b>\$ 13,720,037</b>		

Note: TexPool and Texas Class rating is based on Standard and Poor's.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 13 - DEPOSITS, SECURITIES, AND INVESTMENTS (continued)**

In accordance with GASB, investments were stated at fair value using the aggregate method in all funds, resulting in the following investment income:

<u>Investment Income / (Loss):</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Unrestricted:</u>			
Interest Income	\$ 707,898	\$ 275,379	\$ 983,277
Net changes in the fair value of investments	-	-	-
Total:	<u>707,898</u>	<u>275,379</u>	<u>983,277</u>
<u>Restricted:</u>			
Interest Income	369,509	50,456	419,965
(Less) Capitalized Interest Income	-	-	-
Net Interest Income:	<u>369,509</u>	<u>50,456</u>	<u>419,965</u>
Net changes in the fair value of investments	-	-	-
Total:	<u>369,509</u>	<u>50,456</u>	<u>419,965</u>
Net Investment Income / (Loss):	<u>\$ 1,077,407</u>	<u>\$ 325,835</u>	<u>\$ 1,403,242</u>

In accordance with GASB, the net changes in the fair value of investments take into account all changes in fair value (including purchases and sales) that occurred during the year. These portfolio value changes are unrealized unless sold.

**Deposits**

The carrying amount of the District's demand deposits (including certificates of deposit) was \$17,695,748 with a bank balance of \$19,457,462 at April 30, 2023. These deposits were with depository banks in interest bearing and non-interest bearing accounts. In addition, the District has \$6,683,967 invested in the Texas Local Government Investment Pool (TexPool) and \$29,437,884 invested in Texas CLASS Investment Pool. According to the District's policy, such deposits should be secured at all times by federal deposit insurance coverage and by pledged securities held by a third-party correspondent bank in the name of the depository bank. Although the pledged securities are not in the name of Bell County Water Control and Improvement District #1, the deposits are deemed collateralized under Texas law. During the year and at year end, collateral securing the District's cash deposits at all of the depository institutions were sufficient to fully collateralize and insure the District's deposits.

Governmental entity financial reporting standards require the computation of maximum federal deposit insurance and disclosure of uncollateralized deposits, if any, from the District's position as an entity. Additional federal deposit insurance coverage related to the Interest and Sinking Funds and the Bond Reserve Funds is afforded to the holders of the District's bond issues since the interest of each individual bondholder is separately insured up to the maximum lawful limit.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 13 - DEPOSITS, SECURITIES, AND INVESTMENTS (continued)**

**Investments**

The District is authorized by Texas Water Code 49.157 which states that all district deposits and investments shall be governed by Subchapter A, Chapter 2256, Government Code (Public Funds Investment Act). Section 009 of Chapter 2256 authorizes investments in obligations of the United States, the state, or any county, city, school district, or other political subdivision of the state. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state, provided that they are secured in the manner provided by law for the security of funds of political subdivisions of the State of Texas. In addition, the District may invest in fully collateralized repurchase agreements, bankers' acceptances, commercial paper, mutual funds, investment pools and guaranteed investment contracts under the requirements of the Public Funds Investment Act.

**Deposit and Investment Risk**

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy that addresses the following risks.

**Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. The District has addressed this risk in its policy by addressing the types of deposits allowed and collateral requirements for those deposits. As noted previously, the District is not exposed to custodial credit risk due to deposits being covered by FDIC insurance and pledged securities held by a third-party correspondent bank in the name of the depository bank.

**Custodial Credit Risk – Investments:** For investments, 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. The District's policy has limited the exposure to custodial risk of investments by ensuring that all investments are made with brokers/dealers that are in good standing with the District.

**Interest Rate Risk – Interest rate risk** occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. Limiting maturities of all investments to no more than one year and not investing in debt securities are the District's means for limiting its exposure to fair value losses arising from interest rate increases.

**Concentration Risk – Concentration risk** is defined as positions of 5 percent or more in the securities of a single issuer. The District is not exposed to concentration risk as its investments, if any, are government securities backed by the United States Government.



**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 13 - DEPOSITS, SECURITIES, AND INVESTMENTS (continued)**

**External Investment Pools:**

**TexPool**

Texas Local Government Investment Pool (“TexPool”) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc., under an agreement with the Comptroller. The Comptroller exercises oversight responsibility over TexPool (the Texas Local Government Investment Pool). Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

Investments are carried at amortized cost, which approximates fair value, as provided for by the Codification. Investments are priced daily and compared to TexPool’s carry value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, TexPool will take any appropriate action necessary to maintain the ratio between 0.995 and 1.005. However, the \$1.00 price is not guaranteed or insured by the State of Texas. Transactions are normally settled on the date requested. TexPool is designed to be highly liquid in order to give Participants immediate access to their account balance. Texpool charges a management fee for the services provided to Participants.

**Texas Class**

The Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS) was created in 1996 as a local government investment pool pursuant to Section 2256.017 of the Public Funds Investment Act, Texas Government Code (PFIA). Per State Code, entities may pool any of their funds, or funds under their control, to preserve principal, maintain the liquidity of the funds, and maximize yield. The Texas CLASS Trust Agreement is an agreement of indefinite term regarding the investment, reinvestment, and withdrawal of local government funds. The parties to the Trust Agreement are Texas local government entities that choose to participate in the Trust (the Participants), Public Trust Advisors, LLC (Public Trust) as Program Administrator, and Wells Fargo Bank Texas, N.A. as Custodian. Texas CLASS is overseen by the Texas CLASS Board of Trustees, comprised of active members of the pool and elected by the Participants, guided by the Advisory Board. The Board is responsible for selecting the Administrator and Investment Advisor.

Texas CLASS does not meet all of the specific criteria outlined in GASB 79 Paragraph 4; therefore, the District measures its investment in Texas CLASS at fair value as provided in Paragraph 11 of GASB Statement 31, as amended. Investments are priced daily. There is no minimum amount that must be invested pursuant to the Trust Agreement, nor is there any limitation on the aggregate amount of funds that any Participant may invest at one time. Transactions are normally settled on the date requested but no

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 13 - DEPOSITS, SECURITIES, AND INVESTMENTS (continued)**

later than the next business day. Texas Class charges a management fee for the services provided to Participants.

The investment pool has two investment fund options:

1. Texas CLASS is an investment option that utilizes all eligible investments as defined by the PFIA. This is the fund option the District is currently invested in.
2. Texas CLASS Government is an investment option that utilizes only investments that are backed or collateralized with U.S. Treasury or U.S. Government Agency obligations.

Texas Class has four general objectives:

1. Legality-To invest only in investments legally permitted under the PFIA.
2. Safety-To minimize risk by managing portfolio investments to preserve principal and maintain a stable Net Asset Value (NAV).
3. Liquidity-To manage portfolio investments in a way that ensures that cash will be available as required to finance Participants' operations.
4. Yield-To maximize current income to the degree consistent with legality, safety, and liquidity.

**NOTE 14 - SEGMENTS OF ENTERPRISE ACTIVITIES**

The District maintains two enterprise funds that account for water and sewer services provided by the District. Segment information as of and for the year ended April 30, 2023 is shown below:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
Operating revenues	\$ 19,335,202	\$ 8,161,257	\$ 27,496,459
Operating expenses	15,437,396	6,697,958	22,135,354
Depreciation expense	5,968,151	2,588,652	8,556,803
Operating income	3,897,806	1,463,299	5,361,105
Nonoperating revenues	1,711,057	836,686	2,547,743
Nonoperating expenses	4,537,516	567,793	5,105,309
Transfers in (out)	117,390	(117,390)	-
Change in Net Position	1,188,737	1,614,802	2,803,539
Net property and equipment	118,275,235	41,896,498	160,171,733
Net working capital	13,437,637	7,732,248	21,169,885
Total assets	161,027,698	57,071,190	218,098,888
Total deferred outflow of resources	1,405,461	357,051	1,762,512
Total liabilities	88,755,715	17,117,915	105,873,630
Total deferred inflow of resources	183,353	157,760	341,113
Total beginning net position	72,305,354	38,537,764	110,843,118
Total ending net position	\$ 73,494,091	\$ 40,152,566	\$ 113,646,657
<u>Cash Provided (Used) by:</u>			
Operating activities	\$ 9,518,874	\$ 4,077,747	\$ 13,596,621
Noncapital financing activities	-	-	-
Capital and related financing activities	(4,393,270)	(3,862,286)	(8,255,556)
Investing activities	1,077,407	325,835	1,403,242
Beginning cash and equivalents	33,894,550	13,178,741	47,073,291
Ending cash and equivalents	\$ 40,097,561	\$ 13,720,037	\$ 53,817,598

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 15 - OBLIGATIONS AND LEASES**

**Water and Sewage Contracts**

**Metered Sales**

The District has entered into contracts with the U.S. Government, for Fort Cavazos, and various municipalities and non-profit enterprises to furnish a maximum of 107,000,000 gallons of treated water per day. The District is also under contract to the U.S. Government, for Fort Cavazos, and to the City of Killeen, to receive, transport, treat, and dispose of waste collected by their respective sewer systems.

**Contractual Charges**

The District has entered into contracts with municipalities and non-profit enterprises purchasing water and sewage treatment from the District, whereby debt service on all District bonds is included in water and sewer charges to District customers. Such charges make all debt of the District self-supporting.

**Reclaimed Water Supply Agreement**

The District and the City of Killeen entered into a Reclaimed Water Supply Agreement (the agreement) on October 16, 2013. Reclaimed water is domestic or municipal wastewater that has been treated and meets various requirements set out in the Texas Administrative Code that allow it to be used for irrigation purposes. The agreement allows the District to sell the City of Killeen (the City) two million gallons of reclaimed water per day from its 38<sup>th</sup> Street Sewer Plant. The City also has first right of refusal to purchase additional reclaimed water if the District is approached by other entities desiring to purchase reclaimed water. The agreement recognizes that the District retains the right to sell any excess reclaimed water above the amount committed to the City produced by the 38<sup>th</sup> Street Plant as well as all reclaimed water produced at the District's South Plant.

The initial term of the agreement is thirty years from the date of contract execution with the option for the City to extend the contract for two successive ten-year periods. The District did not deliver any gallons of reclaimed water under the contract during the current fiscal year.

**Water Supply Agreement**

The District has entered into a contract with the Brazos River Authority dated June 12, 1992 which expires in 2042. The contract classifies two classes of water; "Election Use Water" and "Option Use Water". Election water is water actually used by customers of the District and option water is water that has not been used but is available to use. In 2022-2023 the election use rate was \$29.93 per acre foot used and the option (available but not used) water rate was \$14.96 per acre foot. During the twelve months ended April 30, 2023, the District received \$1,217,778 from its Municipal customers. The District in turn was billed for 31,872 acre feet of election use water at \$28.95 per acre foot and 17,637 acre feet of option water at \$14.47 per acre foot for a total of \$1,151,671.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 15 - OBLIGATIONS AND LEASES (Continued)**

**Purchase of System Water**

In May 2006, the District contracted to purchase an additional 13,000 acre-feet of system water from the Brazos River Authority. The 2022 rate was set at \$88.00 per acre-foot. Rates are adjusted annually as part of the Brazos River Authority’s operation and maintenance cost. The additional water is allocated to the Cities of Killeen, Copperas Cove, Belton, WCID #3 and the District in the amounts of 10,000, 1,000, 1,000, 250 and 750 acre-feet, respectively. In July 2009, the District amended the original contract to where the diversion take points can be at Lake Belton or Lake Stillhouse Hollow. During the twelve months ended April 30, 2023, the District received \$1,122,000 from the cities and paid \$1,144,000. The small customer rates are adjusted as needed to pay for the District’s portion of the contract to the Brazos River Authority.

**Leases - Water**

**Water Plant**

The District has a lease with the U.S. Government, for Fort Cavazos, for use of a water plant at the Belton Reservoir. The original 63-year lease, that was to expire May 1, 2018, was extended to December 31, 2050. This lease requires total annual payments of \$28,300. The U.S. Government reserves the right to review and proportionally adjust the Fair Market Value at 10-year intervals, beginning May 1, 2031, in accordance with comparable rental market value. The following is a schedule of future minimum principal and interest payments required under such lease, as of April 30, 2023:

Year Ended April 30	Water System	
	Principal	Interest
2024	7,717	20,583
2025	8,084	20,216
2026	8,468	19,832
2027	8,870	19,430
2028	9,292	19,008
2029-2033	53,513	87,987
2034-2038	67,488	74,012
2039-2043	85,113	56,387
2044-2048	107,341	34,159
2049-2050	77,431	7,470
	\$ 433,317	\$ 359,084
TOTAL		

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 15 - OBLIGATIONS AND LEASES (Continued)**

**Leases - Sewer**

**Ground Lease Agreement**

The district entered into a ground lease agreement with the City of Killeen on August 1, 2007 for the lease of 20 acres to construct a compost facility. The initial term of the lease is ten years beginning January 28, 2009 and is automatically extended for successive five-year terms up to a maximum of thirty years. The lease requires total annual payments of \$18,000.

**Caterpillar Agreement**

The district entered into a lease agreement with Caterpillar Financial Services Corporation on November 4, 2019 for the lease of a 930M Front Wheel Loader. The lease will end on November 3, 2023. The lease requires monthly payments of \$2,947.

The following is a schedule of future minimum principal and interest payments required under such leases (i.e. Caterpillar & Ground Lease), as of April 30, 2023:

Year Ended	Sewer System	
<u>April 30</u>	<u>Principal</u>	<u>Interest</u>
2024	29,703	8,923
2025	9,846	8,154
2026	10,314	7,686
2027	10,804	7,196
2028	11,317	6,683
2029-2033	65,178	24,822
2034-2038	64,200	7,800
TOTAL	<u>\$ 201,362</u>	<u>\$ 71,264</u>

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 16 - INSURANCE**

The District has insurable risks in various areas, as described in the table below.

<u>Type</u>	<u>Expiration Date</u>	<u>Water System Amount</u>	<u>Sewer System Amount</u>	<u>Risk Covered</u>
General liability (comprehensive)	6/30/2023	\$1,000,000 each occurrence \$3,000,000 aggregate	\$1,000,000 each occurrence \$3,000,000 aggregate	Property damage, bodily injury
Commercial Excess/Umbrella	6/30/2023	\$3,000,000 each \$3,000,000 aggregate	\$3,000,000 each	General Liability, Wrongful Acts Professional Liability, Auto Workers Comp
Vehicle liability	6/30/2023	\$ 1,000,000	\$ 1,000,000	Property damage bodily injury - each occurrence
Wrongful Acts/ Professional Liability	6/30/2023	\$ 1,000,000 \$ 3,000,000	\$ 1,000,000 \$ 3,000,000	General liability-each claim total aggregate
Property Building, Plant & Contents	6/30/2023	\$ 137,944,000	\$ 70,785,000	Property damage
Cyber Security	6/30/2023	\$ 125,000	\$ 125,000	Security Event Cost/Notification
Commercial Crime	6/30/2023	\$ 100,000	\$ 100,000	Employee dishonesty, forgery & alteration
Worker's Compensation	6/30/2023	\$1,000,000 each accident \$1,000,000 each employee \$1,000,000 policy limit	\$1,000,000 each accident \$1,000,000 each employee \$1,000,000 policy limit	Districts employees
Terrorism	6/30/2023	\$ 1,000,000	\$ 1,000,000	Property damage, personal and bodily injury

Management believes the amount and types of coverage are adequate to protect the District from losses, which could reasonably be expected to occur.

**NOTE 17 - CONSTRUCTION IN PROGRESS**

Water System

During the fiscal year, \$3,157,901 was expended on the Belton transmission line. In addition, \$3,892,664 was expended on the Standby Generation project in Belton. These projects are still in construction in progress at fiscal year-end. Total construction in progress for the Water System as of April 30, 2023 amounts to \$10,155,311.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**APRIL 30, 2023**

**NOTE 17 - CONSTRUCTION IN PROGRESS (continued)**

Sewer System

On the wastewater side, the STP # 1 Rehabilitation and plant expansion projects are still ongoing. Total construction in progress for the Sewer System as of April 30, 2023 amounts to \$510,353.

As of April 30, 2023, Water and Sewer System construction in progress consisted of:

	<b>Water Construction In Progress</b>	<b>Sewer Construction In Progress</b>
Easements	\$ 15,500	\$ -
Engineering fees	986,093	473,729
Construction	9,153,718	36,624
Capitalized interest and expenses	-	-
Other costs	-	-
Total	<u>\$ 10,155,311</u>	<u>\$ 510,353</u>

For the twelve months ended April 30, 2022, the District ceased any further capitalization of interest income and interest expense related to construction due to the early implementation of GASB Statements No. 89.

**NOTE 18 – CIVILIAN CONSTRUCTION REIMBURSEMENT**

There were no civilian construction reimbursements for the fiscal year ending April 30, 2023.

**NOTE 19 – COMMITMENTS AND CONTINGENCIES**

There were no commitments or contingencies as of April 30, 2023.

**NOTE 20 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through August 14, 2023, the date the financial statements were available to be issued.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1  
SUPPLEMENTAL SCHEDULES INCLUDED WITHIN THIS REPORT  
FOR THE YEAR ENDED APRIL 30, 2023**

(Check those schedules included and provide a brief explanation below the schedule title for any schedule omissions.)

	<u>Page</u>	
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X	49	Budgetary Comparision Schedule - Water System
X	50	Budgetary Comparision Schedule - Sewer System
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**Required Supplementary Information**

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**ALL PROPRIETARY FUND TYPES**  
**BUDGETARY COMPARISON SCHEDULE**  
**BUDGET (GAAP BASIS) AND ACTUAL**  
**YEAR ENDED APRIL 30, 2023**

	<u>Actual</u>			<u>Final Budget</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>		
<b>Revenues:</b>					
Metered sales	\$ 10,161,321	\$ 4,966,856	\$ 15,128,177	\$ 14,614,420	\$ 513,757
Compost revenue and other services	-	164,164	164,164	132,400	31,764
Contractual charges *	6,828,061	3,010,992	9,839,053	9,839,053	-
Other Operating Revenue *	6,042	19,245	25,287	25,287	-
System water revenue *	1,122,000	-	1,122,000	1,122,000	-
Option water revenue *	1,217,778	-	1,217,778	1,217,778	-
Interest income *	1,077,407	325,835	1,403,242	1,403,242	-
Unrealized Gain / (Loss) on Investments *	-	-	-	-	-
Realized Gain / (Loss) on Investments *	-	-	-	-	-
MO&R Non-Exchange Revenues *	599,120	502,886	1,102,006	1,102,006	-
Civilian construction reimbursement *	-	-	-	-	-
Miscellaneous Revenues *	5,320	7,965	13,285	13,285	-
Watermaster revenue - Brazos River Authority *	29,210	-	29,210	29,210	-
<b>Total Revenues</b>	<b>21,046,259</b>	<b>8,997,943</b>	<b>30,044,202</b>	<b>29,498,681</b>	<b>545,521</b>
<b>Expenditures / Expenses:</b>					
Audit Fees	21,850	21,850	43,700	43,700	-
Chemicals	1,234,275	454,641	1,688,916	1,789,903	100,987
Depreciation *	5,968,151	2,588,652	8,556,803	8,556,803	-
Lease Amortization*	15,918	49,300	65,218	65,218	-
Electricity	1,980,261	525,820	2,506,081	2,671,528	165,447
Insurance expense	136,728	136,728	273,456	273,500	44
Legal	7,907	4,809	12,716	20,155	7,439
Maintenance	1,331,664	469,693	1,801,357	2,712,000	910,643
Supplies	105,837	29,734	135,571	168,290	32,719
Salaries and employee benefits	2,007,458	1,746,098	3,753,556	4,035,678	282,122
Payroll taxes	116,137	102,682	218,819	245,280	26,461
Transportation	44,931	95,270	140,201	163,021	22,820
Outside laboratory testing	19,370	16,591	35,961	47,280	11,319
Compost Land Lease	-	-	-	18,000	18,000
Lease - Other*	-	-	-	-	-
Dues and Fees	7,118	158,586	165,704	168,278	2,574
Purchase of option water*	1,151,671	-	1,151,671	1,151,671	-
Purchase of system water*	1,144,000	-	1,144,000	1,144,000	-
Engineering fees	2,241	13,123	15,364	6,500	(8,864)
Watermaster expense - Brazos River Authority *	29,210	-	29,210	29,210	-
(Gain) / Loss on Sale of Assets *	-	-	-	-	-
Investment Expense *	-	-	-	-	-
Bond issue cost expense *	1,371,766	-	1,371,766	1,371,766	-
Bond interest expense *	2,730,342	482,414	3,212,756	3,212,756	-
Non-bond interest expense *	20,526	8,098	28,624	28,624	-
Amortization *	385,672	77,281	462,953	462,953	-
Other expenses	141,879	284,381	426,260	512,069	85,809
<b>Total Expenditures / Expenses</b>	<b>19,974,912</b>	<b>7,265,751</b>	<b>27,240,663</b>	<b>28,898,183</b>	<b>1,657,520</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>1,071,347</b>	<b>1,732,192</b>	<b>2,803,539</b>	<b>600,498</b>	<b>2,203,041</b>
Transfers In (Out) *	117,390	(117,390)	-	-	-
Change in net position	1,188,737	1,614,802	2,803,539	600,498	2,203,041
<b>Net Position:</b>					
<b>Beginning of the year</b>	<b>72,305,354</b>	<b>38,537,764</b>	<b>110,843,118</b>	<b>110,843,118</b>	<b>-</b>
<b>End of the year</b>	<b>\$ 73,494,091</b>	<b>\$ 40,152,566</b>	<b>\$ 113,646,657</b>	<b>\$ 111,443,616</b>	<b>\$ 2,203,041</b>

\* Note: The District has not adopted budgeted amounts for these items. Therefore, actual amounts shown as budgeted amounts for these items.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**(1) WATER SYSTEM**  
**BUDGETARY COMPARISON SCHEDULE**  
**BUDGET (GAAP BASIS) AND ACTUAL**  
**YEAR ENDED APRIL 30, 2023**

	<b>ORIGINAL BUDGET</b>	<b>FINAL BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
<b>Revenues:</b>				
Metered sales	\$ 9,360,000	\$ 9,360,000	\$ 10,161,321	\$ 801,321
Compost revenue and other services	-	-	-	-
Contractual charges *	6,828,061	6,828,061	6,828,061	-
Other Operating Revenue *	6,042	6,042	6,042	-
System water revenue *	1,122,000	1,122,000	1,122,000	-
Option water revenue *	1,217,778	1,217,778	1,217,778	-
Interest income *	1,077,407	1,077,407	1,077,407	-
Unrealized Gain / (Loss) on Investments *	-	-	-	-
Realized Gain / (Loss) on Investments *	-	-	-	-
MO&R Non-Exchange Revenues *	599,120	599,120	599,120	-
Civilian construction reimbursement *	-	-	-	-
Miscellaneous Revenues *	5,320	5,320	5,320	-
Watermaster revenue - Brazos River Authority *	29,210	29,210	29,210	-
<b>Total Revenues</b>	<b>20,244,938</b>	<b>20,244,938</b>	<b>21,046,259</b>	<b>801,321</b>
<b>Expenditures / Expenses:</b>				
Audit Fees	20,000	21,850	21,850	-
Chemicals	1,192,653	1,392,653	1,234,275	158,378
Depreciation *	5,968,151	5,968,151	5,968,151	-
Lease Amortization*	15,918	15,918	15,918	-
Electricity	2,076,350	2,136,350	1,980,261	156,089
Insurance expense	133,250	136,750	136,728	22
Legal	15,000	15,000	7,907	7,093
Maintenance	2,016,100	1,864,500	1,331,664	532,836
Supplies	101,140	131,140	105,837	25,303
Salaries and employee benefits	2,260,868	2,260,868	2,007,458	253,410
Payroll taxes	144,575	144,575	116,137	28,438
Transportation	59,286	59,286	44,931	14,355
Outside laboratory testing	25,000	25,000	19,370	5,630
Compost Land Lease	-	-	-	-
Lease - Other*	-	-	-	-
Dues and Fees	7,950	7,950	7,118	832
Purchase of option water*	1,151,671	1,151,671	1,151,671	-
Purchase of system water*	1,144,000	1,144,000	1,144,000	-
Engineering fees	15,000	6,500	2,241	4,259
Watermaster expense - Brazos River Authority *	29,210	29,210	29,210	-
(Gain) / Loss on Sale of Assets *	-	-	-	-
Investment Expense *	-	-	-	-
Bond issue cost expense *	1,371,766	1,371,766	1,371,766	-
Bond interest expense *	2,730,342	2,730,342	2,730,342	-
Non-bond interest expense *	20,526	20,526	20,526	-
Amortization *	385,672	385,672	385,672	-
Other expenses	185,935	184,185	141,879	42,306
<b>Total Expenditures / Expenses</b>	<b>21,070,363</b>	<b>21,203,863</b>	<b>19,974,912</b>	<b>1,228,951</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(825,425)</b>	<b>(958,925)</b>	<b>1,071,347</b>	<b>2,030,272</b>
Transfers In (Out) *	117,390	117,390	117,390	-
Change in net position	(708,035)	(841,535)	1,188,737	2,030,272
<b>Net Position:</b>				
<b>Beginning of the year</b>	<b>72,305,354</b>	<b>72,305,354</b>	<b>72,305,354</b>	<b>-</b>
<b>End of the year</b>	<b>\$ 71,597,319</b>	<b>\$ 71,463,819</b>	<b>\$ 73,494,091</b>	<b>\$ 2,030,272</b>

\* Note: The District has not adopted budgeted amounts for these items. Therefore, actual amounts shown as budgeted amounts for these items.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**(2) SEWER SYSTEM**  
**BUDGETARY COMPARISON SCHEDULE**  
**BUDGET (GAAP BASIS) AND ACTUAL**  
**YEAR ENDED APRIL 30, 2023**

	<b>ORIGINAL BUDGET</b>	<b>FINAL BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
<b>Revenues:</b>				
Metered sales	\$ 5,254,420	\$ 5,254,420	\$ 4,966,856	\$ (287,564)
Compost revenue and other services	132,400	132,400	164,164	31,764
Contractual charges *	3,010,992	3,010,992	3,010,992	-
Other Operating Revenue *	19,245	19,245	19,245	-
System water revenue *	-	-	-	-
Option water revenue *	-	-	-	-
Interest income *	325,835	325,835	325,835	-
Unrealized Gain / (Loss) on Investments *	-	-	-	-
Realized Gain / (Loss) on Investments *	-	-	-	-
MO&R Non-Exchange Revenues *	502,886	502,886	502,886	-
Civilian construction reimbursement *	-	-	-	-
Miscellaneous Revenues *	7,965	7,965	7,965	-
Watermaster revenue - Brazos River Authority *	-	-	-	-
Total Revenues	9,253,743	9,253,743	8,997,943	(255,800)
<b>Expenditures / Expenses:</b>				
Audit Fees	20,000	21,850	21,850	-
Chemicals	499,874	397,250	454,641	(57,391)
Depreciation *	2,588,652	2,588,652	2,588,652	-
Lease Amortization*	49,300	49,300	49,300	-
Electricity	616,900	535,178	525,820	9,358
Insurance expense	133,250	136,750	136,728	22
Legal	15,000	5,155	4,809	346
Maintenance	968,650	847,500	469,693	377,807
Supplies	47,650	37,150	29,734	7,416
Salaries and employee benefits	2,143,410	1,774,810	1,746,098	28,712
Payroll taxes	135,135	100,705	102,682	(1,977)
Transportation	128,469	103,735	95,270	8,465
Outside laboratory testing	22,780	22,280	16,591	5,689
Compost Land Lease	18,000	18,000	-	18,000
Lease - Other*	-	-	-	-
Dues and Fees	163,150	160,328	158,586	1,742
Engineering Fees	5,000	-	13,123	(13,123)
Bond interest expense *	482,414	482,414	482,414	-
Non-bond interest expense *	8,098	8,098	8,098	-
Amortization *	77,281	77,281	77,281	-
Other expenses	332,500	327,884	284,381	43,503
Total Expenditures / Expenses	8,455,513	7,694,320	7,265,751	428,569
<b>Excess (deficiency) of revenues over expenditures</b>	798,230	1,559,423	1,732,192	172,769
Transfers In (Out) *	(117,390)	(117,390)	(117,390)	-
Change in net position	680,840	1,442,033	1,614,802	172,769
<b>Net Position:</b>				
<b>Beginning of the year</b>	38,537,764	38,537,764	38,537,764	-
<b>End of the year</b>	<u>\$ 39,218,604</u>	<u>\$ 39,979,797</u>	<u>\$ 40,152,566</u>	<u>\$ 172,769</u>

\* Note: The District has not adopted budgeted amounts for these items. Therefore, actual amounts shown as budgeted amounts for these items.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**APRIL 30, 2023**

	Year Ended December 31, 2022*	Year Ended December 31, 2021*	Year Ended December 31, 2020*	Year Ended December 31, 2019*	Year Ended December 31, 2018*	Year Ended December 31, 2017*	Year Ended December 31, 2016*	Year Ended December 31, 2015*
<b>Total Pension Liability</b>								
Service cost	\$ 378,508	\$ 359,551	\$ 280,996	\$ 277,506	\$ 238,387	\$ 256,177	\$ 256,557	\$ 241,342
Interest on total pension liability	759,817	702,390	675,236	634,756	588,128	569,016	535,720	505,911
Effect of plan changes	-	-	-	-	246,729	-	-	69,294
Effect of assumption changes or inputs	-	(8,742)	490,065	-	-	13,796	-	50,260
Effect of economic/demographic (gains) or losses	(446,841)	128,493	(172,876)	50,881	(32,545)	(68,694)	(25,623)	(1,106)
Benefit payments/refunds of contributions	(441,407)	(448,530)	(443,538)	(489,327)	(518,446)	(514,734)	(458,340)	(435,177)
Net change in total pension liability	<u>\$ 250,077</u>	<u>\$ 733,162</u>	<u>\$ 829,883</u>	<u>\$ 473,816</u>	<u>\$ 522,253</u>	<u>\$ 255,561</u>	<u>\$ 308,314</u>	<u>\$ 430,524</u>
Total pension liability, beginning	<u>\$ 9,835,745</u>	<u>\$ 9,102,583</u>	<u>\$ 8,272,700</u>	<u>\$ 7,798,884</u>	<u>\$ 7,276,631</u>	<u>\$ 7,021,070</u>	<u>\$ 6,712,756</u>	<u>\$ 6,282,232</u>
Total Pension liability, ending (a)	<u>\$ 10,085,822</u>	<u>\$ 9,835,745</u>	<u>\$ 9,102,583</u>	<u>\$ 8,272,700</u>	<u>\$ 7,798,884</u>	<u>\$ 7,276,631</u>	<u>\$ 7,021,070</u>	<u>\$ 6,712,756</u>
<b>Fiduciary Net Position</b>								
Employer contributions	\$ 311,626	\$ 297,959	\$ 272,309	\$ 251,113	\$ 222,342	\$ 230,818	\$ 234,512	\$ 209,944
Member contributions	218,139	208,571	190,581	175,624	155,640	161,573	164,159	163,296
Investment income net of investment expenses	(710,490)	2,154,981	914,551	1,258,644	(149,935)	1,029,146	490,716	59,056
Benefit payments / refunds of contributions	(441,408)	(448,530)	(443,538)	(489,326)	(518,447)	(514,734)	(458,340)	(435,176)
Administrative expenses	(6,672)	(6,487)	(7,157)	(6,746)	(6,156)	(5,296)	(5,340)	(4,782)
Other	22,461	4,337	1,449	(910)	(3,385)	(1,689)	(8,167)	(4,823)
Net change in fiduciary net position	<u>\$ (606,344)</u>	<u>\$ 2,210,831</u>	<u>\$ 928,195</u>	<u>\$ 1,188,399</u>	<u>\$ (299,941)</u>	<u>\$ 899,818</u>	<u>\$ 417,540</u>	<u>\$ (12,485)</u>
Fiduciary net position, beginning	<u>\$ 11,991,417</u>	<u>\$ 9,780,586</u>	<u>\$ 8,852,391</u>	<u>\$ 7,663,992</u>	<u>\$ 7,963,933</u>	<u>\$ 7,064,115</u>	<u>\$ 6,646,575</u>	<u>\$ 6,659,060</u>
Fiduciary net position, ending (b)	<u>\$ 11,385,073</u>	<u>\$ 11,991,417</u>	<u>\$ 9,780,586</u>	<u>\$ 8,852,391</u>	<u>\$ 7,663,992</u>	<u>\$ 7,963,933</u>	<u>\$ 7,064,115</u>	<u>\$ 6,646,575</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ (1,299,250)</u>	<u>\$ (2,155,671)</u>	<u>\$ (678,003)</u>	<u>\$ (579,691)</u>	<u>\$ 134,892</u>	<u>\$ (687,302)</u>	<u>\$ (43,045)</u>	<u>\$ 66,181</u>
Fiduciary net position as a % of total pension liability	112.88%	121.92%	107.45%	107.01%	98.27%	109.45%	100.61%	99.01%
Pensionable covered payroll	\$ 3,116,269	\$ 2,979,585	\$ 2,722,586	\$ 2,508,918	\$ 2,223,425	\$ 2,308,186	\$ 2,345,128	\$ 2,332,794
Net pension liability as a % of covered payroll	-41.69%	-72.35%	-24.90%	-23.11%	6.07%	-29.78%	-1.84%	2.84%

\*This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 67/68, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

**The accompanying notes are an integral part of these supplemental schedules**

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS**  
**APRIL 30, 2023**

<b>Year Ending December 31</b>	<b>Actuarially Determined Contribution (1)</b>	<b>Actual Employer Contribution (1)</b>	<b>Contribution Deficiency (Excess)</b>	<b>Pensionable Covered Payroll (2)</b>	<b>Actual Contribution as a % of Covered Payroll</b>
2013	114,772	202,614	(87,842)	2,250,433	9.0%
2014	120,120	219,266	(99,146)	2,426,675	9.0%
2015	108,008	209,944	(101,936)	2,332,794	9.0%
2016	149,854	234,512	(84,658)	2,345,128	10.0%
2017	124,180	230,818	(106,638)	2,308,186	10.0%
2018	101,611	222,342	(120,732)	2,223,425	10.0%
2019	150,284	251,113	(100,829)	2,508,918	10.0%
2020	159,271	272,309	(113,037)	2,722,586	10.0%
2021	163,281	297,959	(134,677)	2,979,585	10.0%
2022	212,218	311,626	(99,408)	3,116,269	10.0%

(1) TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.

(2) Payroll is calculated based on contributions as reported to TCDRS.

**BELL COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT #1**  
**NOTES TO SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS AND SCHEDULE OF DISTRICT PENSION**  
**CONTRIBUTIONS**  
**APRIL 30, 2023**

Valuation Date Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

**Methods and assumptions used to determine contribution rates:**

Actuarial cost method	Entry Age (level percentage of pay)
Amortization method	Level percentage of payroll, closed
Remaining amortization period	0.0 years (based on contribution rate calculated in 12/31/2022 valuation)
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	Varies by age and service. 4.7% average over career including inflation.
Investment rate of return	7.50%, net of administrative and investment expenses, including inflation
Retirement age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected. 2019: New inflation, mortality and other assumptions were reflected. 2022: No changes in plan provisions were reflected in the Schedule
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015: No changes in plan provisions were reflected in the Schedule. 2016: Employer contributions reflect that the current service matching rate was increased to 150%. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the Schedule. 2019: Employer contributions reflect that the current service matching rate was increased to 200% for future benefits 2020: No changes in plan provisions were reflected in the Schedule. 2021: No changes in plan provisions were reflected in the Schedule. 2022: No changes in plan provisions were reflected in the Schedule.

\*Only changes that affect the benefit amount and that are effective 2015 and later are shown in the Notes to Schedule.

**APPENDIX C**

**Summary of Certain Provisions of the Bond Order**



## SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER

The following Summary of Certain Provisions of the Bond Order is for information purposes only. Reference is hereby made to the Bond Order for the full terms and provisions thereof.

### DEFINITIONS

“Additional Parity Bonds” means the additional parity bonds payable from water revenues that the Board of Directors expressly reserves the right to issue pursuant to the Bond Order.

“Authorized Officer” means the General Manager of the District or, in his absence, the President of the Board of Directors.

“Board of Directors” or “Board” means the governing body of the District.

“Bond Order” means the Bond Order and all amendments and supplements to the Bond Order, but not including the Pricing Certificate.

“Bond Reserve Fund” means the fund by that name established and maintained with respect to the Bonds Similarly Secured.

“Bonds Similarly Secured” means the Bonds, the Prior Bonds and any Additional Parity Bonds from time to time outstanding.

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

“Contingency Fund” means the fund by that name established and maintained with respect to the Bonds Similarly Secured.

“Contingency Fund Limit” means \$500,000.

“Current Expenses” means all necessary current operating expenses, including any lease payments owed by the District in the then current fiscal year, and maintenance expenses and charges, including the expenses of reasonable upkeep and repairs, premiums and charges for insurance and all other current expenses and charges incident to the operation and maintenance of the System actually incurred by the District, but shall exclude depreciation.

“Depository” means the bank or banks which the District may select from time to time as its depository or depositories.

“Fiscal Year” means the accounting period for the District, which presently is the twelve-month period beginning on May 1 of each year and ending on April 30 of the following year, but which may be changed from time to time by the Board of Directors.

“Gross Revenues” means all of the revenues, income, rentals, rates, fees and charges of every nature derived by the District from the operation and/or ownership of the System, including, without limitation, all amounts collected from charges for supplying water services from the System.

“Interest Payment Date” means each January 10 and July 10 until the Bonds have been paid at maturity or prior redemption. The first Interest Payment Date shall be July 10, 2023.

“Junior Lien Water Revenue Bonds” means the junior lien water revenue bonds that the District reserves the right to issue pursuant to the Bond Order.

“MSRB” means the Municipal Securities Rulemaking Board.

“Net Revenues” means the Gross Revenues of the System less the Current Expenses of the System.

“Pledged Revenues” means the Net Revenues of the System and any additional revenues, income, receipts or other resources of the System including, without limitation, any grants, donations or income received or to be received by the District in connection with the System from the United States of America, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter may be pledged to the payment of the Bonds.

“Principal and Interest Fund” means the fund by that name established and maintained with respect to Bonds Similarly Secured.

“Prior Bonds” means the District’s bonds previously issued and presently outstanding and secured by a pledge of the Pledged Revenues on a parity with the Bonds.

“Record Date” means, with respect to an Interest Payment Date of January 10, the preceding December 15, and with respect to an Interest Payment Date of July 10, the preceding June 15 whether or not such dates are Business Days.

“Register” means the books of registration kept by the Paying Agent/Registrar in which are listed the names and addresses of the Registered Owners and the principal amount of Bonds registered in the name of each Registered Owner.

“Registered Owner” means the person or entity in whose name a Bond is registered in the Register.

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

“SEC” means the United States Securities and Exchange Commission.

“Special Project Bonds” means any bonds or notes issued from time to time in one or more installments for the purchase, construction, improvement, extension, replacement, enlargement or repair of facilities (whether or not such facilities are connected to or integrated into facilities that comprise the System) necessary under a service contract, lease, lease-purchase agreement, installment sale agreement or any other type of contract or contracts with persons, corporations, municipal corporations, political subdivisions or other entities (including specifically, but without limitation, any such contract or agreement with the United States of America relating to facilities for the benefit of the Fort Cavazos Military Reservation), such bonds or notes to be payable from and secured by the proceeds of such contract or contracts, and any bonds or notes issued to refund such bonds or notes.

“State” means the State of Texas.

“System” means the District’s water supply and transmission system (including the fresh water supply system operated by the District under lease from the United States of America), including, but not limited to, all works, improvements, facilities, plants, equipment, appliances, interests in property and contract rights needed therefor, and administrative facilities needed in connection therewith, together with any additions or extensions thereto or improvements and replacements thereof; provided, that the System shall not include any facilities which the District may construct and/or acquire with the proceeds of Special Project Bonds, so long as such Special Project Bonds are outstanding, notwithstanding that such facilities may be physically connected with or integrated into facilities that comprise the System.

“System Fund” means the fund by that name established and maintained pursuant to the Bond Order and the orders authorizing Bonds Similarly Secured, in which are deposited the Gross Revenues of the System.

## **SECURITY FOR THE BONDS**

### Pledge

The principal of the Bonds and the interest thereon are and shall be payable from and secured by an irrevocable lien on and pledge of the Pledged Revenues on a parity with the Prior Bonds and any Additional Parity Bonds hereafter issued and such Pledged Revenues are further pledged to the maintenance of the Principal and Interest Fund and the Bond Reserve Fund as provided in the Bond Order.

### Maintenance of Income

The District covenants and agrees with the Registered Owners of the Bonds that it will at all times fix, maintain, charge and collect for services rendered from the System, rates and charges which are necessary to produce Gross Revenues sufficient to pay all Current Expenses and to provide money sufficient, together with any other Pledged Revenues, to make all required payments and deposits necessary to pay when due all principal of and interest on the Bonds Similarly Secured. If the System should become legally liable for any other obligations or indebtedness, the District covenants and agrees with the Registered Owners of the Bonds that it will fix, maintain, charge and collect additional rates and charges for services rendered from the System sufficient to establish and maintain funds for the payment thereof.

### Payment of Bonds Similarly Secured and Performance of Obligations

The District covenants to pay promptly the principal of and interest on the Bonds Similarly Secured as the same become due and payable at maturity or prior redemption in accordance with the terms of the Bonds Similarly Secured and the bond orders authorizing the issuance thereof, and to keep and perform faithfully all of the covenants, undertakings and agreements contained in the bond orders authorizing the issuance of the Bonds Similarly Secured, or in any bond executed, authenticated and delivered thereunder.

## **FUNDS AND APPLICATION OF REVENUES**

The Bond Order confirms the prior establishment of the System Fund, the Principal and Interest Fund, the Bond Reserve Fund and the Contingency Fund, each to be held separate and apart from other funds of the District at a Depository.

### System Fund

The District shall deposit as collected the Gross Revenues into a separate fund, established at the office of the official Depository of the District and designated as the “Bell County Water Control and Improvement District No. 1-System Fund” (the “System Fund”), heretofore created by order of the District, and reaffirmed and reestablished by the Bond Order. The System Fund shall be kept separate and apart from all other funds. From the money in the System Fund, the District shall pay all Current Expenses and shall make such transfers to the Principal and Interest Fund, Bond Reserve Fund and Contingency Fund as are required in the Order.

### Principal and Interest Fund.

The District has heretofore created and established, and hereby reaffirms and reestablishes, at the office of the official Depository of the District, a fund to be designated as the “Bell County Water Control and Improvement District No. 1-Principal and Interest Fund” (the

“Principal and Interest Fund”). The Principal and Interest Fund shall be kept separate and apart from all other funds and shall be used solely for the payment of the principal of and interest on Bonds Similarly Secured. Beginning in the calendar month immediately following the issuance of the Bonds, there shall be transferred each year during which Bonds Similarly Secured are outstanding from the System Fund into the Principal and Interest Fund not less than 100% (less any amounts on hand in the Principal and Interest Fund available for the purpose) of the amount required to meet the interest and principal payments on the Bonds Similarly Secured falling due on or before the following July 10. Transfers required under this Section to be made into the Principal and Interest Fund in each year shall be made in equal monthly installments not later than the fifteenth day of each month. If in any month amounts in the System Fund are insufficient to make the required monthly payment into the Principal and Interest Fund, as required by this Section, the deficiency shall be made up in the month or months immediately following. Not later than two (2) days prior to any Interest Payment Date or principal and interest Payment Date, the District shall cause its Depository to transfer the amount of money required for making the principal and interest payments coming due on such dates, to the Paying Agent/Registrar and the Paying Agent/Registrar shall make such payments in the manner established in the bond orders authorizing the issuance of Bonds Similarly Secured.

#### Bond Reserve Fund

The District has heretofore created and established, and hereby reaffirms and reestablishes, at the Depository of the District a fund to be known as the “Bell County Water Control and Improvement District No. 1-Bond Reserve Fund” (the “Bond Reserve Fund”). The Bond Reserve Fund shall be kept separate and apart from all other funds and the money in the Bond Reserve Fund shall be used solely for the purpose of preventing a default in the payment of interest or principal payments on Bonds Similarly Secured because of insufficient money in the Principal and Interest Fund for such purpose. Beginning in the calendar month immediately following the issuance of the Bonds and each calendar month after making the transfer to the Principal and Interest Fund required pursuant to the Bond Order, there shall be transferred into the Bond Reserve Fund from the System Fund such amounts as necessary so that the Bond Reserve Fund shall contain, in no more than sixty (60) months after the issuance of the Bonds and each issue of Additional Parity Bonds, money and investments in an aggregate amount at least equal to the average annual principal and interest requirements on all Bonds Similarly Secured then outstanding. After such amount has accumulated in the Bond Reserve Fund and so long thereafter as the Bond Reserve Fund contains such amount, no further deposits shall be required to be made into the Bond Reserve Fund, and any excess amounts may be transferred to the System Fund. But if and whenever the balance in the Bond Reserve Fund is reduced below such amount, monthly deposits into such Fund shall be resumed and continued in amounts at least equal to one-sixtieth (1/60) of the average annual principal and interest requirements on the Bonds Similarly Secured then outstanding until the Bond Reserve Fund has been restored to such amount. The amount required to be transferred into the Bond Reserve Fund shall be deposited on or before the 15th day of each month. If in any month amounts in the System Fund are insufficient to meet the payments into the Bond Reserve Fund, as required by this paragraph, said deficiency shall be made up in the month or months immediately following.

#### Contingency Fund

The District has heretofore created and established, and hereby reaffirms and reestablishes, at the office of the official Depository of the District a fund to be designated as the “Bell County Water Control and Improvement District No. 1-Contingency Fund” (the “Contingency Fund”). The Contingency Fund shall be kept separate and apart from all other funds and the money in the Contingency Fund shall be used only for unusual expenses of maintenance, operation, repairs and replacements of the System for which there is insufficient money available in the System Fund. Beginning in the calendar month immediately following the issuance of the Bonds and after payments of all sums required under the Bond Order to the Principal and Interest Fund and the Bond Reserve Fund, there shall be paid from the System Fund each year into the Contingency Fund an amount not less than \$12,000 until such time as there is in the Contingency Fund the sum of \$500,000 (the “Contingency Fund Limit”). When the balance in the Contingency Fund is equal to the Contingency Fund Limit no further deposits into the Contingency Fund shall be required under this Section; provided, however, that if the balance in the Contingency Fund is ever reduced below the Contingency Fund Limit, the District shall resume making the payments required under this Section until the balance in the Contingency Fund is equal to the Contingency Fund Limit. There may also be deposited into the Contingency Fund such amounts, in addition to those required under this Section, as the District deems desirable; provided, that the funds to be so deposited are lawfully available for such purposes and that any such deposit will not cause the balance in the Contingency Fund to exceed the Contingency Fund Limit. Payments required under this Section to be made into the Contingency Fund each year shall be made in substantially equal monthly installments and shall be deposited on or before the fifteenth day of each month. If in any month amounts in the System Fund are insufficient to make the payments into the Contingency Fund required under this Section, such deficiency shall be made up in the month or months immediately following.

#### Investments and Earnings

Moneys deposited into any fund created or maintained by any bond order authorizing the issuance of Bonds Similarly Secured, and any other fund or funds which the District may lawfully create, may be invested or reinvested in any legally authorized investments. All investments and any profits realized from or interest accruing on such investments shall belong to the fund from which the moneys for such investments were taken; provided, however, that in the discretion of the Board of Directors the profits realized from and interest accruing on investments made from any fund may be transferred to the Principal and Interest Fund. If any moneys are so invested, the District shall have the right to have sold in the open market a sufficient amount of such investments to meet its obligations in the event any fund does not have sufficient uninvested funds on hand to meet the obligations payable out of such fund. After such sale the moneys resulting therefrom shall belong to the fund from which the moneys for such investments were initially taken. The District shall not be responsible to the Registered Owners for any loss arising out of the sale of any investments.

### Security for Funds

All funds created or maintained by any bond order authorizing the issuance of Bonds Similarly Secured shall be secured in the manner and to the fullest extent required by law for the security of public funds, and such funds shall be used only for the purposes and in the manner permitted or required by the Bond Order.

### Excess Net Revenues

The Net Revenues in excess of those necessary to establish and maintain the funds as required by the bond orders authorizing the issuance of Bonds Similarly Secured may be used for any lawful purpose.

## **ADDITIONAL PARITY BONDS; JUNIOR LIEN WATER REVENUE BONDS; SPECIAL PROJECT BONDS; REFUNDING AND DEFEASANCE**

### Additional Parity Bonds Authorized

The District hereby reserves the right to issue Additional Parity Bonds for any lawful purposes, including refunding purposes, which, when issued and delivered, shall be payable from and secured by a lien on and pledge of the Pledged Revenues, in the same manner and to the same extent as the Bonds Similarly Secured then outstanding, and all Additional Parity Bonds shall in all respects be on a parity and of equal dignity with the Bonds Similarly Secured. The Additional Parity Bonds may be issued in one or more installments or series; provided, however, that no Additional Parity Bonds shall be issued unless:

(a) a certificate is executed by the President and Secretary of the Board of Directors of the District to the effect that no default exists in connection with any of the covenants or requirements of the orders authorizing the issuance of Bonds Similarly Secured or the orders relating to the issuance of any Junior Lien Water Revenue Bonds;

(b) a certificate is executed by the President and Secretary of the Board of Directors of the District to the effect that the Principal and Interest Fund contains the amounts then required to be on deposit therein; and

(c) a certificate is executed by a registered professional engineer of the State to the effect that, in such engineer's opinion, and according to such engineer's estimates, the Net Revenues during each year the proposed Additional Parity Bonds are to be outstanding will be sufficient (i) to pay the principal and interest payments coming due during such year on all of the District's then outstanding bonds being paid from the Net Revenues and to pay the principal and interest payments coming due during such year on the proposed Additional Parity Bonds, and (ii) to make all deposits and payments required to be made from the Net Revenues during such year in connection with all such bonds.

### Right to Issue Junior Lien Water Revenue Bonds Reserved

The District reserves the right to issue Junior Lien Water Revenue Bonds for any lawful purposes, including refunding purposes, which, when issued and delivered, shall be payable from and secured by a lien on and pledge of the Pledged Revenues subject and subordinate only to the written lease agreement between the District and the United States of America, dated February 24, 1956, as amended, and the prior first lien on and pledge of said Pledged Revenues created in connection with the Bonds Similarly Secured. All Junior Lien Water Revenue Bonds shall in all respects be on a parity and of equal dignity with all other Junior Lien Water Revenue Bonds. The Junior Lien Water Revenue Bonds may be issued in one or more installments or series; provided, however, that no installment or series of Junior Lien Water Revenue Bonds shall be issued unless:

(a) a certificate is executed by the President and Secretary of the Board of Directors of the District to the effect that no default exists in connection with any of the covenants or requirements of the orders authorizing the issuance of the Bonds Similarly Secured or Junior Lien Water Revenue Bonds;

(b) a certificate is executed by the President and Secretary of the Board of Directors of the District to the effect that the Principal and Interest Fund contains the amounts then required to be on deposit therein;

(c) a certificate is executed by a registered professional engineer of the State to the effect that, in such engineer's opinion, and according to such engineer's estimates, the Pledged Revenues during each year the proposed Junior Lien Water Revenue Bonds are to be outstanding will be sufficient (i) to pay the principal and interest payments coming due during such year on all of the District's then outstanding bonds being paid from the Pledged Revenues and to pay the principal and interest payments coming due during such year on the proposed Junior Lien Water Revenue Bonds, and (ii) to make all deposits and payments required to be made from the Pledged Revenues during such year in connection with all such bonds.

### Special Project Bonds

The District reserves the right to issue, from time to time and for any lawful purposes, such Special Project Bonds as it deems necessary or desirable to further the purposes of the District.

## Refunding and Defeasance

The District reserves the right to refund or defease the Bonds Similarly Secured issued by the District in any manner provided by law at or prior to their respective maturity dates.

## **DEFAULT PROVISIONS**

### Remedies in Event of Default

In addition to any other rights and remedies provided by the laws of the State, the District covenants and agrees that in the event of default in payment of principal of or interest on any of the Bonds when due or in the event it fails to make the payments required to be made into the Principal and Interest Fund or defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Bond Order, the Registered Owners shall be entitled to a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the officials thereof to observe and perform the covenants, obligations or conditions prescribed in the Bond Order. Any delay or omission to exercise any right or power accruing upon any default shall not impair any such right or power or be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

### Bond Order is Contract

In consideration of the purchase and acceptance of the Bonds authorized to be issued hereunder by the Registered Owners, the provisions of the Bond Order and the Pricing Certificate shall be deemed to be and shall constitute a contract between the District and the Registered Owners; and the covenants and agreements herein and therein set forth to be performed on behalf of the District shall be for the equal benefit, protection and security of each of the Registered Owners. The Bonds, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any Bond over any other, except as expressly provided herein.

## **MAINTENANCE AND OPERATION; INSURANCE**

### Duty to Maintain and Insure

While any of the Bonds Similarly Secured are outstanding, the District covenants and agrees to maintain the System in good condition and operate the same in an efficient manner and at reasonable expense, and to maintain insurance on the System, for the benefit of the Registered Owners of the Bonds Similarly Secured of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business, and which will insure the District against claims for which it can be liable under the Texas Tort Claims Act, or any amendment thereof, or any similar law. Nothing in the Bond Order shall be construed as requiring the District to expend any funds which are derived from sources other than the System, but nothing herein shall be construed as preventing the District from doing so.

### Insurance Proceeds

In the event of any loss or damage to the System, the District covenants that it will reconstruct or repair the destroyed or damaged portion of the System and will apply the proceeds of the insurance policies covering such loss or damage solely for that purpose. The District covenants that it will begin such work of reconstruction or repair promptly after such loss or damage shall occur and will continue and properly complete the same as expeditiously as possible and will pay or cause to be paid all costs and expenses in connection therewith out of the insurance proceeds, to the extent of such proceeds, so that such reconstruction or repair shall be so completed and the property be free and clear of all mechanics' and other liens and claims.

### Excess Insurance Proceeds

Any insurance proceeds remaining after the completion of and payment for any such reconstruction or repair shall be deposited to the credit of the funds created or continued hereunder, to the extent necessary to cure any deficiencies in such funds, and any excess over such deficiencies, if any, may be used for any lawful purpose.

## **SPECIAL COVENANTS; MISCELLANEOUS PROVISIONS**

### Covenant Not to Sell or Encumber

The District covenants that while any of the Bonds Similarly Secured are outstanding, the District will not sell or encumber the System or any substantial part thereof, and that, with the exception of any orders relating to the issuance of Additional Parity Bonds, it will not encumber the revenues and income of the System, unless such encumbrance is made junior and subordinate in all respects to the Bonds Similarly Secured and all liens and pledges in connection therewith.

### Charges for Use of Improvements

The District covenants that no free service from the System shall be allowed.

### Maintenance of Contracts

So long as any of the Bonds Similarly Secured are outstanding and unpaid, the District covenants that it shall, to the extent it legally may, continuously maintain and keep in full force and effect any and all contracts heretofore entered into by it with users or Underwriters of water furnished by or through the System. The District covenants that it shall not amend or modify any of such contracts in a manner that would adversely affect the interests of the Registered Owners of any of the Bonds Similarly Secured.

### Bonds are Special Obligations

The Bonds are and shall be special obligations of the District and the holder or holders thereof shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation.

### Accounting

The District will keep proper records and accounts regarding the collection of Gross Revenues, which records and accounts will be made available to any Registered Owner on reasonable request. Each year while any of the Bonds are outstanding, the District shall have an audit of its books and accounts by a certified public accountant or firm of certified public accountants, based on its Fiscal Year, and copies of such audits will be made available to any Registered Owner upon request.

**APPENDIX D**

**Summary of Certain Provisions of the Water Contracts**

## SUMMARY OF CERTAIN PROVISIONS OF THE WATER CONTRACTS

Each of the Civilian Resale Customers (herein, collectively, the “Purchasers,” and individually, a “Purchaser”) has entered into a substantially similar Water Contract with the District. Certain provisions of the Water Contracts are summarized below. This summary is not a complete recital of the terms and provisions of the Water Contracts and reference is made to the Water Contracts in their entirety.

QUANTITY. (A) Quantity Availability To Purchaser: Subject to (i) the terms and conditions set forth in the Water Contracts, (ii) the acquisition of necessary permits (if any) from the Texas Commission on Environmental Quality and (iii) the availability to the District of an adequate supply of raw water, the District agrees to sell and deliver to each Purchaser, and each Purchaser agrees to purchase and take at such delivery, all water required by such Purchaser during the period of the Water Contracts for its own use and for distribution to all customers served by such Purchaser’s water distribution system up to, but not to exceed, a total of 42.0 million gallons for the City of Killeen; 23.0 million gallons for the City of Copperas Cove; 14.0 million gallons for the City of Belton; 16.25 million gallons for the City of Harker Heights; 2.75 million gallons for the Bell County Water Control and Improvement District No. 3; and 5.5 million gallons for the 439 Water Supply Corporation during any 24 hour period at a maximum instantaneous rate of delivery not to exceed 29,167 gallons per minute for the City of Killeen; 15,972 gallons per minute for the City of Copperas Cove; 9,722 gallons per minute for the City of Belton; 11,285 gallons per minute for the City of Harker Heights; 1,910 gallons per minute for the Bell County Water Control and Improvement District No. 3; and 3,819 gallons per minute for the 439 Water Supply Corporation.<sup>1</sup>

Notwithstanding the foregoing, each Purchaser, with the prior written consent of the District, may acquire water from a source other than the District; provided, that the giving of such consent by the District shall be in the sole discretion of the District’s board of directors; and provided further, however, that such consent shall not be given by the District unless the District’s board of directors makes a written determination that such acquisition of water by such Purchaser from a source other than the District (i) is for the purpose of enabling such Purchaser to extend retail water service to an area not then being served by such Purchaser or, if such Purchaser is a municipality or a water control and improvement district, is for the purpose of enabling such Purchaser to annex an area which, at the time of annexation, is receiving retail water service from a source other than such Purchaser and (ii) will not cause a material reduction in the amount of water to be purchased from the District by such Purchaser or cause the District to forego a material increase in the amount of water to be purchased from the District by such Purchaser.

(B) Quantity Available to the District:

(1) *The 1992 Water Supply Agreement*. To provide for the water needs of its Civilian Resale Customers, the District has previously entered into the 1992 Water Supply Agreement (the “1992 Agreement”) with the Brazos River Authority (the

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<sup>1</sup> The amounts shown represent the total amounts available to each Customer from the Lake Belton Water Treatment Plant and the Lake Stillhouse Treatment Plant upon completion of the projects being funded with the proceeds of the Bonds.



“Authority”). The 1992 Agreement expires on December 31, 2041, but may be extended at the written request of the District for so long as the Authority continues to have the right to use storage in Lake Belton for water supply purposes. The 1992 Agreement provides, among other things, that the Authority, at the option of the District, will make water from Lake Belton available to the District in each calendar year, beginning in the year 2001 and continuing through the term of the 1992 Agreement, in an amount not greater than 20,000 acre-feet per year (such 20,000 acre-feet of water per calendar year being hereinafter referred to as “Primary Water”). The 1992 Agreement provides further that the Authority will make additional water from Lake Belton available to the District in each calendar year during the term of the 1992 Agreement in an amount not to exceed 29,509 acre-feet per year (such 29,509 acre-feet of water per calendar year being hereinafter referred to as “Secondary Water”).

(2) *Allocation of Primary Water.* The 20,000 acre-feet per year of water that comprises the Primary Water is allocated to, and reserved for use on and after January 1, 2001 by, the District’s Civilian Resale Customers in the following amounts (in acre-feet):

City of Killeen	8,866
City of Copperas Cove	4,883
City of Belton	3,066
City of Harker Heights	2,645
Bell County Water Control and Improvement District No. 3	270
439 Water Supply Corporation	270

Commencing in calendar year 2001 and in each calendar year thereafter during the term of the 1992 Agreement, the District will reserve for the beneficial use of each Purchaser that amount of Primary Water allocated to each Purchaser according to the foregoing allocation. Any water supplied to a Purchaser in excess of the amount of Primary Water reserved for such Purchaser under this subsection will be supplied to such Purchaser from Secondary Water allocated to such Purchaser as described below, or from other water made available to the District by such Purchaser for treatment at the District’s then existing water treatment facilities (unless additional or separate arrangements are made between the District and the Purchaser with respect to additional treatment facilities).

(3) *Allocation of Secondary Water.* The 29,509 acre-feet per year of water that comprises the Secondary Water is allocated to, and reserved for use on and after January 1, 2001 by, the District’s civilian resale customers in the following amounts (in acre-feet):

City of Killeen	21,098
City of Copperas Cove	2,941
City of Belton	1,900
City of Harker Heights	2,620
Bell County Water Control and Improvement District No. 3	470

(4) *Election Use Water and Option Water.* Under the 1992 Agreement, the Primary Water and the Secondary Water will be classified as either (1) “Election Use Water,” which is defined as water that the District is authorized to withdraw from Lake Belton under the 1992 Agreement without further notice to the Authority or (ii) “Option Water,” which is defined as water available to the District for withdrawal from Lake Belton under the 1992 Agreement only after the District has notified the Authority of its desire to have such water reclassified from Option Water to Election Use Water in accordance with the terms of the 1992 Water Supply Agreement. Under the terms of the 1992 Agreement, a reclassification of Primary Water or Secondary Water from Option Water to Election Use Water is irrevocable. Notwithstanding the allocation of Primary Water and Secondary Water to the District’s civilian resale customers pursuant to the Water Contracts, any request to the Authority for the reclassification of any Primary Water or Secondary Water allocated to a Purchaser from Option Water to Election Use Water shall be made by the District, at the request of a Purchaser, in accordance with the provisions of the 1992 Agreement. The District, however, reserves the right, in its sole discretion, to request a reclassification of any Primary Water or Secondary Water of a Purchaser from Option Water to Election Use Water if the District determines that such reclassification is necessary (i) to meet the water use requirements of such Purchaser and to comply with the provisions of the 1992 Agreement, or (ii) to (a) comply with law, (b) comply with any judgment, court order, decree, or administrative rule, regulation or ruling to which the District is or may become subject, or (c) conform to the provisions of any state or regional water plan; provided, that the District shall not exercise such right without providing prior written notice to such Purchaser.

(5) *Limitations on Primary Water and Secondary Water.* Each Purchaser acknowledges that the District’s ability to supply Primary Water and Secondary Water to the Purchasers is subject in all respects to the terms and conditions of the 1992 Agreement. Each Purchaser further acknowledges that the amount of water available to the Purchasers in any single calendar year will be limited to the sum of the Primary Water and Secondary Water allocated to the Purchasers in accordance with the Water Contracts that is classified as Election Use Water under the 1992 Agreement.

(6) *The 2006 System Water Agreement.* In 2006, the Water Contracts for the City of Killeen, the City of Copperas Cove and the City of Belton were amended to reflect the allocation of additional 13,000 acre feet system water available to the District from the Authority under a System Water Availability Agreement, dated May 1, 2006 (the “2006 System Water Agreement”), between the District and the Authority. Pursuant to such amendments 12,000 acre feet of the system water available to the District under the 2006 System Water Agreement was allocated as follows:

City of Killeen	10,000
City of Belton	1,000
City of Copperas Cove	1,000

The remaining 1,000 acre feet of system water available to the District under the 2006 System Water Agreement was reserved by the District for future use and allocation at the discretion of the District.

Notwithstanding any other provision of the Water Contracts, the Purchasers recognize the District's continuing right to modify any allocation of Primary Water or Secondary Water indicated in the Water Contracts if the District determines that such modification is necessary to (i) comply with law, (ii) comply with any judgment, court order, decree or administrative rule, regulation or ruling to which the District is or may become subject or (iii) conform to the provisions of any state or regional water plan.

**CONSTRUCTION.** In the original Water Contracts, the District agrees promptly to design and construct additions to the water supply and treatment facilities at the edge of Lake Belton and additions to its water pumping and transmission facilities which, together with the water supply, treatment and transmission facilities now owned and leased by the District, will deliver treated water to all of the District's customers, including the Fort Cavazos Military Reservation, at a total maximum daily rate of approximately 80 million gallons per day.<sup>2</sup> When constructed, the District agrees to use reasonable diligence and care in operating, maintaining and keeping in good repair such water supply, treatment and transmission facilities and, subject to certain terms and limitations set forth in the Water Contracts, to deliver water to the Purchasers in the respective maximum daily quantities to which the Purchasers are entitled as set forth in the Water Contracts,

**QUALITY.** The District and the Purchasers recognize that the only water currently available to the District for delivery to the Purchasers under the Water Contracts will be the water in Lake Belton and Lake Stillhouse Hollow. The District agrees to use reasonable diligence and care in treating such water by means of the above mentioned water treatment facilities, and additions thereto, to permit it to deliver to the Purchasers water of sufficient quality to conform to the standards of the Texas Commission on Environmental Quality for potable water.

**UNIT OF MEASUREMENT.** For the purpose of allocating operating charges under the Water Contracts, the unit of measurement for water delivered under the Water Contracts will be 1,000 gallons of water, U.S. Standard Liquid Measure. For purposes of allocating fixed charges under the Water Contracts, the unit of measurement will be based upon a rate of flow in millions of gallons per day ("MGD").

**BILLING AND PAYMENT.** The District will read all of the meters monthly and will promptly render monthly bills to each Purchaser based on such readings. Such bills will be due and payable within twenty-five (25) days from the date the same are deposited in the United States mail properly stamped and addressed to each Purchaser. If a Purchaser fails to pay any bill due to the District on or before its due date, the District may give notice of such delinquency to such Purchaser in writing and if all bills due and unpaid are not paid within fifteen (15) days after deposit of such notice properly stamped and addressed to such Purchaser in the United

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<sup>2</sup> Pursuant to amendments and addendums to the Water Contracts this amount has increased to 119.5 MGD.

States mail, then the District will be authorized to discontinue further water service until all bills due, including interest thereon at the maximum legal rate, have been paid in full.

In addition to the monthly bills described above, the District will bill each Purchaser annually for the cost of Primary Water and Secondary Water allocated to the Purchaser under the Water Contract. The annual bills for Primary Water and Secondary Water will be based on rates established in the 1992 Agreement, will be distributed in January of each year and will be payable to the District within fifteen (15) days of the Purchaser's receipt of such bill.

**PRICE OF WATER.** The District and the Purchasers recognize that because the price the District must pay for water may vary from time to time, and further because the operation, maintenance and repair expenses of the District and debt service requirements<sup>3</sup> on its bonds (including refunding bonds) issued to provide facilities with which to serve the Purchasers and other customers, will vary from time to time, that it is neither practical nor possible to fix a schedule of specific rates in the Water Contracts which will control the price paid by the Purchasers to the District for water delivered throughout the term of the Water Contracts. The District and the Purchasers further recognize, however, that the District's rates for water should at all times be the lowest possible rates which are consistent with good business management on the part of the District and with the commitment which District must make to the holders of its bonds or other obligations in order to provide funds with which to construct the facilities necessary to carry on its water supply operations. The District further recognizes its obligation as a public utility to serve all customers of the same class without discrimination either as to rates or types of service.

The District will establish and publish standard rates for each classification of water customers, which rates will not discriminate between customers of the same class. The District will establish rates for two classes of water customers: (1) the Fort Cavazos Military Reservation; and (2) Civilian Resale Customers. Rates to be paid by the United States of America for water furnished to the Fort Cavazos Military Reservation will be as prescribed in the Fort Cavazos Lease Agreement and the Fort Cavazos Water Service Contract, and any amendments, additions or supplements thereto.

The costs of constructing the District's two existing transmission lines were not equally shared by all Civilian Resale Customers. Therefore, for certain cost sharing purposes, such customers are divided into two (2) groups: (1) the customers of the District's Killeen Transmission System,<sup>4</sup> including the City of Killeen, the City of Copperas Cove, the City of Harker Heights, Bell County Water Control and Improvement District No. 3, and 439 Water Supply Corporation (hereinafter called "Killeen System Customers" when referred to as a group); and (2) the City of Belton as the only customer of the District's Belton Transmission

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<sup>3</sup> When used in the Water Contracts, the term "debt service requirements" means (i) the principal, premium, if any, and interest when due on the District's bonds, refunding bonds and other obligations; (ii) any payments required by the District's bond orders or other authorizing documents to be made into debt service reserve funds and contingency funds; and (iii) any trustee or paying agent fees and expenses relating to the District's bonds and other obligations.

<sup>4</sup> The term "Killeen Transmission System" when used in the Water Contracts means the separate pumping system, water pipelines and appurtenances of the District for the transmission and delivery of water from the District's water supply and treatment facilities to its Killeen System Customers.

System.<sup>5</sup> The Civilian Resale Customers' rates which are more particularly described below, consist of (1) certain fixed charges, (2) annual operation, maintenance and repair charges and the purchase price of water from the Authority for civilian usage (herein called "operating charges"), and (3) certain surcharges. Such rates will be reviewed upon the written request of any customer at intervals of not less than one year.

(A) Fixed Charges.

(1) *Common Fixed Charges (Original Treatment Plant).*<sup>6</sup> Common Fixed Charges (Original Treatment Plant), will be shared by all of the District's Civilian Resale Customers. The amount of such charges to be paid by a particular Civilian Resale Customer will be determined by the application to the total of such charges less any credit to such amount which may result from payments received from any additional customers the District may contract with pursuant to the further provisions of the Water Contracts (hereinafter called "Additional Customers") of a fraction, the numerator of which is the Original Maximum Daily Rate of Delivery<sup>7</sup> for such customer and the denominator of which is 16.814 MOD. Such charges consist only of rentals or other payments which the District is obligated to pay the United States of America for use of governmental facilities.

(2) *Special Fixed Charges (Belton Transmission System).* Special Fixed Charges (Belton Transmission System) will be paid by the City of Belton only. Such charges (less any credit to such amount which may result from payments received from Additional Customers) consist of the entire debt service requirements relating to the portion of any bonds or obligations of the District hereafter issued (including refunding bonds) to construct modifications, additions, improvements or extensions to the Belton Transmission System.

(3) *Special Fixed Charges (Killeen Transmission System).* Special Fixed Charges (Killeen Transmission System) shall be shared by the Killeen System Customers only. Such charges (less any credit to such amount which may result from payments received from Additional Customers) consist of the entire debt service requirements relating to the portion of any bonds or obligations of the District hereafter issued

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<sup>5</sup> The term "Belton Transmission System" when used in the Water Contracts means the separate pumping system, water pipelines and appurtenances of the District for the transmission and delivery of water from the District's water supply and treatment facilities to the City of Belton.

<sup>6</sup> The term "Original Treatment Plant" when used in the Water Contracts means the District's water treatment plant (and appurtenances) as it existed on January 1, 1975, exclusive of the Killeen Transmission System and the Belton Transmission System.

<sup>7</sup> For the purposes of the Water Contracts, "Original Maximum Daily Rate of Delivery" means the maximum daily rate of delivery applicable to each civilian resale customer with respect to the Original Treatment Plant, as set forth below:

City of Killeen .....	8,000 MGD
City of Copperas Cove .....	3,000 MGD
Bell County Water Control & Improvement District No. 3 .....	0.150 MCD
City of Harker Heights .....	1,500 MOD
439 Water Supply Corporation .....	0.164 MOD
City of Belton .....	4,000 MOD

(including refunding bonds) to construct modifications, additions, improvements or extensions to the Killeen Transmission System. Apportionment of such charges with respect to debt service requirements on bonds or obligations hereafter issued will be made among the Killeen System Customers by the following methods:

(a) The amount of debt service on that portion of bond moneys used to construct modifications to the Killeen Transmission System will be shared by the District's Killeen System Customers only. The amount to be paid by a particular Killeen System Customer will be determined by the application to the total of such debt service (less any credit to such amount which may result from payments received from Additional Customers) of a fraction, the numerator of which will be the customer's maximum daily rate of delivery from the District's water supply and treatment facilities, as they exist on the issuance date of the related bonds, and the denominator of which will be the aggregate of all Killeen System Customers' maximum daily rate of delivery from the District's water supply and treatment facilities, as they exist on the issuance date of the related bonds.

(b) The amount of debt service on that portion of bond moneys used to construct an expansion of the Killeen Transmission System will be shared by the District's Killeen System Customers only. The amount to be paid by a particular Killeen System Customer will be determined by the application to the total of such debt service (less any credit to such amount which may result from payments received from Additional Customers) of a fraction, the numerator of which will be such customer's incremental increase in maximum daily rate of delivery as a result of such expansion and the denominator of which will be the aggregate of all the Killeen System Customers' incremental increases in maximum daily rate of delivery as a result of such expansion.

(4) *Fixed Charges (Expansion and Modification Projects)*. Fixed Charges (Expansion and Modification Projects) include the entire debt service requirements on bonds or obligations of the District heretofore or hereafter issued for the following purposes: construct modifications to the District's then existing water supply and treatment facilities; and construct facilities for the expansion of the District's water supply and treatment facilities. Apportionment of such charges with respect to debt service requirements on bonds or obligations hereafter issued shall be made among civilian resale customers by the following methods:

(a)(1) The amount of debt service on that portion of bond moneys used to construct modifications to the District's then existing Lake Belton Water Plant shall be shared by the District's civilian resale customers in accordance with this subparagraph (a)(1). The amount to be paid by a particular civilian resale customer shall be determined by the application to the total of such debt service (less any credit to such amount which may result from payments received from Additional Customers) of a fraction the numerator of which shall be the customer's maximum daily rate of delivery from the District's Lake Belton Water Plant, as it exists on the issuance date of the related bonds, and the denominator of which shall be the aggregate of all civilian resale customers' maximum daily rate of delivery from the District's Lake Belton Water Plant, as it exists on the issuance date of the related bonds.

(a)(2) The amount of debt service on that portion of bond moneys used to construct modifications to the District's then existing Lake Stillhouse Water Plant shall be shared by the District's civilian resale customers in accordance with this subparagraph (a)(2). The amount to be paid by a particular civilian resale customer shall be determined by the application to the total of such debt service (less any credit to such amount which may result from payments received from Additional Customers) of a fraction the numerator of which shall be the customer's maximum daily rate of delivery from the District's Lake Stillhouse Water Plant, as it exists on the issuance date of the related bonds, and the denominator of which shall be the aggregate of all civilian resale customers' maximum daily rate of delivery from the District's Lake Stillhouse Water Plant, as it exists on the issuance date of the related bonds.

(b)(1) The amount of debt service on that portion of bond moneys used to construct an expansion of the District's then existing Lake Belton Water Plant shall be shared by the District's civilian resale customers in accordance with this subparagraph (b)(1). The amount to be paid by a particular civilian resale customer shall be determined by the application to the total of such debt service (less any credit to such amount which may result from payments received from Additional Customers) of a fraction, the numerator of which shall be such customer's incremental increase in maximum daily rate of delivery as a result of such expansion and the denominator of which is the aggregate of all civilian resale customers' incremental increases in maximum daily rate of delivery as a result of such expansion.

(b)(2) The amount of debt service on that portion of bond moneys used to construct an expansion of the District's then existing Lake Stillhouse Water Plant shall be shared by the District's civilian resale customers in accordance with this subparagraph (b)(2). The amount to be paid by a particular civilian resale customer shall be determined by the application to the total of such debt service (less any credit to such amount which may result from payments received from Additional Customers) of a fraction, the numerator of which shall be such customer's incremental increase in maximum daily rate of delivery as a result of such expansion and the denominator of which is the aggregate of all civilian resale customers' incremental increases in maximum daily rate of delivery as a result of such expansion.

With respect to each issue of bonds or other obligations of the District hereafter issued to finance an expansion or modification project as contemplated by the applicable provisions of the Water Supply Contracts, there shall be attached thereto an addendum setting forth the following information:

- (i) a description of the purpose or purposes for the bonds (i.e. modifications to the then existing water supply and treatment facilities, expansion of then existing water supply and treatment facilities, modifications to the then existing Killeen Transmission System, expansion of the Killeen Transmission System, and/or modification or expansion of the Belton Transmission System);

(ii) the aggregate principal amount and series designation (if applicable) of the bonds or other obligations being issued by the District and a percentage allocation of the debt service on such bonds or other obligations to the purposes for which they are being issued, as determined by the District in consultation with the District's engineers; provided, that upon completion of all projects to be constructed with the proceeds of any such bonds, the District and its engineers shall reconcile the actual expenditures of bond proceeds to the indicated purposes for which such bonds were issued and shall make any necessary adjustments to the allocation of debt service to such purposes; and

(iii) for each stated purpose for which the bonds or other obligations are being issued, the aggregate incremental increase in maximum daily rate of delivery for the appropriate customer group (i.e. all civilian resale customers, Killeen System Customers or City of Belton) as a result of an expansion, a breakout (if applicable) of the incremental increase in maximum daily rate of delivery for each member of the customer group as a result of such expansion, and a breakout (if applicable) of the new total maximum daily rate of delivery for each member of the customer group as a result of such expansion; provided, that in the case of modifications to the then existing water supply and treatment facilities, the Killeen Transmission System or the Belton Transmission System that do not result in or are not accompanied by an incremental increase in the maximum daily rate of delivery, the addendum shall specify the appropriate ratios to be used in allocating debt service to the District's customers.

The issuance of refunding bonds by the District will not require the attachment of an addendum thereto and, so long as the issuance of such refunding bonds results in a net present value debt service savings, shall not require any further action on the part of the Purchasers.

(B) Operating Charges. Operating Charges will make provision for the following costs and no other:

(1) maintenance and operating expenses of all of the District's water supply, treatment and transmission facilities, including overhead and reasonable reserves for emergencies and contingencies;

(2) the costs (not otherwise funded through the issuance of bonds) of repairing and replacing damaged, worn-out or obsolete parts of all of the District's water supply, treatment and transmission facilities, including reasonable reserves for ordinary and extraordinary repairs and replacements;

(3) the cost of any additions to or modifications of all or any portion of the District's water supply, treatment and transmission facilities required by final orders or regulations of any agency with jurisdiction in the premises, and



(4) the cost of water purchased or produced by the District, including a reasonable charge for loss and leakage, to the extent that such costs are not included in fixed charges as above provided.

Operating Charges will be expressed in a specified sum for each 1,000 gallons of water and will be apportioned among all of the District's water customers, including the United States of America, on the basis of the quantity of water r delivered to each customer in each calendar month or billing period. Such charges for the first or partial calendar year after any enlargements or expansions of the District's water system are completed and placed in operation, in whole or in part, will be estimated by the District, but thereafter the provision in the District's rate schedule for operating charges will be based upon such actual costs as experienced during the previous calendar year, provided, that, if there is a substantial increase or decrease in operating costs during any calendar year, the operating charges for the then current year will be adjusted accordingly.

Notwithstanding the foregoing, the Purchasers recognize and agree that the cost of Secondary Water allocated to the Purchasers pursuant to the Water Contracts and the cost of Primary Water allocated to the Purchasers pursuant to the Water Contracts will be billed to the Purchasers on an, annual basis in January of each year in accordance with the rates established in the 1992 Agreement Such bills are payable to the District within fifteen (15) days of the Purchaser's receipt thereof. The Purchasers further agree to pay to the District such amounts as may be required under the 1992 Agreement in connection with a reclassification of any Primary Water or Secondary Water allocated to the Purchasers from Option Water to Election Use Water. If such a reclassification is made pursuant to a request from a Purchaser, the payment required under the 1992 Agreement in connection with such reclassification shall be remitted by such Purchaser to the District together with the submission of such Purchaser's request. If such a reclassification is made solely at the request of the District, the payment required under the 1992 Agreement in connection with such reclassification shall be remitted by the Purchaser to the District within fifteen (15) days of receipt by such Purchaser of a notice from the District stating (1) that the request for a reclassification was made to the Authority and (ii) the amount of the required payment.

In addition to the foregoing, those Purchasers receiving an allocation of system water under the 2006 System Water Agreement are billed annually by the District in September for the cost of such system water at rates determined in accordance with the 2006 System Water Agreement. Such bills are generally payable by September 15.

(C) Surcharges:

The Purchasers recognize that the District is entering into contracts with each of its Civilian Resale Customers and that under such contracts the entire design capacity of its water supply, treatment and transmission facilities available for use by its Civilian Resale Customers will be allocated among such customers. Consequently, the Purchasers recognize that their contract capacity cannot be exceeded without encroaching upon the design capacity allocated to other Civilian Resale Customers and the Purchasers agree not to exceed such capacity. The District, in its sole discretion, may charge a reasonable surcharge, in an amount not to exceed \$20,000 per occurrence, to any Civilian Resale Customer determined by the District to be in

violation of its agreement not to exceed its allocated daily capacity. The amount of any surcharge actually received by the District will be applied, in such manner as the District deems appropriate under the circumstances, as a credit to the payments which the other Civilian Resale Customers are required to make under their respective contracts. The provisions of this paragraph will not apply to excess quantities of water delivered to Civilian Resale Customers during emergencies as provided under "Measuring and Control Equipment," above.

**FORCE MAJEURE.** If the District should be prevented, wholly or in part, from furnishing water to the Purchasers under the Water Contracts by reason of an act of God, unavoidable accident, acts of the public enemy, strikes, floods, fires, governmental restraint or regulations, breaks in the District's pipelines, or for any other cause beyond the District's control, then the obligation of the District to deliver water to the Purchasers will be temporarily suspended during the continuance of such force majeure.

No damage will be recoverable by the Purchasers from the District by reason of the temporary suspension of delivery of water due to any of the causes above mentioned.

**ALTERATIONS AND REPAIRS.** It is expressly recognized by the Purchasers that the District may be compelled to make necessary alterations, repairs and extensions of new or additional water supply, treatment or transmission facilities from time to time during the life of the Water Contracts, and any suspension of delivery to the Purchasers due to such operation will not be cause for claim or damage on the part of the Purchasers, provided all reasonable effort is used by the District to provide the Purchasers with water in accordance with the Water Contracts.

**TERM.** Unless sooner terminated or extended by mutual written agreement of the parties hereto, the Water Contracts will be in force and effect until the Bonds Similarly Secured, and including any bonds issued for the purpose of modifying or expanding the District's water supply, treatment or transmission facilities and identified in an addendum to the Water Contracts, as contemplated under "Price of Water - Fixed Charges" above.

Upon the expiration of the term of the Water Contracts, the Purchasers will have no right, express or implied, to continuing service from the District.

**OPERATING EXPENSE.** All moneys required to be paid by the Purchasers under the Water Contracts will constitute an operating expense of the waterworks and/or combined waterworks and sewer system of the Purchasers (hereinafter called the "Purchaser's System"). The Purchasers agree to fix and maintain such rates and collect such charges for the facilities and services provided by the Purchaser's System as will be adequate to permit the Purchasers to make prompt payment of all expenses of operating and maintaining the Purchaser's System, including payments under the Water Contracts, and to make prompt payment of the interest on and principal of the bonds or other obligations, if any, of the Purchasers payable, in whole or in part, from the revenues of the Purchaser's System. The Purchasers further agree to comply with all of the provisions of the resolutions, ordinances or indentures authorizing their bonds or other obligations, if any, which are payable, in whole or in part, from the revenues of the Purchaser's System.

MODIFICATION, ASSIGNMENT, AND BENEFIT. Each Water Contract is subject to change or modification at any time but only with the mutual consent of the governing bodies of each of the parties thereto, but the Purchasers recognize that the resolutions, orders or other documents authorizing the District's bonds or other obligations may contain covenants by the District not to consent to certain changes or modifications of the Water Contracts. The Water Contracts are not assignable by the parties thereto without the prior written consent of the governing bodies of the parties thereto. The Water Contracts are for the sole and exclusive benefit of the District, the Purchasers, and the owners and holders from time to time of the District's bonds or other obligations. The District is, however, granted the specific right to assign, mortgage, transfer, trust, pledge or otherwise hypothecate or encumber the Purchasers' obligations to make payments under the Water Contracts.

NATURE OF PURCHASER'S OBLIGATION. The parties hereto recognize that the price each Purchaser is required to pay for water under the Water Contracts is directly related to the District's obligations to pay the debt service requirements on its bonds or other obligations heretofore and hereafter issued for the purpose of providing its water supply, treatment and transmission system and the District's obligations as a public utility to operate and maintain such system in accordance with appropriate regulatory requirements and good business management practices. Consequently, the obligations of each Purchaser to pay for water pursuant to the provisions of the Water Contracts are absolute and unconditional, irrespective of any rights of set-off, recoupment or counterclaim each Purchaser might otherwise have against the District and each Purchaser agrees not to suspend or discontinue such payment or (except as provided under the caption "Term") terminate its Water Contract for any cause whatsoever.

SURPLUS CAPACITY. Each Purchaser may, with the approval of the District, enter into sub-contracts with other customers or persons pursuant to which part of the capacity to which such Purchaser is entitled may be sold to such other customers or persons. The consideration and terms of such a sub-contract between Purchaser and others will be determined by the sub-contracting parties, and the District will not withhold its approval unless the District determines it is unable to comply with terms thereof. No such sub-contract or approval by the District will relieve a Purchaser of its primary and unconditional obligation to make all payments to the District in accordance with the terms of its Water Contract. To the extent, however, that the District actually receives payments in cash as a result of any such sub-contracts, such Purchaser's unconditional obligation to make payments to the District will be reduced.

MILITARY CAPACITY. Each Purchaser recognizes that, in connection with an expansion of the District's water supply, treatment and transmission system, part of the design capacity of the District's water supply, treatment and transmission facilities may be acquired by the United States of America for the use and benefit of Fort Cavazos Military Reservation; provided, that the United States of America bears the cost of any expanded capacity acquired by it.

ADDITIONAL CUSTOMERS. The District will have the right to contract with any customers or persons to treat, transmit or supply water through its water supply, treatment and transmission facilities and to enlarge or extend such facilities to provide such services. Any such contracts will not, however, impair the right of each Purchaser to receive water at the maximum rate set forth in the Water Contracts, except with the written consent of each Purchaser. Further,

any such contract will require such a customer or person to pay the debt service requirements on any bonds or other obligations of the District which are issued to enlarge or extend its water supply, treatment and transmission facilities to provide such service and an equitable share of the Fixed Charges and Operating Charges described in the Water Contracts.

**SPECIFIC PERFORMANCE: NO WAIVER.** It is not intended hereby to specify (and the Water Contracts will not be considered as specifying) an exclusive remedy for any default by the District, but all such remedies (other than termination) existing at law or in equity maybe availed of by the Purchasers and will be cumulative. Recognizing, however, that the District's undertaking to provide and maintain services as provided herein 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 the Purchasers will have available to them the equitable remedy of specific performance. No waiver or waivers of any breach or default (or any breaches or defaults) by either party hereto of any term, covenant, condition, or liability under the Water Contracts, or of performance by the other party of any duty or obligation under the Water Contracts, will be deemed or construed to be a waiver of subsequent breaches or defaults of any kind.

**FINANCIAL INFORMATION.** To the extent and only during such time as a Purchaser is considered to be an "obligated person" (within the meaning of United States Securities and Exchange Rule 15c2-12 the "Rule") with respect to any of the District's bonds issued to modify or expand the District's water supply, treatment or transmission facilities, such Purchaser agrees, for the benefit of the holders of any such bonds, to provide annually to each "nationally recognized municipal securities information repository" (within the meaning of the Rule) and "state information depository" (within the meaning of the Rule), within 180 days after the end of each fiscal year of the Purchaser ending in or after 1998, financial information and operating data with respect to such Purchaser of the general type included in such Purchaser's annual financial statement. Any financial statements of a Purchaser to be so provided will be (i) prepared in accordance with the accounting principles such Purchaser may be required to employ from time to time pursuant to Texas law and (ii) audited, if such Purchaser commissions an audit of such statements and the audit is completed within the required time. If the audit is not completed within the required time, then such Purchaser will provide the audit when and if it becomes available.

**APPENDIX E**

**Information Relating to the Major Civilian Resale Customers**

## City of Killeen

### TEN LARGEST WATER CUSTOMERS (FISCAL YEAR 2023)

Customer	Water Usage (gallons)	% of Total Water Usage	Annual Aggregate Amount Billed
Killeen Independent School District	139,475,700	2.85%	\$ 521,167
Stonetree Golf Course	67,030,000	1.37%	53,525
City of Killeen	51,462,300	1.05%	209,510
MFT-Independent Place	31,876,000	0.65%	109,823
Metrop lex Hospital	31,205,500	0.64%	113,455
Stone Hill Apartments	25,463,400	0.52%	87,047
MGC Pure Chemicals America	23,607,400	0.48%	83,401
Today's Car Wash	23,224,400	0.47%	82,512
Texas Veterans Land Board	19,448,200	0.40%	68,069
Redford Park Limited	17,376,700	0.35%	59,690
	430,169,600	8.78%	

Note: % of Total Water Usage based on 4,899,447,066 gallons annual consumption (FYE 2023).

### UTILITY SYSTEM CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ending September 30,				
	2023	2022	2021	2020	2019
<u>Revenues<sup>(1)</sup>:</u>					
Charges for Services	\$ 46,858,487	\$ 45,707,912	\$ 41,395,591	\$ 42,316,494	\$ 39,528,685
Interest Income	13,415	2,213	2,836	7,059	20,237
Total Revenues	\$ 46,871,902	\$ 45,710,125	\$ 41,398,427	\$ 42,323,553	\$ 39,548,922
<u>Expenditures<sup>(2)</sup>:</u>					
Water Purchases	\$ 10,024,767	\$ 9,021,446	\$ 8,436,546	\$ 8,406,645	\$ 7,730,925
Sewer Service Contract	7,062,524	6,477,289	7,032,837	6,503,394	7,387,129
Operating Cost	13,172,855	10,213,136	12,193,210	12,940,248	14,627,857
Total Expenses	\$ 30,260,146	\$ 25,711,871	\$ 27,662,593	\$ 27,850,287	\$ 29,745,911
Net Revenue Available for Debt Service	\$ 16,611,756	\$ 19,998,254	\$ 13,735,834	\$ 14,473,266	\$ 9,803,011
Customer Count:					
Water	56,825	55,914	55,193	54,288	53,443
Sewer	53,435	52,360	51,650	50,327	49,452

Note: Expenditures do not include depreciation.

(1) Revenues do not include developer contributions for donated water and sewer lines.

(2) Expenditures do not include depreciation.

## City of Harker Heights

### TOP TEN WATER CUSTOMERS (FISCAL YEAR 2023)

Customer	Consumption
Ancient Oaks Mobile Home Park	123,434,000
Today's Car Wash II, LLC	121,200,000
Big Oaks Mobile Home Park	100,687,000
TXHA Indian MHP, LLC	86,005,000
Pleasant View Mobile Home Park	81,084,000
Seton Medical Center	77,782,000
Indian Oaks Nursing Center	68,382,000
Wells Laundry, Inc.	65,297,000
Lookout Ridge Apartment	49,851,000
TXHA Indian MHP, LLC	40,854,000
	814,576,000

### COMBINED WATERWORKS AND SEWER SYSTEMS CONDENSED STATEMENT OF OPERATIONS

	Fiscal Years Ended September 30,				
	2023	2022	2021	2020	2019
<b>Revenues:</b>					
Charges for Services	\$ 11,494,092	\$ 11,412,955	\$ 10,390,779	\$ 10,606,078	\$ 9,556,952
Other	148,346	160,456	190,229	141	10,505
Total	\$ 11,642,438	\$ 11,573,411	\$ 10,581,008	\$ 10,606,219	\$ 9,567,457
<b>Expenses:</b>					
Operations <sup>(1)</sup>	\$ 7,035,278	\$ 6,333,972	\$ 6,211,897	\$ 6,100,263	\$ 5,604,112
Total	\$ 7,035,278	\$ 6,333,972	\$ 6,211,897	\$ 6,100,263	\$ 5,604,112
Net Available for Debt Service <sup>(2)</sup>	\$ 4,607,160	\$ 5,239,439	\$ 4,369,111	\$ 4,505,956	\$ 3,963,345

(1) Excludes depreciation expense. Includes contract payments.

(2) This amount is available for the City's debt service on its own obligations.

## City of Copperas Cove

### TOP TEN WATER CUSTOMERS (FISCAL YEAR 2023)

Customer	Gallons Billed
Central Texas College	51,305,560
Topsey Water District	23,394,000
Cedar Grove Mobile Home Park	7,603,193
Housing Authority	4,879,719
CCISD	4,517,005
Mister Car Wash	4,369,332
Wells Laundry	4,161,262
Copperas Cove LTC Partners Inc.	3,524,872
Hill Country Rehab & Nursing	3,484,600
Go Car Wash TX 319	3,061,920
	110,301,463

### COMBINED WATERWORKS AND SEWER SYSTEMS CONDENSED STATEMENT OF OPERATIONS

	Fiscal Years Ended September 30,				
	2023	2022	2021	2020	2019
<u>Revenues:</u>					
Waterworks and Sewer System	\$ 16,187,137	\$ 15,552,673	\$ 13,727,514	\$ 12,916,179	\$ 12,432,482
Miscellaneous	44,657	99,808	8,702	14,275	21,301
Total	\$ 16,231,794	\$ 15,652,481	\$ 13,736,216	\$ 12,930,454	\$ 12,453,783
<u>Expenses:</u>					
Waterworks and Sewer System <sup>(1)</sup>	\$ 9,455,482	\$ 7,194,034	\$ 7,430,658	\$ 7,023,305	\$ 6,750,510
Net Available for Debt Service	\$ 6,776,312	\$ 8,458,447	\$ 6,305,558	\$ 5,907,149	\$ 5,703,273
Water Customers	15,686	14,672	14,508	14,552	14,269
Sewer Customers	14,419	13,074	13,882	13,097	13,411

(1) Excludes depreciation expense.



## City of Belton

### TOP TEN WATER CUSTOMERS (FISCAL YEAR 2023)<sup>(1)</sup>

Customer	Annual Sales
University of Mary Hardin Baylor	\$ 387,714
Belton ISD	136,684
Bell County	129,586
Turtle Creek Village	93,927
Tex Mix Partners	65,857
Today's Car Wash	49,897
Legacy Landing	45,723
River Springs at Barge Ranch	43,895
DR Horton	42,270
Bell County Expo Center	42,023
	\$ 1,037,576

(1) Top ten customers accounted for 18.33% of the total water billings.

### COMBINED WATERWORKS AND SEWER SYSTEMS CONDENSED STATEMENT OF OPERATIONS<sup>(1)</sup>

	Fiscal Years Ended September 30,				
	2023	2022	2021	2020	2019
<b>Revenues:</b>					
Water and Sewer System	\$ 12,445,945	\$ 10,370,050	\$ 9,275,660	\$ 8,944,606	\$ 8,363,409
Miscellaneous	747,420	279,495	140,344	219,461	465,496
Total	\$ 13,193,365	\$ 10,649,545	\$ 9,416,004	\$ 9,164,067	\$ 8,828,905
<b>Expenses:</b>					
Water & Sewer System Operations <sup>(1)</sup>	\$ 6,032,626	\$ 5,500,436	\$ 5,999,290	\$ 4,263,557	\$ 3,947,597
Total	\$ 6,032,626	\$ 5,500,436	\$ 5,999,290	\$ 4,263,557	\$ 3,947,597
Net Available for Debt Service <sup>(2)</sup>	\$ 7,160,739	\$ 5,149,109	\$ 3,416,714	\$ 4,900,510	\$ 4,881,308
Water Customers	8,763	8,702	8,591	8,566	7,729
Sewer Customers	7,058	6,905	6,458	6,020	5,702

(1) Excludes depreciation expense. Includes contract payments.

(2) This amount is available for the City's debt service on its own obligations.