NEW ISSUE - BOOK-ENTRY-ONLY

Enhanced/Unenhanced Ratings: S&P: "AA"/"A"
(See "OTHER PERTINENT INFORMATION - Ratings", "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein)

OFFICIAL STATEMENT
Dated April 9, 2019

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

The Issuer has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions.

$4,405,000
SAN PATRICIO MUNICIPAL WATER DISTRICT
(A political subdivision of the State of Texas located in San Patricio County, Texas)
WATER REVENUE REFUNDING BONDS, SERIES 2019

Dated Date: May 1, 2019 **Due: July 10, as shown on the following page**

The $4,405,000 San Patricio Municipal Water District Water Revenue Refunding Bonds, Series 2019 (the "Bonds") are being issued pursuant to the laws of the State of Texas, including Chapter 49, as amended, Texas Water Code, Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), Texas Revised Civil Statutes Annotated Article 8280-145, as amended, and a resolution (the "Resolution") adopted by the Board of Directors of the San Patricio Municipal Water District (the "District" or the "Issuer") on April 9, 2019. See "THE BONDS – Authority for Issuance" herein. Certain proceeds of the Bonds will be utilized to defease and redeem the currently outstanding Priority Bonds (as defined in the Resolution) such that the currently outstanding Parity Bonds and the Bonds are secured by a first and prior lien on and pledge of the Net Revenues of the System.

The Bonds are special obligations of the District payable both as to principal and interest solely from and equally and ratably secured, together with the currently outstanding Parity Bonds and any Additional Parity Bonds (as defined in the Resolution) hereafter issued by the District, by a first and prior lien on and pledge of the Net Revenues (hereinafter defined) of the System (hereinafter defined). In the Resolution, the District has reserved the right to issue Additional Parity Bonds (as defined in the Resolution) without limitation as to principal amount, but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise and has prohibited the issuance of prospective obligations with a lien on and pledge of Net Revenues prior to and superior to the lien thereon and pledge thereof securing the payment of the currently outstanding Parity Bonds, the Bonds, and any Additional Parity Bonds hereafter issued by the District. Additionally, in the Resolution, the District has also reserved the right to issue Junior Lien Obligations and Inferior Lien Obligations (each as defined in the Resolution). (See "THE BONDS – Security for Payment" herein.)

The Bonds shall not be a charge upon any other income or revenues of the Issuer, except the Net Revenues, and shall never constitute an indebtedness or pledge of the general credit or taxing power of the Issuer. The Resolution does not create any lien or mortgage on the System and any judgment against the Issuer may not be enforced by levy and execution against the property owned by the Issuer. The Resolution does not create or constitute a legal or equitable pledge, charge, lien, mortgage or encumbrance upon any property of the Issuer or the System, except the Net Revenues. (See "THE BONDS – Security for Payment" herein.)

Interest on the Bonds will accrue from the Dated Date as shown above and will be payable on January 10 and July 10 of each year, commencing January 10, 2020, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository ("Securities Depository") for the Bonds. Book-entry interests in the Bonds will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. The purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by UMB Bank, N.A. Austin, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Bonds will be used (i) to defease and or refund certain of the District's currently outstanding obligations, as identified in Schedule I attached hereto, for debt service savings, and (ii) to pay the costs of issuance and expenses relating to the Bonds. (See "PLAN OF FINANCING - Purpose" herein.)

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY.** (see "BOND INSURANCE")

BAM
BUILD AMERICA MUTUAL

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

The Bonds are offered for delivery when, as and if issued and received by the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Bond Counsel, San Antonio, Texas. The legal opinion of Bond Counsel will be printed on, or attached to, the Bonds. It is expected that the Bonds will be available for initial delivery through DTC on or about May 9, 2019.

$4,405,000
SAN PATRICIO MUNICIPAL WATER DISTRICT
(A political subdivision of the State of Texas located in San Patricio County, Texas)
WATER REVENUE REFUNDING BONDS, SERIES 2019

STATED MATURITY SCHEDULE
(Due July 10)

CUSIP Prefix: 799204

Stated Maturity 7/10	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix [(1)]	Stated Maturity 7/10	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix [(1)]
2020	$ 520,000	4.000%	1.700%	LS9	2024	$ 640,000	4.000%	1.900%	LW0
2021	570,000	4.000%	1.750%	LT7	2025	665,000	4.000%	1.950%	LX8
2022	595,000	4.000%	1.800%	LU4	2026	695,000	4.000%	2.050%	LY6
2023	620,000	4.000%	1.850%	LV2	2027	100,000	4.000%	2.100%	LZ3

(Accrued Interest from Dated Date to be added)

The Bonds are not callable before their stated maturity.

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

SAN PATRICIO MUNICIPAL WATER DISTRICT
P.O. Box 940
Ingleside, Texas 78362
Telephone: (361) 643-6521
Facsimile: (361) 643-9093

BOARD OF DIRECTORS:

Name	Year Elected	Term Expires (May)	Occupation
Billie Jo Tennill President	1974	2022	Retired
Troy Mircovich Vice President	2006	2020	School District Superintendent
Tom Bridges Portland Director	2016	2020	Retired
Danny C. Cox Rockport Director	2006	2022	Senior Operations Manager
Alan Miller Taft Director	2010	2022	Insurance Agent/Owner
A. Larry Kalich Gregory Director	2009	2022	Professor
Doil Kellar, Jr. Aransas Pass Director	2011	2020	Consultant
Ed Rainwater Appointed Director	2006	2020	Retired

ADMINISTRATIVE OFFICIALS

Name	Position	Length of Service (Years)
Brian Williams, P.E.	General Manager /District Engineer	7
Rebecca Klaevemann	Secretary/Treasurer & Administrative Services Manager	21
Jake Krumnow	Operations and Maintenance Manager	27

CONSULTANTS AND ADVISORS

Bond Counsel .... Norton Rose Fulbright US LLP
San Antonio, Texas

Certified Public Accountants .... Allan L. Johnston
Corpus Christi, Texas

Financial Advisor .... SAMCO Capital Markets, Inc.
San Antonio, Texas

For Additional Information Please Contact:

Ms. Rebecca Klaevemann
Secretary/Treasurer & Administrative Services Manager
San Patricio Municipal Water District
P.O. Box 940
Ingleside, Texas 78362
Telephone: (361) 643-6521
rbk@spmwd.net

Mr. Mark McLiney
Mr. Andrew Friedman
SAMCO Capital Markets, Inc.
1020 Northeast Loop 410, Suite 640
San Antonio, Texas 78209
Telephone: (210) 832-9760
mmcliney@samcocapital.com
afriedman@samcocapital.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

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

None of the District, the Purchaser or the Financial Advisor makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System or any municipal bond insurer provider, if any, or its policy described under "BOND INSURANCE" herein, as such information was provided by DTC and the insurer (if any), respectively.

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

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

TABLE OF CONTENTS

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	The San Patricio Municipal Water District (the "District") was created pursuant to Article XVI, Section 59 of the Texas Constitution and by the provisions of Texas Revised Civil Statutes Annotated Article 8280-145 (the "Act"), as a conservation and reclamation district. The District is authorized by the Act to conserve, store, transport, treat, purify, distribute, sell and deliver water and wastewater to customers situated within and without the District. The District is governed by an eight member Board of Directors. Seven directors are elected from member communities and the eighth director is appointed by all the other members.
The Bonds	The Bonds are being issued pursuant to the laws of the State of Texas, including Chapter 49, as amended, Texas Water Code, Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), Texas Revised Civil Statutes Annotated Article 8280-145, as amended, and a resolution (the "Resolution") adopted by the Board of Directors of the Authority on April 9, 2019 (See "THE BONDS – Authority for Issuance" herein).
Security for Payment	The Bonds are special obligations of the District payable both as to principal and interest solely from and equally and ratably secured, together with the currently outstanding Parity Bonds and any Additional Parity Bonds hereafter issued by the District, by a first and prior lien on and pledge of the Net Revenues (hereinafter defined) of the System (hereinafter defined). The Bonds shall not be a charge upon any other income or revenues of the Issuer, except the Net Revenues, and shall never constitute an indebtedness or pledge of the general credit of the Issuer. The Resolution does not create any lien or mortgage on the System and any judgment against the Issuer may not be enforced by levy and execution against the property owned by the Issuer. The Resolution does not create or constitute a legal or equitable pledge, charge, lien, mortgage or encumbrance upon any property of the Issuer or the System, except the Net Revenues. See "THE BONDS – Security for Payment" herein.
No Redemption	The Bonds are not subject to redemption prior to stated maturity.
Paying Agent/Registrar	The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas.
Tax Matters	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under "TAX MATTERS". (See "TAX MATTERS" and "APPENDIX D – Form of Legal Opinion of Bond Counsel" herein).
Qualified Tax Exempt Obligations	The Issuer has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.)
Use of Bond Proceeds	Proceeds from the sale of the Bonds will be used (i) to defease and/or refund certain of the District's currently outstanding obligations, as identified in Schedule I attached, hereto, for debt service savings, and (ii) to pay the costs of issuance and expenses relating to the Bonds. (See "PLAN OF FINANCING - Purpose" herein.)
Ratings	S&P Global Ratings ("S&P") has assigned an enhanced municipal bond rating of "AA" to the Bonds with the understanding that concurrently with the delivery of the Bonds a municipal bond insurance policy will be issued by BAM. (See "BOND INSURANCE" herein.) The District received an S&P unenhanced underlying rating of "A" on the Bonds. (See "OTHER PERTINENT INFORMATION – Ratings", herein.)
Bond Insurance	The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY** ("BAM"). (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.)
Book-Entry-Only System	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York, relating to the method and timing of payment and the method and transfer relating to the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
Future Bond Issues	The Issuer does not expect to issue any additional obligations over the next twelve months.
Delivery	When issued, anticipated on or about May 9, 2019.
Legality	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel.

OFFICIAL STATEMENT
relating to

$4,405,000
SAN PATRICIO MUNICIPAL WATER DISTRICT
(A political subdivision of the State of Texas located in San Patricio County, Texas)
WATER REVENUE REFUNDING BONDS, SERIES 2019

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the San Patricio Municipal Water District (the "District" or "Issuer") of its $4,405,000 Water Revenue Refunding Bonds, Series 2019 (the "Bonds") identified on page 2 hereof.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution (defined herein). Included in this Official Statement are descriptions of the Bonds, the System (defined herein) and certain information about the Issuer and its finances. ***ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT***. Copies of such documents may be obtained from the Issuer or the Financial Advisor, SAMCO Capital Markets, Inc., 1020 Northeast Loop 410, Suite 640, San Antonio, Texas 78209, upon request by electronic mail, or upon payment of reasonable copying, mailing, handling, and delivery charges.

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

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

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be used for (1) to defease and/or refund certain of the District's currently outstanding obligations, as identified in Schedule I hereto (the "Refunded Obligations") for debt service savings, and (2) paying the costs of issuance of the Bonds.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on their scheduled redemption date from cash and investments to be deposited with UMB Bank, N.A., Austin, Texas, a national banking association (the "Escrow Agent") pursuant to an Escrow and Trust Agreement dated as of April 9, 2019 (the "Escrow Agreement") between the District and the Escrow Agent.

The Resolution provides that the District will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the District (if any), with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Obligations at their scheduled date of early redemption (the "Redemption Date"). Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Obligations and will be used to purchase certain obligations of the United States of American and obligations of agencies and instrumentalities of the United States, including obligations that are unconditionally guaranteed by the agency or instrumentality, that are non-callable and that were, on the date the Resolution was adopted, rated as to investment quality by a nationally recognized rating firm not less than "AAA" (the "Federal Securities").

Prior to, or simultaneously with, the issuance of the Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be paid at stated maturity or will be redeemed prior to stated maturity on which dates money will be made available to pay or redeem the Refunded Obligations from money held under the Escrow Agreement.

The arithmetical accuracy of certain computations included in the schedules provided by SAMCO Capital Markets, Inc., as financial advisor to the District, on behalf of the District was examined by Ritz & Associates PA, Bloomington, Minnesota, (the "Verification Agent"). Such computations were based solely on assumptions and information supplied by SAMCO Capital Markets, Inc. on behalf of the District. The

Verification Agent has restricted its procedures to examining the arithmetical accuracy of certain computations and have not made any study or evaluation of the assumptions and information on which the computations are based, and accordingly, have not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. The Verification Agent will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities and cash deposits, if any, listed in the schedules provided by SAMCO Capital Markets, Inc., to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Obligations, and (ii) the computations of yield on both the Federal Securities and the Bonds contained in the provided schedules. The report of the Verification Agent will be relied upon by Bond Counsel in rendering its opinion with respect to the exclusion of the interest on the Bonds from gross income of the holders and the defeasance of the Refunded Obligations.

By the deposit of the cash and Federal Securities, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel, in reliance upon the report provided by the Verification Agent that as a result of such defeasance the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the District payable from the Net Revenues nor for the purpose of applying any limitation on the issuance of debt. The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment.

Sources and Uses of Funds

The proceeds from the sale of the Bonds, along with a cash contribution from the District (if any), will be applied approximately as follows:

Sources		
Par Amount of the Bonds	$	4,405,000.00
Accrued Interest on the Bonds		3,915.56
Reoffering Premium		383,158.90
Issuer Contribution		1,780,875.00
Total Sources of Funds	$	6,572,949.46
Uses		
Escrow Fund Deposit	$	6,372,339.74
Purchaser's Discount (including Insurance Premium)		35,636.45
Bond Fund Deposit		3,915.56
Costs of Issuance		161,057.71
Total Uses	$	6,572,949.46

THE BONDS

General Description

The Bonds will be dated May 1, 2019 (the "Dated Date"), will mature on the dates and in the principal amounts and will bear interest from the Dated Date at the rates set forth on page 2 of this Official Statement. Principal of and interest on the Bonds are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the security register maintained by UMB Bank, N.A., Austin, Texas, as the initial Paying Agent/Registrar, as of the Record Date (defined herein), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Bonds will be payable at stated upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

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

Authority for Issuance

The Bonds are being issued pursuant to the laws of the State of Texas, including Chapter 49, as amended, Texas Water Code, Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), Texas Revised Civil Statutes Annotated Article 8280-145, as amended, and a resolution (the "Resolution") adopted by the Board of Directors of the San Patricio Municipal Water District (the "District" or "Issuer") on April 9, 2019.

Security for Payment

General. The Bonds are special obligations of the District payable both as to principal and interest solely from and equally and ratably secured, together with the currently outstanding Parity Bonds and any Additional Parity Bonds hereafter issued by the District, by a first and prior lien on and pledge of the Net Revenues (hereinafter defined) of the System (hereinafter defined). The Refunded Obligations represent the last remaining outstanding Priority Bonds (as defined in the Resolution) and, upon making firm banking and financial arrangements for the defeased and/or redemption of the Refunded Obligations as described in "PLAN OF FINANCING – Refunded Obligations", the currently outstanding Parity Bonds and the Bonds will enjoy a first and prior lien on and pledge of the Net Revenues of the System.

In the Resolution, the District has reserved the right to issue Additional Parity Bonds (defined herein) upon compliance with certain conditions precedent and has prohibited the issuance of prospective obligations with a lien on and pledge of Net Revenues prior to and superior to the lien thereon and pledge thereof securing the payment of the currently outstanding Parity Bonds, and the Bonds, and any Additional Parity Bonds. The District also reserves the right to issue Junior Lien Obligations and Inferior Lien Obligations.

The Bonds shall not be a charge upon any other income or revenues of the Issuer, except the Net Revenues, and shall never constitute an indebtedness or pledge of the general credit power of the Issuer. The Resolution does not create any lien or mortgage on the System and any judgment against the Issuer may not be enforced by levy and execution against the property owned by the Issuer. The Resolution does not create or constitute a legal or equitable pledge, charge, lien, mortgage or encumbrance upon any property of the Issuer or the System, except the Net Revenues.

System Fund. The District hereby covenants and agrees that the Gross Revenues of the System shall be deposited, as collected and received, into a separate Fund or account to be created, established, and maintained with the Depository known as the "San Patricio Municipal Water District Water Revenue Fund" (the *System Fund*) and that the Gross Revenues of the System shall be kept separate and apart from all other funds of the District. All Gross Revenues deposited into the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

- FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses (as defined in the Resolution or required by statute), to be a first charge on and claim against the Gross Revenues of the System.
- SECOND: to the payment of the amounts required to be deposited in any funds or accounts created and established for the payment and security of the currently outstanding Parity Bonds, the Bonds and any Additional Parity Bonds hereafter issued, including any debt service reserve fund hereafter created as additional security for any Additional Parity Bonds as the same become due and payable.
- THIRD: to the payment of the amounts that must be deposited in any special funds or accounts created and established for the payment and security of any Junior Lien Obligations hereafter issued by the District.
- FOURTH: to the payment of the amounts that must be deposited in any special funds or accounts created and established for the payment and security of any Inferior Lien Obligations hereafter issued by the District.

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

Rates and Charges. The District has agreed, while any of the Parity Bonds are Outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

A. To pay all Maintenance and Operating Expenses, or any expenses required by statute to be a first claim on and charge against the Gross Revenues of the System.

B. To produce Net Revenues, together with any other lawfully available funds, sufficient to pay (i) 1.10 times the annual Debt Service Requirements for such fiscal year on the Parity Bonds and (ii) and the amounts required to be deposited in any reserve or contingency fund or account created for the payment and security of the Parity Bonds.

C. To produce Net Revenues, together with any other lawfully available funds, to pay the principal of and interest on any Junior Lien Obligations hereafter issued by the District as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security of any Junior Lien Obligations hereafter issued by the District.

D. To produce Net Revenues, together with any other lawfully available funds, to pay the principal of and interest on any Inferior Lien Obligations hereafter issued by the District as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security of any Inferior Lien Obligations hereafter issued by the District.

Should the annual audit report required by Section 22 of the Resolution reflect that the Net Revenues for the Fiscal Year covered thereby were less than necessary to meet the requirements of paragraph B above, the District will, within thirty (30) days after receipt of such annual audit report, report such fact to the Board (which report shall be in addition to other required reports to the Board) and review the operations of the System and the rates and charges for services provided, and the Board will make the necessary adjustments or revisions, if any, in order that the Net Revenues for the next succeeding Fiscal Year will be sufficient to satisfy the foregoing coverage requirement specified in paragraph B above.

In addition to the System Fund described under "THE BONDS – Security for Payment", the District has agreed and covenanted to create and maintain the following funds and accounts:

Bond Fund; Excess Bond Proceeds. For purposes of providing funds to pay the principal of and interest on the Parity Bonds (including the Bonds) as the same become due and payable, the District has agreed to maintain, establish and create, a separate and special Fund known as the "San Patricio Municipal Water District Water Revenue Refunding Bonds Interest and Sinking Fund" (the "Bond Fund"). The District has covenanted that there shall be deposited into the Bond Fund prior to each principal and interest payment date from the available Pledged Revenues an amount equal to one hundred percent (100%) of the amount required to fully pay the interest on and the principal of the Parity Bonds then falling due and payable, such deposits to pay maturing principal and accrued interest on the Parity Bonds to be made in substantially equal monthly installments on or before the 20th day of each month, beginning on or before the 20th day of the month next following the delivery of the Bonds to the Purchaser. If the Net Revenues in any month are insufficient to make the required payments into the Bond Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Bond Fund in the next month.

No Reserve Fund for the Bonds. Though it has retained the right to establish a debt service reserve fund in conjunction with the future issuance of a series of Additional Parity Bonds, no debt service reserve fund has been established with respect to the currently outstanding Parity Bonds or the Bonds.

Payment Record

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

Amendments

The Issuer may amend the Resolution without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Issuer may, with the written consent of the holders of a majority in aggregate principal amount of the Parity Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Resolution; except that, without the consent of the registered owners of all of the Parity Bonds affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Parity Bond is due and payable, reduce the principal amount thereof, or the rate of interest thereon, change the place or places at or the coin or currency in which any Parity Bond or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Parity Bonds, (2) give any preference to any Parity Bond over any other Parity Bond, or (3) reduce the aggregate principal amount of Parity Bonds required for consent to any amendment, change, modification, waiver, or rescission.

Defeasance

The Resolution provides for the defeasance of the Bonds when payment of the principal of and premium, if any on the Bonds, plus interest, thereon, to their due date (whether such due date be by reason of stated maturity, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money sufficient to make such payment and/or, (2) Government Securities (defined below), certified, in the case of a net defeasance, by an independent accounting firm of a national reputation, to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Government Securities together as certified sufficient to make such payment; provided, however, that no such certification by an independent accounting firm of the sufficiency of deposits shall be required in connection with a gross defeasance of Bonds. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Resolution provides that "Government Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, or (d) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Bonds. District officials may restrict such eligible securities as deemed appropriate. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of these securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Resolution does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding for purposes of applying any limitation on indebtedness. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to take any other action amending the terms of the Bonds are extinguished.

Default and Remedies

If the District defaults in the payment of principal of and interest on the Bonds when due, or if it fails to make payments into any fund or funds created in the Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Resolution, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Resolution and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Resolution does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Resolution, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Bonds or the Resolution. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as the pledge of Net Revenues, such provision is subject to judicial discretion. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Resolution and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principals of equity that permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. In the Resolution, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking association or corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and registered as a transfer agent with the United States Securities and Exchange Commission. Upon a change in the Paying Agent/Registrar for the Bonds, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds affected by the change by United States mail, first-class, postage prepaid.

Record Date

The record date ("Record Date") for determining the registered owner entitled to receive the interest payable on a Bond on any interest payment date means the last business day of the month next preceding each interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment will be established by the Paying Agent/Registrar. (See "REGISTRATION, TRANSFER, AND EXCHANGE - Special Record Date for Interest Payment" herein.)

Special Record Date for Interest Payment

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

The Bonds will be issued in fully registered form in multiples of $5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal will be paid to the registered owner at stated maturity upon presentation to the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Future Registration

In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of $5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Bond or Bonds surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds.)

Replacement Bonds

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

The District

The District serves the area north of Nueces Bay and Corpus Christi Bay on the South Texas coast, serving as the wholesale water provider for communities and industrial employers in San Patricio, Aransas and eastern Nueces counties. The District's industrial customers are located on or near the Port of Corpus Christi's La Quinta Ship Channel.

The District provides drinking water to wholesale customers. These customers are municipal water systems in Odem, Taft, Portland Gregory, Ingleside, Ingleside on the Bay, Aransas Pass, Port Aransas, Rockport, and Fulton and to rural water supply corporations in central and eastern San Patricio County. These systems provide water to homes and businesses.

The District's daily mission is to reliably meet the water needs of each of its municipal and industrial customers. For households, that means providing water that is safe to drink and meets expectations for taste. For industrial users it means producing and delivering water that meets the specific quality requirements of individual industrial customers.

The District was created by the Texas Legislature in 1951 and is governed by an eight-member board of directors. Member communities are Odem, Taft, Gregory Portland, Aransas Pass, Ingleside and Rockport. Seven directors are elected from member communities and the eighth member, traditionally someone familiar with the District's industrial customers, is appointed by the rest of the board.

The System

The System currently serves the Cities of Gregory, Ingleside, Ingleside on the Bay, Odem, Taft, Portland, Aransas Pass, Port Aransas (served through Nueces County Water Control and Improvement District No. 4), Rockport, and Fulton. For a more detailed description of the System, please see Appendix C.

As the area has grown, the District has constructed transmission lines and pumping stations to the cities, a new raw water transmission line from the Nueces River at Calallen to a site between Gregory and Ingleside, delivery lines to various industries, a potable water treatment plant, and a clarified water treatment plant.

The District obtains its water from the City of Corpus Christi through a potable water contract and a raw water contract (the "Raw Water Contract"). The Raw Water Contract is for a yearly amount of 41,200 acre feet. The maximum diversion rate from the Nueces River is 31 million gallons per day ("MGD") and from the Mary Rhodes Memorial Pipeline the maximum diversion rate is 20 MGD. The term of the Raw Water Contract is in perpetuity.

The potable water contract is for 10,000 acre feet per year. This is equivalent to an average daily supply of 8.93 million gallons. The potable water contract expires on March 16, 2027.

The District currently maintains and operates three treatment plants with a total treatment capacity of 34.4 million gallons per day, treated water storage of 15 million gallons, raw water storage of 212 million gallons, 47.7 miles of raw water transmission lines, 77 miles of potable water transmission lines, and 7.2 miles of reclaimed water transmission lines.

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 has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor, and the Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The District 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 United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, 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 S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, 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 Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District, the Financial Advisor, and the Purchaser believe to be reliable, but none of the District, the Financial Advisor, or the Purchaser takes responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Bonds, the Issuer will have no obligation or responsibility to the DTC. Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

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, payment or notices that are to be given to registered owners under the Resolution will be given only to DTC.

BOND INSURANCE

BOND INSURANCE POLICY

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $526 million, $113 million and $414 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

BOND INSURANCE GENERAL RISKS

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

Payment of principal of and interest on the Bonds is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see “THE BONDS – Default and Remedies”). The Insurer may direct the pursuit of available remedies, and generally must consent to any remedies available to and requested by the Beneficial Owners. In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the Net Revenues. In the event the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Bonds.

The long-term rating on the Bonds will be dependent on the financial strength of the Insurer and its claims paying ability. The Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the rating on the Bonds, whether or not subject to the Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Bonds. See the disclosure described in “OTHER PERTINENT INFORMATION – Ratings” herein.

The obligations of the Insurer under the Policy are general obligations of the Insurer and in an event of default by the Insurer; the remedies available may be limited by applicable bankruptcy law. Neither the Issuer, the Purchaser, nor its Financial Advisor has made an independent investigation into the claims paying ability of any potential Insurer, and no assurance or representation regarding the financial strength or projected financial strength of any potential Insurer is or will be given.

Thus, when making an investment decision, potential investors should carefully consider the ability of the Issuer to pay principal of and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein.

Claims-Paying ability and Financial Strength of Municipal Bond Insurers

Moody’s Investors Services, Inc., S&P Global Ratings, and Fitch Ratings, Inc. (collectively the “Rating Agencies”) have since 2008 downgraded, and/or placed on negative credit watch, the claims- paying ability and financial strength of many providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of municipal bond insurers. Thus, when making an investment decision, potential investors should carefully consider the ability of any such municipal bond insurer to pay principal and interest on the Bonds and the claims-paying ability of any such municipal bond insurer, particularly over the life of the investment.

INVESTMENT POLICIES

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

Legal Investments

Under State law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (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 the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for District deposits, or (ii) certificates of deposit where (a) the funds are invested by the District through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the District with respect to the certificates of deposit issued for the account of the District; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) 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 (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) 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 (7) 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 (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the District with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset- backed securities; (15) investment pools if the District has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the District and deposited with the District or with a third party selected and approved by the District.

The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) 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, methods to monitor the market price of investments acquired with public funds, a requirements for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, 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 Board of Directors.

Additional Provisions

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said order or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Directors; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the District's monthly average fund balance, excluding bond 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 bond proceeds, reserves and funds held for debt service and to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to confirm to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

Current Investments [(1)] **TABLE 1**

As of December 31, 2018

Investment Type	Amount	Percentage
Governmental Money Market	$ 22,529,509.00	94.46%
Cash	1,325,091.00	5.54%
Total	$ 23,917,600.00	100.00%

(1) Unaudited.

TAX MATTERS

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion is reproduced as Appendix D.

In rendering the foregoing opinions, Bond Counsel will rely upon the report of the Verification Agent (see "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" herein) and upon representations and certifications of the District made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Resolution by the District subsequent to the issuance of the Bonds. The Resolution contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

Existing law may change to reduce or eliminate the benefit to Bond holders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Ancillary Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions (see "TAX MATTERS – Qualified Tax-Exempt Obligations" herein), property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust (FASIT), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see "TAX MATTERS – Qualified Tax-Exempt Obligations" herein), life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

Tax Accounting Treatment of Premium Bonds

The initial public offering price to be paid for certain Bonds may be greater than the stated redemption price on such Bonds at maturity (the “Premium Bonds”). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable Bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable Bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable Bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds

Qualified Tax-Exempt Obligations

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by “financial institutions” described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for financial institutions, stating that such disallowance does not apply to interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are properly designated by an issuer as “qualified tax-exempt obligations.” An issuer may designate obligations as “qualified tax-exempt obligations” only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain current refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed $10,000,000.

The District has designated the Bonds as “qualified tax-exempt obligations” and has certified its expectation that the above-described $10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Bonds will be reduced by 20% pursuant to section 291 of the Code.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will file certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general included in Table1 herein and Tables 1 through 7 in Appendix B. The District will update and provide this information within six months after the end of each fiscal year ending in or after 2019.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s EMMA Internet Web site or filed with the United States Securities and Exchange Commission (the “SEC”), as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available.

Any such financial statements will be prepared in accordance with the accounting principles described in Appendix E or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

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

Notices of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non- payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material; (15) incurrence of a financial obligation of the District (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District, any of which reflect financial difficulties. Neither the Bonds nor the Resolution make any provision for a debt service reserve fund, redemption provisions, or for liquidity enhancement. In the Resolution, the District will adopt policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB.

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

Availability of Information

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

During the past five years, the District has complied in all material respects with its continuing disclosure agreements undertaken in accordance with the Rule.

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Bond is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds, issued in compliance with the provisions of the Resolution, are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel was engaged by, and only represents, the District in connection with the issuance of the Bonds. In such capacity, Bond Counsel has reviewed the information under the captions "PLAN OF FINANCING – Refunded Obligations", "THE BONDS" (except under the subcaptions "Payment Record", and "Default and Remedies", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings", as to which no opinion is expressed), "LEGAL MATTERS – Legal Opinions and No-Litigation Certificate", "LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION—Registration and Qualification of Bonds for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the Resolution contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Bonds are contingent on the sale and initial delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

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

Litigation

In the opinion of various officials of the Issuer, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the Issuer in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the Issuer.

At the time of the initial delivery of the Bonds, the District will provide the Purchaser with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of said Bonds.

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, as amended, 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. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2256, as amended, Texas Government Code, the Bonds must have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. (See "OTHER PERTINENT INFORMATION – Ratings" herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations.

The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The District has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

FORWARD-LOOKING STATEMENTS

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

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by SAMCO Capital Markets, Inc., as financial advisor to the District, on behalf of the District was examined by Ritz & Associates PA, Bloomington, Minnesota (the "Verification Agent"). Such computations were based solely on assumptions and information supplied by SAMCO Capital Markets, Inc. on behalf of the District. The Verification Agent has restricted its procedures to examining the arithmetical accuracy of certain computations and have not made any study or evaluation of the assumptions and information on which the computations are based, and accordingly, have not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. The Verification Agent will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities and cash deposits, if any, listed in the schedules provided by SAMCO Capital Markets, Inc., to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Obligations, and (ii) the computations of yield on both the Federal Securities and the Bonds contained in the provided schedules. The report of the Verification Agent will be relied upon by Bond Counsel in rendering its opinion with respect to the exclusion of the interest on the Bonds from gross income of the holders and the defeasance of the Refunded Obligations.

OTHER PERTINENT INFORMATION

Impact of Hurricane Harvey

On August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall on the Texas coast near Rockport, Texas, about 18 miles northeast of the District, before stalling over the Victoria, Texas region (the "Region"), about 75 miles north of the District. On August 27, 2017, Hurricane Harvey moved slowly east toward the greater Houston, Texas area (the "Houston Region"), again stalling (but this time over the Houston Region) for several days. This resulted in significant and wide-spread flooding across the region. The District experienced some damage to some of its facilities, however District facilities are currently operational and such damage did not have a substantial negative affect on the continuing operation of the facilities.

On August 25, 2017, the President of the United States issued a major disaster declaration that included San Patricio County, Texas (where the District is located). The major disaster declaration made federal assistance available for debris removal and emergency protective measures, including direct federal assistance, under the United States' Public Assistance program. The District utilized its general fund balance to cover a portion of the Hurricane Harvey related expenses and sought reimbursement from the Federal Emergency Management Agency for eligible disaster-related expenses. The District also filed insurance claims to cover eligible losses at sites that sustained damage. The District's insurance policies generally carry a $100,000 deductible.

The District's area did not experience the catastrophic damage received by certain political subdivisions more directly in Hurricane Harvey's path and those in the Houston Region. Nor did the impact from Hurricane Harvey adversely affect its ability to pay debt service on the Bonds or to fund operations.

Registration and Qualification of Bonds for Sale

The sale of the Bonds has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Bonds have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which they may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Purchaser to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Purchaser's written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

Ratings

S&P Global Ratings ("S&P") has assigned an enhanced municipal bond rating of "AA" to the Bonds with the understanding that concurrently with the delivery of the Bonds a municipal bond insurance policy will be issued by BAM (see "BOND INSURANCE" herein). The District received an S&P unenhanced underlying rating of "A" on the Bonds. The rating of the Bonds by S&P reflects only the views of S&P at the time the rating is given, and the Issuer makes no representation as to the appropriateness of the ratings. There is no assurance that the rating will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

Financial Advisor

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

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with its responsibilities to the 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.

Winning Bidder

After requesting competitive bids for the Bonds, the District accepted the bid of **SWBC Investment Services, LLC** (the "Purchaser" or the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a reoffering premium of $383,158.90, plus accrued interest on the Bonds from their Dated Date to their date of initial delivery. The District can give no assurance that any trading market will be developed for the District after their sale by the District to the Purchaser. The District has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the Purchaser will be furnished a certificate, executed by proper officers of the Issuer, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the Issuer contained in its Official Statement on the date of sale of the Bonds and the acceptance of the best bid therefor, and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the Issuer and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the Issuer, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the Issuer believes to be reliable and the Issuer has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the Issuer, since the date of the last financial statements of the Issuer appearing in the Official Statement.

Concluding Statement

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

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

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

The Resolution authorizing the issuance of the Bonds 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 re-offering of the Bonds by the Purchaser.

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

SAN PATRICIO MUNICIPAL WATER DISTRICT

/s/Billie Jo Tennill
President, Board of Directors
San Patricio Municipal Water District

/s/Rebecca Klaevemann
Secretary, Board of Directors
San Patricio Municipal Water District

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SCHEDULE I

Schedule of Refunded Obligations

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SCHEDULE I

Schedule of Refunded Obligations

San Patricio Municipal Water District Water Revenue Refunding Bonds, New Series 2009

Maturity Date	Principal	Interest Rate	Redemption Date
7/10/2019	$ 425,000	5.000%	(1)
7/10/2020	445,000	5.000%	7/10/2019
7/10/2021	465,000	5.000%	7/10/2019
7/10/2022	490,000	5.000%	7/10/2019
7/10/2023	515,000	5.000%	7/10/2019
7/10/2024	540,000	5.000%	7/10/2019
7/10/2025	565,000	5.000%	7/10/2019
7/10/2026	595,000	5.000%	7/10/2019
7/10/2027	625,000	5.000%	7/10/2019
7/10/2028	655,000	5.000%	7/10/2019
7/10/2029	690,000	5.000%	7/10/2019
7/10/2030	225,000	5.000%	7/10/2019
	$ 6,235,000		

(1) This maturity is being defeased to maturity in order to eliminate the "prior lien" on the Net Revenues securing the Priority Bonds (as defined in the Resolution). As such, upon the establishment and funding of the Escrow Fund pursuant to the Escrow Agreement related to the Bonds, the Parity Bonds, the Bonds, and any Additional Parity Bonds, will be equally and ratably secured by a first and prior lien on and pledge of the Net Revenues of the System.

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APPENDIX A

SELECTED PROVISIONS OF THE RESOLUTION

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APPENDIX A

<u>CERTAIN PROVISIONS OF THE RESOLUTION</u>

The following constitutes a summary of certain selected provisions of the Resolution. This summary should be qualified by reference to other provisions of the Resolution referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Resolution in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Resolution, a copy of which may be obtained from the District.

SECTION 9: <u>Definitions</u>. For all purposes of this Resolution (as defined below), except as otherwise expressly provided or unless the context otherwise requires: (i) the terms defined in this Section have the meanings assigned to them in this Section, and certain terms used in Sections 36 and 50 of this Resolution have the meanings assigned to them in such Sections, and all such terms include the plural as well as the singular; (ii) all references in this Resolution to designated "Sections" and other subdivisions are to the designated Sections and other subdivisions of this Resolution as originally adopted; and (iii) the words "herein", "hereof", and "hereunder" and other words of similar import refer to this Resolution as a whole and not to any particular Section or other subdivision.

A. The term *Additional Parity Bonds* shall mean (i) any bonds, notes, warrants, or any similar obligations hereafter issued by the District that are payable wholly or in part from and equally and ratably secured by a first and prior lien and pledge of the Net Revenues, but senior and superior to the lien thereon and pledge thereof of any additional District obligations secured by and payable from a lien on and pledge of the Net Revenues that is subordinate and inferior to the lien thereon and pledge thereof securing the repayment of any Parity Bonds and (ii) obligations hereafter issued to refund any of the foregoing that are payable from and equally and ratably secured by a first and prior lien on and pledge of the of the Net Revenues, as determined by the Board in accordance with applicable law, on parity with the lien thereon and pledge thereof securing the other Parity Bonds then-Outstanding.

B. The term *Authorized Officials* shall mean the President of the Board, the Secretary of the Board and/or the General Manager.

C. The term *Average Annual Debt Service Requirements* shall mean that average amount which, at the time of computation, will be required to pay the Debt Service Requirement on all outstanding Parity Bonds when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such Debt Service Requirement by the number of Fiscal Years then remaining before Stated Maturity of such Parity Bonds. For purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

D. The term *Board* shall mean the Board of Directors of the District.

E. The term *Bond Fund* shall mean the special Fund or account created and established by the provisions of Section 13 of this Resolution.

F. The term *Bonds* shall mean the $4,405,000 "SAN PATRICIO MUNICIPAL WATER DISTRICT WATER REVENUE REFUNDING BONDS, SERIES 2019, dated May 1, 2019, authorized by this Resolution.

G. The term *Closing Date* shall mean the date of physical delivery of the Initial Bonds for the payment in full by the Purchasers.

H. The term *Credit Agreement* shall mean a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized, and approved by the District as a Credit Agreement in connection with the authorization, issuance, security, or payment of any obligation authorized by Chapter 1371, as amended, Texas Government Code and which includes any Credit Facility.

I. The term *Credit Facility* shall mean (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, or (ii) a letter or line of credit issued by any financial institution.

J. The term *Debt* shall mean

(1) all indebtedness payable from Net Revenues incurred or assumed by the District for borrowed money (including indebtedness payable from Net Revenues arising under Credit Agreements) and all other financing obligations of the System payable from Net Revenues that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(2) all other indebtedness payable from Net Revenues (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations pertaining to the System that is guaranteed, directly or indirectly, in any manner by the District, or that is in effect guaranteed, directly or indirectly, by the District through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining *Debt*, there shall be excluded any particular Debt if, upon or prior to the maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the System in prior Fiscal Years.

K. The term *Debt Service Requirements* shall mean, as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the District as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest calculated by assuming (i) that the interest rate for every 12-month period on such bonds is equal to the rate of interest reported in the most recently published edition of *The Bond Buyer* (or its successor) at the time of calculation as the "Revenue Bond Index" or, if such Revenue Bond Index is no longer being maintained by *The Bond Buyer* (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the rate of interest then being paid on United States Treasury obligations of like maturity and (ii) that, in the case of bonds not subject to fixed scheduled mandatory sinking fund redemptions, that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds or in the manner permitted under Section 1371.057(c), as amended, Texas Government Code as the same relates to interim or non–permanent indebtedness, and in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity according to a fixed schedule, the principal amounts thereof will be redeemed prior to Stated Maturity in accordance with the mandatory redemption provisions applicable thereto (in each case notwithstanding any contingent obligation to redeem bonds more rapidly). For the term of any credit agreement in the form of an interest rate hedge agreement entered into in connection with any such obligations, Debt Service Requirements shall be computed by netting the amounts payable to the District under such hedge agreement from the amounts payable by the District under such hedge agreement and such obligations.

L. The term *Depository* shall mean an official depository bank of the District.

M. The term *District* shall mean San Patricio Municipal Water District and any other public agency succeeding to the powers, rights, privileges and functions of the District and, when appropriate, the Board of Directors of the District.

N. The term *Fiscal Year* shall mean the twelve month accounting period used by the District in connection with the operation of the System, currently ending on December 31st of each year, which may be any twelve consecutive month period established by the District, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

O. The term *Government Securities* shall mean direct obligations of, or obligations the principal of and interest as used herein, shall mean (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, or (iv) any additional securities and obligations hereafter authorized by the laws of the State of Texas as eligible for use to accomplish the discharge of obligations such as the Bonds.

P. The term *Gross Revenues* shall mean all income and increment, including, but not limited to, connection fees which may be derived from the ownership and/or operation of the System as it is purchased, constructed or otherwise acquired, but shall not mean the income and increment derived from a contract or contracts with persons, corporations, municipal corporations, political subdivisions, or other entities which under the terms of the authorizing resolution(s) or order(s) that may be pledged for the requirements of the District's Special Project Bonds issued particularly to finance the water and/or sewer facilities needed in performing any such contract or contracts.

Q. The term *Holder or Holders* shall mean the registered owner, whose name appears in the Security Register, for any Bond.

R. The term *Inferior Lien Obligations* shall mean (i) bonds, notes, warrants, or other obligations hereafter issued by the District payable wholly or in part and equally and ratably secured by a pledge of and lien on the Net Revenues of the System which is subordinate and inferior to the lien on and pledge thereof securing the payment of the currently outstanding Parity Bonds, the Bonds, and any Additional Parity Bonds or Junior Lien Obligations hereafter issued by the District, and (ii) any obligations issued to refund the foregoing that are payable from and equally and ratably secured by a subordinate and inferior lien on and pledge of the Net Revenues as determined by the Board in accordance with any applicable law.

S. The term *Insurance Policy* shall mean the municipal bond guaranty insurance policy issued by the Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

T. The term *Insurer* or *BAM* shall mean Build America Mutual Assurance Company, or any successor thereto or assignee thereof.

U. The term *Interest Payment Date* shall mean the date semiannual interest is payable on the Bonds, being January 10 and July 10 of each year, commencing January 10, 2020, while any of the Bonds remain Outstanding.

V. The term *Junior Lien Obligations* shall mean (i) bonds, notes, warrants, or other obligations hereafter issued by the District payable and equally and ratably secured wholly or in part from a pledge of and lien on Net Revenues of the System which is junior and inferior to the lien on and pledge thereof securing the payment of the currently outstanding Parity Bonds, the Bonds, and the Additional Parity Bonds hereafter issued by the District, but superior to the lien on and pledge of the Net Revenues securing the payment of any Inferior Lien Obligations hereafter issued by the District, and (ii) any obligations issued to refund the foregoing payable and equally and ratably secured from a junior and inferior lien on and pledge of the Net Revenues as determined by the Board in accordance with any applicable law.

W. The term *Maintenance and Operating Expenses* shall mean the expenses necessary to provide for the administration, efficient operation and adequate maintenance of the District's System, including the cost of purchasing water, paying necessary wages, salaries, and benefits, the acquisition of property and materials necessary to maintain the System in good condition and to operate it efficiently, together with such other costs and expenses as may now or hereafter be defined by law as proper maintenance and operating expenses of the System (which costs and expenses, however, specifically exclude any allowance for depreciation, property, retirement, depletion, obsolescence, and other items not requiring an outlay of cash and any interest on notes, the Bonds, other Parity Bonds, or any Debt).

X. The term *Net Revenues* shall mean Gross Revenues of the System, with respect to any period, after deducting the System's Maintenance and Operating Expenses during such period.

Y. The term *Outstanding* shall mean when used in this Resolution with respect to Bonds means, as of the date of determination, all Bonds issued and delivered under this Resolution, except:

(1) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

(2) those Bonds for which payment has been duly provided by the District in accordance with the provisions of Section 38 of this Resolution by the irrevocable deposit with the Paying Agent/Registrar, or an authorized escrow agent, of money or Government Obligations, or both, in the amount necessary to fully pay the principal of, premium, if any, and interest thereon to maturity; and

(3) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 32 of this Resolution.

Z. The term *Parity Bonds* shall mean the outstanding and unpaid (1) "San Patricio Municipal Water District Water Revenue Refunding Bonds, Series 2015", dated March 15, 2015, in the original principal amount of $19,180,000, (2) San Patricio Municipal Water District Water Revenue Refunding Bonds, Series 2017, in the original principal amount of $9,510,000, (3) the Bonds, and (4) obligations hereafter issued to refund any of the foregoing secured by a first and prior lien on and pledge of the Net Revenues of the System that is now senior and superior to the lien on and pledge of Net Revenues securing the repayment of any Junior Lien Obligations or any Inferior Lien Obligations hereafter issued by the District, as determined by the Board of Directors in accordance with any applicable law.

AA. The term *Purchasers* shall mean the initial purchaser or purchasers of the Bonds named in Section 33 of this Resolution.

BB. The term *Resolution* shall mean this resolution adopted by the Board on April 9, 2019.

CC. The term *Special Project Bonds* shall mean bonds which the District expressly reserves the right to issue in Section 19 of this Resolution.

DD. The term *Stated Maturity* shall mean the annual principal payments of the Bonds payable on July 10 of each year, as set forth in Section 2 of this Resolution.

EE. The term *System* shall mean the works, improvements, facilities, plants, equipments, appliances, property, easements, leaseholds, licenses, privileges, right of use or enjoyment, contract rights or other interests in property comprising the waterworks system and sewer system of the District now owned or to be hereafter purchased, constructed or otherwise acquired whether by deed, contract or otherwise, together with any additions or extensions thereto or improvements and replacements thereof, or the waterworks system and sewer system of any other entity to which the District has contractual rights of use, except the water and/or sewer facilities which the District may purchase or acquire with the proceeds of the sale of Special Project Bonds, so long as such Special Project Bonds are outstanding, notwithstanding that such facilities may be physically connected with the System.

SECTION 10: <u>Pledge of Net Revenues</u>.

A. The District hereby covenants and agrees that the Net Revenues of the System are hereby irrevocably pledged to the payment and security of the Parity Bonds including the establishment and maintenance of the special funds or accounts created and established for the payment and security thereof, as hereinafter provided. It is hereby resolved that the Parity Bonds, and the interest thereon, shall constitute a lien on and pledge of the Net Revenues of the System and shall be valid and binding without any physical delivery thereof or further act by the District.

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

SECTION 11: <u>Rates and Charges</u>. For the benefit of the Holders of the Parity Bonds and in addition to all provisions and covenants in the laws of the State of Texas and in this Resolution, the District hereby expressly stipulates and agrees, while any of the Parity Bonds are Outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

A. To pay all Maintenance and Operating Expenses, or any expenses required by statute to be a first claim on and charge against the Gross Revenues of the System;

B. to produce Net Revenues, together with any other lawfully available funds, sufficient to pay (i) 1.10 times the annual Debt Service Requirements for such Fiscal Year on the

Parity Bonds and (ii) and the amounts required to be deposited in any reserve or contingency fund or account created for the payment and security of the Parity Bonds;

C. to produce Net Revenues, together with any other lawfully available funds, to pay the principal of and interest on any Junior Lien Obligations hereafter issued by the District as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security of any Junior Lien Obligations hereafter issued by the District; and

D. to produce Net Revenues, together with any other lawfully available funds, to pay the principal of and interest on any Inferior Lien Obligations hereafter issued by the District as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security of any Inferior Lien Obligations hereafter issued by the District.

Should the annual audit report required by Section 22 hereof reflect that the Net Revenues for the Fiscal Year covered thereby were less than necessary to meet the requirements of paragraph B of this Section, the District will, within thirty (30) days after receipt of such annual audit report, report such fact to the Board (which report shall be in addition to other required reports to the Board) and review the operations of the System and the rates and charges for services provided, and the Board will make the necessary adjustments or revisions, if any, in order that the Net Revenues for the next succeeding Fiscal Year will be sufficient to satisfy the foregoing coverage requirement specified in paragraph B above.

SECTION 12: System Fund. The District hereby covenants and agrees that the Gross Revenues of the System shall be deposited, as collected and received, into a separate Fund or account to be created, established, and maintained with the Depository known as the "San Patricio Municipal Water District Water Revenue Fund" (the *System* Fund) and that the Gross Revenues of the System shall be kept separate and apart from all other funds of the District. All Gross Revenues deposited into the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

- FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses as defined herein or required by statute, to be a first charge on and claim against the Gross Revenues of the System.

- SECOND: to the payment of the amounts required to be deposited in any funds or accounts created and established for the payment and security of the currently outstanding Parity Bonds, the Bonds, and any Additional Parity Bonds, including any debt service reserve fund hereafter created as additional security for any Additional Parity Bonds as the same become due and payable; provided, however, that the payments into or replenishment of the debt service reserve fund referenced in Section 14 hereof shall be made only after the payments under FIRST AND SECOND above have been made or duly provided for.

- THIRD: to the payment of the amounts that must be deposited in any special funds or accounts created and established for the payment and security of any Junior Lien Obligations hereafter issued by the District.

- FOURTH: to the payment of the amounts that must be deposited in any special funds or accounts created and established for the payment and security of any Inferior Lien Obligations hereafter issued by the District.

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

SECTION 13: Bond Fund; Excess Bond Proceeds. For purposes of providing funds to pay the principal of and interest on the Parity Bonds as the same become due and payable, the District agrees to maintain, at the Depository, a separate and special Fund or account to be created and known as the "San Patricio Municipal Water District Water Revenue Refunding Bonds, Series 2019 Interest and Sinking Fund" (the *Bond Fund*). The District covenants that there shall be deposited by the Authorized Officials into the Bond Fund prior to each principal and interest payment date from the available Net Revenues an amount equal to one hundred per cent (100%) of the amount required to fully pay the interest on and the principal of the Parity Bonds then stated to mature, such deposits to pay maturing principal and accrued interest on the Parity Bonds to be made in substantially equal monthly installments on or before the twentieth day of each month, beginning on or before the twentieth day of the month next following the delivery of the Bonds to the Purchasers. If the Net Revenues in any month are insufficient to make the required payments into the Bond Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Bond Fund in the next month. For the avoidance of doubt, and for purposes of clarity, the Net Revenues of the System shall be utilized by the District, as received, in the following manner for so long as any Parity Bonds remain Outstanding:

- FIRST: to the payment of the amounts that must be deposited in any special funds or accounts, including the Bond Fund, created and established for the payment and security of the currently outstanding Parity Bonds, the Bonds, and any Additional Parity Bonds, and including any debt service reserve fund hereafter created as additional security for any Additional Parity Bonds (being the SECOND level of priority in Section 12 hereof); provided, however, that the payments into or replenishment of the debt service reserve fund referenced in Section 14 hereof shall be made only after the payments under the FIRST AND SECOND levels of priority in Section 12 hereof have been made or duly provided for and the debt service payments on the Parity Bonds have been made or duly provided for.

The required monthly deposits to the Bond Fund for the payment of principal of and interest on the Parity Bonds shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in the Bond Fund is equal to the amount required to fully pay and discharge all outstanding Parity Bonds (principal and interest) or (ii) the Bonds are no longer Outstanding.

Accrued interest received from the Purchasers shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited into the Bond Fund from the Net Revenues of the System. Additionally, any proceeds of the Bonds, and investment income thereon, not expended for authorized purposes shall be deposited into the Bond Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Bond Fund from the Net Revenues of the System.

SECTION 14: Reserve Fund. The District hereby reserves the right to establish, at the time of issuance of any series of Additional Parity Bonds, a debt service reserve fund, as either a segregated fund created for the benefit of a particular series of Additional Parity Bonds or a combined fund applicable to all Parity Bonds at such time Outstanding, and to provide for the funding of any such debt service reserve fund in the manner (which may be in any manner then or thereafter permitted by applicable law) and amount as prescribed in the District resolution authorizing the issuance of the series of Additional Parity Bonds in conjunction with which such reserve fund is created. No debt service reserve is created in connection with the issuance of the Bonds.

SECTION 15: Deficiencies - Excess Net Revenues.

A. If on any occasion there shall not be sufficient Net Revenues of the System (after making all payments pertaining to Parity Bonds) to make the required deposits into the Bond Fund, then such deficiency shall be cured as soon as possible from the next available unallocated Net Revenues of the System, or from any other sources available for such purpose, and such payments shall be in addition to the amounts required to be paid into these Funds or accounts during such month or months.

B. Subject to making the required deposits to the Bond Fund when and as required by this Resolution, or any resolution authorizing the issuance of Additional Parity Bonds, the excess Net Revenues of the System may be used by the District for any lawful purpose including, but not limited to, the redemption of any Parity Bonds.

SECTION 16: Payment of Parity Bonds. While any of the Parity Bonds are Outstanding, the Authorized Officials, shall cause to be transferred to the Paying Agent/Registrar therefor, from funds on deposit in the Bond Fund, amounts sufficient to fully pay and discharge promptly each installment of interest on and principal of the Parity Bonds as such installment accrues or matures; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Parity Bonds at the close of the business day next preceding the date a debt service payment is due on the Parity Bonds.

SECTION 17: Investments. Funds held in any Fund or account created, established, or maintained pursuant to this Resolution shall, at the option of the District, be invested as permitted by the provisions of the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, or any other law, and secured (to the extent not insured by the Federal Deposit Insurance Corporation) by obligations of the type hereinafter described, including investments held in book-entry form, in securities including, but not limited to, direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, Farmers Home Administration, Federal Home Loan Mortgage Association, or Federal Housing Association; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund or account will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year. All interest and income derived from deposits and investments in the Bond Fund immediately shall be credited to, and any losses debited to, the Bond Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Parity Bonds.

SECTION 18: Issuance of Additional Parity Bonds. In addition to the right to issue Junior Lien Obligations and Inferior Lien Obligations as authorized by Section 19 hereof and any laws of the State of Texas, the District reserves the right hereafter to issue additional parity bonds (herein called *Additional Parity Bonds*) payable form and equally and ratably secured by a lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as are the Bonds at such time Outstanding, and such Parity Bonds and Additional Parity Bonds at such time Outstanding shall be in all respects of equal dignity. The Additional Parity Bonds may be issued in one or more installments, provided, however, that none shall be issued unless and until the following conditions have been met:

A. the General Manager (or other official of the District having primary responsibility for the fiscal affairs of the District) shall have executed a certificate stating that (i) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Additional Parity Bonds to satisfy the District's obligations under this Resolution, the District is not then in default as to any covenant, obligation, or agreement contained in any resolution or other proceedings relating to any obligations of the District payable from and secured by a first and prior lien on and pledge of the Net Revenues of the System and (ii) all payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues of the System have been duly made and that the amounts on deposit in such special funds or accounts are the amounts then required to be deposited therein;

B. the General Manager has executed a certificate to the effect that, according to the books and records of the District, the Net Revenues of the System, for the preceding Fiscal Year or for any 12 consecutive months out of the 18 months immediately preceding the month the resolution authorizing the Additional Parity Bonds is adopted, are at least equal to one and one-fourth (1-1/4) times the average annual requirement for the payment of principal of and interest on all outstanding Parity Bonds after giving effect to the Additional Parity Bonds then proposed. In making a determination of the Net Revenues, the General Manager may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Net Revenues are to be determined and, for purposes of satisfying the above Net Revenues test, make a pro forma determination of the Net Revenues for the period of time covered by his certification based on such change in rates and charges being in effect for the entire period covered by the General Manager's certificate;

C. the resolution authorizing the issuance of the Additional Parity Bonds provides for deposits to be made to the Bond Fund in amounts sufficient to pay the principal of and interest on such Additional Parity Bonds as same mature; and

D. Outstanding Parity Bonds may be refunded (pursuant to any law then available) upon such terms and conditions as the Board may deem to the best interest of the District and its inhabitants, and, if less than all such outstanding revenue bonds are refunded, the proposed refunding bonds shall be considered as "Additional Parity Bonds" under the provisions of this Section and the General Manager's certificate required in subdivision B shall give effect to the issuance of the proposed refunding bonds (and shall not give effect to the bonds being refunded following their cancellation or provision being made for their payment); provided, however, that there shall not be required a certificate of the type required in subsection B hereof if the refunding of outstanding Parity Bonds results in a net present value savings to the District (when comparing debt service requirements of the District pre and post refunding).

E. All calculations of principal and interest requirements made pursuant to this Section are made as of and from the date of the Additional Parity Bonds then proposed to be issued.

SECTION 19: Obligations of Junior Lien and Inferior Lien and Pledge. The District hereby also reserves the right to issue, at any time, obligations including, but not limited to, Junior Lien Obligations and Inferior Lien Obligations payable from and secured, in whole or in part, by a lien on and pledge of the Net Revenues of the System subordinate and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of the Parity Bonds, as may be authorized by the laws of the State of Texas.

SECTION 20: Special Project Bonds. The District further reserves the right to issue bonds in one or more installments for the purchase, construction, improvement, extension, replacement, enlargement or repair of water, sewer and/or drainage facilities necessary under a contract or contracts with persons, corporations, municipal corporations, political subdivisions, or other entities, such bonds to be payable from and secured by the proceeds of such contract or contracts. The District further reserves the right to refund such bonds and secure the payment of the debt service requirements on the refunding bonds in the same manner.

SECTION 21: Maintenance of System - Insurance. The District covenants, agrees, and affirms its covenants that while the Parity Bonds remain outstanding it will maintain and operate the System with all possible efficiency and maintain casualty and other insurance on the properties of the System and its operations of a kind and in such amounts customarily carried by municipal corporations in the State of Texas engaged in a similar type of business (which may include an adequate program of self-insurance); and that it will faithfully and punctually perform all duties with reference to the System required by the laws of the State of Texas. All money received from losses under such insurance policies, other than public liability policies, shall be retained for the benefit of the holders of the Parity Bonds, until and unless the proceeds are paid out in making good the loss or damage in respect of which such proceeds are received, either by replacing the property destroyed or repairing the property damaged, and adequate provision for making good such loss or damage must be made within ninety (90) days after the date of loss. The payment of premiums for all insurance policies required under the provisions hereof shall be considered Maintenance and Operating Expenses. Nothing in this Resolution shall be construed as requiring the District to expend any funds which are derived from sources other than the operation of the System but nothing herein shall be construed as preventing the District from doing so.

SECTION 22: Records and Accounts - Annual Audit. The District covenants and agrees that so long as any of the Parity Bonds remain outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the System in which complete and correct entries shall be made of all transactions relating thereto as provided by applicable law. The Holders of the Bonds or any duly authorized agent or agents of such Holders shall have the right to inspect the System and all properties comprising the same. The District further agrees that following (and in no event later than 210 days after) the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Copies of each annual audit shall be furnished, without charge, to the (i) Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, (ii) any subsequent Holder thereof. Expenses incurred in making the annual audit of the operations of the System are to be regarded as Maintenance and Operating Expenses.

SECTION 23: Sale or Encumbrance of System. While any Parity Bonds remain Outstanding, the District will not sell, dispose of or, except as permitted in Sections 18, 19, and 20, further encumber the System or any substantial part thereof; provided, however, that this provision shall not prevent the District from disposing of any of the System which is being replaced or is deemed by the District to be obsolete, worn out, surplus or no longer needed for the proper operation of the System. Any agreement pursuant to which the District contracts with a person, corporation, municipal corporation or political subdivision to operate the System or to lease and/or operate all or part of the System shall not be considered as an encumbrance of the System.

SECTION 24: Competition. To the extent it legally may, the District will not grant any franchise or permit for the acquisition, construction or operation of any competing facilities which might be used as a substitute for the System and will prohibit the operation of any such competing facilities.

SECTION 25: Special Covenants. The District further covenants and agrees that:

A. Encumbrance and Sale. Other than with respect to the currently outstanding Parity Bonds and except as provided in this Resolution, the Net Revenues have not in any manner been pledged to the payment of any debt or obligation of the District, or otherwise; and while any of the Parity Bonds are Outstanding, the District will not, except with respect to the Parity Bonds and except as provided in this Resolution, additionally encumber the Net Revenues unless such encumbrance is made subordinate and inferior in all respects to the Parity Bonds and all liens, pledges and covenants made in connection therewith.

B. While the Parity Bonds are Outstanding, and except as specifically permitted in Section 18, 19, and 20 of this Resolution, the District shall not mortgage, pledge, encumber, sell, lease, or otherwise dispose of or impair its title to the System or any significant or substantial part thereof.

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

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

E. Performance. The District will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Resolution and each resolution authorizing the issuance of Bonds, and in each and every Bond and pay from the Net Revenues the principal of and interest on every Bond on the dates and in the places and manner prescribed in such resolutions and Bonds; and that it will, at the times and in the manner prescribed, deposit or cause to be deposited from the Net Revenues the amounts required to be deposited into the Bond Fund; and the Holder of the Bonds may require the District, its officials, agents, and employees to carry out, respect, or enforce the covenants and obligations of this Resolution or any resolution authorizing the issuance of Bonds including, but without limitation, the use and filing of mandamus proceedings, in any court or competent jurisdiction, against the District, its officials, agents, and employees.

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

G. Budget. The District will prepare, adopt, and place into effect an annual budget (the *Annual Budget*) for operation and maintenance of the System for each Fiscal Year, including in each Annual Budget such items as are customarily and reasonably contained in a waterworks system budget under generally accepted accounting procedures.

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

SECTION 26: Limited Obligations of the District. The Bonds are limited, special obligations of the District payable from and equally and ratably secured, together with any Additional Parity Bonds hereafter issued by the District, solely by a lien on and pledge of the Net

Revenues of the System at the level of priority specified in Section 10 hereof, and the Holders thereof shall never have the right to demand payment of the principal or interest on the Bonds from any funds raised or to be raised through taxation by District.

SECTION 27: Security of Funds. All money on deposit in the Funds or accounts for which this Resolution makes provision (except any portion thereof as may be at any time properly invested as provided herein) shall be secured in the manner and to the fullest extent required by the laws of Texas for the security of public funds, and money on deposit in such Funds or accounts shall be used only for the purposes permitted by this Resolution.

SECTION 28: Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the District covenants and agrees particularly that in the event the District (a) defaults in the payments to be made to the Bond Fund, or (b) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Resolution, the Holders of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the District and other officers of the District to observe and perform any covenant, condition, or obligation prescribed in this Resolution.

No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall 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. The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

APPENDIX B

FINANCIAL INFORMATION RELATING TO THE SAN PATRICIO MUNICIPAL WATER DISTRICT

FINANCIAL INFORMATION OF THE ISSUER

The District has no general obligation debt outstanding. The District is not presently authorized to levy an ad valorem tax without voter approval. The District may, under Article 8280-145, Texas Revised Civil Statutes Annotated, as amended, levy an ad valorem tax if tax bonds are authorized by the voters.

REVENUE BOND DEBT DATA

[As of April 1, 2019]

Outstanding Priority Lien Water Revenue Bonds	
Water Revenue Bonds, New Series 2009	$ - [1]
Outstanding Parity Lien Water Revenue Bonds	
Water Revenue Refunding Bonds, Series 2015	$ 15,535,000
Water Revenue Refunding Bonds, Series 2017	$ 9,420,000
The Bonds	$ 4,405,000
Total Parity Lien Outstanding	$ 29,360,000

[1] *Excludes the Refunded Obligations.*

CAPITAL ASSETS — TABLE 1

(As of December 31, 2017)

Business-Type Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Land	$ 790,928	$ -	$ -	$ 790,928
Easements	684,957	-	-	684,957
Total capital assets, not being depreciated	1,475,885	-	-	1,475,885
Capital assets, being depreciated:				
Water Division	92,994,505	1,435,091	-	94,429,596
Reuse Division	2,790,636	-	-	2,790,636
Furniture, Machinery and equipment	2,323,596	148,525	(51,515)	2,523,636
Total capital assets, being depreciated	98,108,737	1,583,616	(51,515)	99,743,868
Less accumulated depreciation for:				
Water Divison	(31,769,509)	(2,391,582)	-	(34,161,091)
Reuse Division	(870,534)	(55,622)	-	(926,156)
Furniture, Machinery and equipment	(1,591,932)	(165,776)	(20,893)	(1,736,815)
Total accumulated depreciation	(34,231,975)	(2,612,980)	(20,893)	(36,824,062)
Total capital assets, being depreciated, Net	63,876,762	(1,029,364)	(72,408)	62,919,806
Business-type activities capital assets, Net	65,352,647	(1,059,986)	-	64,292,661
Construction in Progress	8,079,066	3,200,824	3,801,731	7,478,159
Total Capital Assets	$ 73,431,713	$ 2,140,838	$ 3,801,731	$ 71,770,820

Depreciation expense was charged to functions of the Enterprise Fund as follows:

Business-type activities:	
Water Divison	$ 2,557,359
Reuse Division	55,621
Total Depreciation expense-business-type activities	2,612,980

DEBT SERVICE REQUIREMENTS

FYE (12/31)	Current Outstanding Debt Service	Less: Refunded Obligations	The Bonds Principal	The Bonds Interest	The Bonds Total	Outstanding Total Debt Service
2019	$ 2,976,875	$ 580,875				$ 2,396,000
2020	2,978,125	735,500	$ 520,000	$ 209,972	$ 729,972	2,972,597
2021	2,976,275	733,250	570,000	155,400	725,400	2,968,425
2022	2,976,225	735,000	595,000	132,600	727,600	2,968,825
2023	2,977,725	735,500	620,000	108,800	728,800	2,971,025
2024	2,980,675	734,750	640,000	84,000	724,000	2,969,925
2025	2,974,275	732,750	665,000	58,400	723,400	2,964,925
2026	2,977,875	734,500	695,000	31,800	726,800	2,970,175
2027	2,980,725	734,750	100,000	4,000	104,000	2,349,975
2028	2,973,675	733,500	-	-	-	2,240,175
2029	2,983,625	735,750	-	-	-	2,247,875
2030	2,479,875	236,250	-	-	-	2,243,625
2031	2,567,725	-	-	-	-	2,567,725
2032	2,550,275	-	-	-	-	2,550,275
Total	$ 40,353,950	$ 8,162,375	$ 4,405,000	$ 784,972	$ 5,189,972	$ 37,381,547

COVERAGE FACTOR

Average Annual Debt Service Requirement:	
Net Revenues Available for Debt Service (12/31/2017)	$ 5,021,221
Average Annual Debt Service Requirement for the Bonds (FY 2019-2032)	2,670,110
Coverage Factor	1.88X
Maximum Annual Debt Service Requirement:	
Net Revenues Available for Debt Service (12/31/2017)	$ 5,021,221
Maximum Annual Debt Service Requirement for the Bonds (2029)	2,972,597
Coverage Factor	1.69X

PRINCIPAL REPAYMENT SCHEDULE

FYE (12/31)	Outstanding Principal	Less: Refunded Obligations Principal	Plus: The Bonds Principal	Total Principal Outstanding	Principal Outstanding at End of Year	Percent of Principal Retired
2019	$ 1,760,000	$ 425,000		$ 1,335,000	$ 28,025,000	5%
2020	1,835,000	445,000	$ 520,000	1,910,000	26,115,000	11%
2021	1,910,000	465,000	570,000	2,015,000	24,100,000	18%
2022	1,990,000	490,000	595,000	2,095,000	22,005,000	25%
2023	2,075,000	515,000	620,000	2,180,000	19,825,000	32%
2024	2,150,000	540,000	640,000	2,250,000	17,575,000	40%
2025	2,250,000	565,000	665,000	2,350,000	15,225,000	48%
2026	2,365,000	595,000	695,000	2,465,000	12,760,000	57%
2027	2,485,000	625,000	100,000	1,960,000	10,800,000	63%
2028	2,565,000	655,000	-	1,910,000	8,890,000	70%
2029	2,665,000	690,000	-	1,975,000	6,915,000	76%
2030	2,255,000	225,000	-	2,030,000	4,885,000	83%
2031	2,415,000	-	-	2,415,000	2,470,000	92%
2032	2,470,000	-	-	2,470,000	-	100%
Total	$ 31,190,000	$ 6,235,000	$ 4,405,000	$ 29,360,000		

PROPRIETY FUND COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES **TABLE 2**

	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13
Revenues:					
Customer Service Fees	$ 19,063,912	$ 20,002,249	$ 20,174,183	$ 19,239,039	$ 17,797,476
Miscellaneous	317,734	664,831	658,376	464,224	722,452
Total Revenues	$ 19,381,646	$ 20,667,080	$ 20,832,559	$ 19,703,263	$ 18,519,928
Expenditures:					
Water Purchased	$ 6,819,835	$ 7,337,178	$ 8,177,316	$ 7,269,406	$ 7,035,606
Directors fees and expenses	17,511	20,009	15,334	14,166	18,813
Personnel Costs	4,077,394	3,564,953	3,372,360	3,626,117	3,930,651
Professional Fees	113,534	284,281	144,276	108,015	597,091
Repairs and Maintenance	723,294	798,351	752,819	813,382	519,975
Fuel and Lubricants	64,097	44,395	50,282	79,152	90,056
Chemicals	1,205,424	1,206,310	1,168,416	1,065,647	1,309,571
Laboratory Costs	37,071	34,261	30,437	28,626	36,786
Utilities and Telephone	832,730	1,055,721	1,263,982	1,155,124	1,166,734
Office Supplies	119,126	140,481	130,993	130,741	123,651
Insurance and Bonding	344,893	385,695	317,540	358,534	334,725
Training and Seminars	69,245	48,701	57,209	59,404	65,106
Water Conservation Programs	3,953	4,145	12,822	5,221	7,147
Dues and Publications	7,375	6,885	7,148	7,365	6,669
Permits, Fees and Testing	4,051	2,569	1,140	1,882	1,394
Assessments	120	137	121	145	107
Mileage and Expenses	22,554	21,338	21,616	23,048	25,281
Election Cost	-	-	-	280	-
Capital Outlay	-	-	2,260,302	-	-
Depreciation	2,612,980	2,420,497	321,400	2,307,550	2,290,806
Total Expenditures	$ 17,075,187	$ 17,375,907	$ 18,105,513	$ 17,053,805	$ 17,560,169
Operating Income (Loss)	$ 2,306,459	$ 3,291,173	$ 2,727,046	$ 2,649,458	$ 959,759
Non Operating Revenues					
Special Item	847,105	9,442,237	6,270,740	2,370,811	2,734,984
Bond Premium		-	-	-	-
Interest Revenue	101,782	44,226	15,101	8,498	11,492
Interest Expense &	(1,209,182)	(1,390,390)	(1,872,608)	(1,928,339)	(2,025,476)
Loss on Sale of assets	-	-	-	-	-
Bond Issuance & Associated Cost	-	-	-	-	-
Total Non Operating Revenues	$ (260,295)	$ 8,096,073	$ 4,413,233	$ 450,970	$ 721,000
Excess (Deficiency) of revenues In over expenditures and	2,046,164	11,387,246	7,140,278	3,100,428	1,680,759
Net Position, beginning of year	50,809,718	39,422,472	31,205,792	28,105,364	26,424,605
Pension Restatement	-	-	1,076,402	-	-
Net Position, end of year	$ 52,855,882	$ 50,809,718	$ 38,346,070	$ 31,205,792	$ 28,105,364

Source: The Issuer's Comprehensive Annual Financial Reports.

Based upon unaudited financials for the fiscal year ending December 31, 2018, the District had operating income of $5,330,993.65 (excluding depreciation).

WATER SALES AND PURCHASES **TABLE 3**

(Amounts Billed)

	2018		2017		2016		2015		2014	
	Total Amount Billed	% of Total Billed	Total Amount Billed	% of Total Billed	Total Amount Billed	% of Total Billed	Total Amount Billed	% of Total Billed	Total Amount Billed	% of Total Billed
Treated Water Sales										
Municipal	10,158,013	94.05%	10,158,759	93.83%	9,653,836	83.94%	9,057,135	45.65%	8,914,078	47.26%
Sherwin Alumina*	1,525	0.01%	41,662	0.38%	1,236,924	10.75%	1,653,355	8.33%	1,325,094	7.03%
Water Supply Corp.	484,772	4.49%	452,309	4.18%	442,395	3.85%	444,508	2.24%	411,612	2.18%
Rural	133,773	1.24%	174,412	1.61%	142,654	1.24%	160,157	0.81%	113,897	0.60%
Nashtec	22,634	0.21%	-	0.00%	25,466	0.22%	28,453	0.14%	6,529	0.03%
Sub-total	10,800,715	100.00%	10,827,142	100.00%	11,501,275	100.00%	11,343,608	57.18%	10,771,210	57.11%
Industrial Treated Water										
Occ. Chem. Corp.	3,595,829	46.38%	3,369,940	45.90%	3,398,850	54.65%	3,467,700	59.59%	3,235,726	59.06%
Ingleside Cogeneration	1,200,698	15.49%	1,252,498	17.06%	1,647,320	26.49%	1,447,654	24.88%	1,335,360	24.37%
Ingleside Ethylene	1,703,956	21.98%	1,619,345	22.06%	186,291	3.00%	-	0.00%	-	0.00%
Chemours Company	1,028,075	13.26%	992,535	13.52%	744,550	11.97%	-	0.00%	-	0.00%
Dupont	-	0.00%	-	0.00%	-	0.00%	612,829	10.53%	650,569	11.87%
Air Liquide	104,413	1.35%	107,220	1.46%	242,326	3.90%	290,927	5.00%	257,179	4.69%
Corpus Christi Liquifaction	117,927	1.52%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
TPCO	1,969	0.03%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Sub-Total	7,752,867	100.00%	7,341,538	100.00%	6,219,337	100.00%	5,819,110	100.00%	5,478,834	100.00%
Untreated Water Sales										
Sherwin Alumina*	1,090	0.26%	-	0.00%	1,166,946	54.08%	1,498,439	55.99%	1,564,255	59.89%
Nashtec	922	0.22%	-	0.00%	1,951	0.09%	3,908	0.15%	3,281	0.13%
Gregory Power Partners	117,624	28.07%	453	0.16%	857,974	39.76%	-	0.00%	-	0.00%
voestalpine	295,900	70.60%	274,419	95.50%	114,125	5.29%	-	0.00%	-	0.00%
Gregory Power Partners	-	0.00%	-	0.00%	-	0.00%	1,157,156	43.24%	1,027,208	39.33%
Others	3,573	0.85%	12,469	4.34%	16,775	0.78%	16,889	0.63%	17,019	0.65%
Sub-Total	419,108	100.00%	287,341	100.00%	2,157,771	100.00%	2,676,392	100.00%	2,611,763	100.00%
Total	18,972,690	100.00%	18,456,021	100.00%	19,878,383	100.00%	19,839,110	100.00%	18,861,807	100.00%

Source: The Issuer's Comprehensive Annual Financial Reports.

WATER SALES AND PURCHASES **TABLE 4**

(Gallons Sold)

	2018		2017		2016		2015		2014		2013	
	Total Amount Billed	% of Total Billed	Total Amount Billed	% of Total Billed	Total Amount Billed	% of Total Billed	Total Amount Billed	% of Total Billed	Total Amount Billed	% of Total Billed	Total Amount Billed	% of Total Billed
Treated Water Sales												
Municipal	3,224,766	94.65%	3,266,482	94.52%	3,144,572	84.48%	2,950,207	39.18%	3,084,456	40.06%	3,121,978	39.34%
Sherwin Alumina*	484	0.01%	13,396	0.39%	402,907	10.82%	538,552	7.15%	458,510	5.96%	431,641	5.44%
Water Supply Corps.	150,308	4.41%	141,500	4.09%	139,430	3.75%	141,247	1.88%	138,925	1.80%	152,051	1.92%
Rural	24,408	0.72%	34,461	1.00%	27,026	0.73%	30,970	0.41%	22,513	0.29%	17,152	0.22%
Nashtec	7,039	0.21%	-	0.00%	8,295	0.22%	9,268	0.12%	2,259	0.03%	3,563	0.04%
Sub-total	3,407,005	100.00%	3,455,839	100.00%	3,722,230	100.00%	3,670,244	48.75%	3,706,663	48.14%	3,726,385	46.96%
Industrial Treated Water												
Occ. Chem Corp.	1,598,146	48.91%	1,517,991	48.19%	1,537,941	58.09%	1,569,095	62.62%	1,586,140	61.42%	1,580,198	59.82%
Ingleside Cogeneration	470,862	14.41%	483,590	15.35%	631,157	23.84%	556,790	22.22%	575,586	22.29%	550,183	20.83%
Ingleside Ethylene	715,948	21.91%	732,460	23.25%	75,146	2.84%	-	0.00%	-	0.00%	-	0.00%
Chemours Company	391,934	11.99%	368,972	11.71%	297,820	11.25%	-	0.00%	-	0.00%	-	0.00%
Dupont	-	0.00%	-	0.00%	-	0.00%	253,235	10.11%	302,590	11.72%	387,777	14.68%
Air Liquide	40,159	1.23%	46,821	1.49%	105,359	3.98%	126,490	5.05%	117,972	4.57%	123,433	4.67%
Corpus Christi Liquifaction	49,969	1.53%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
TPCO	625	0.02%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Sub-Total	3,267,643	100.00%	3,149,834	100.00%	2,647,423	100.00%	2,505,610	100.00%	2,582,288	100.00%	2,641,591	100.00%
Untreated Water Sales												
Sherwin Alumina *	-	0.00%	-	0.00%	583,473	52.42%	730,946	9.71%	786,058	10.21%	945,529	11.92%
Nashtec	-	0.00%	-	0.00%	606	0.05%	997	0.01%	810	0.01%	694	0.01%
Gregory Power Partners	-	0.00%	231	0.16%	468,838	42.12%	618,800	8.22%	618,800	8.04%	620,500	7.82%
voestalpine	132,098	99.58%	144,431	99.42%	59,345	5.33%	-	0.00%	-	0.00%	-	0.00%
Others	561	0.42%	607	0.42%	784	0.08%	2,686	0.04%	4,410	0.06%	836	0.01%
Sub-Total	132,659	100.00%	145,269	100.00%	1,113,046	100.00%	1,353,429	17.98%	1,410,078	18.32%	1,567,559	19.75%
Total	6,807,307	100.00%	6,750,942	100.00%	7,482,699	100.00%	7,529,283	100.00%	7,699,029	100.00%	7,935,535	100.00%

Source: The Issuer's Comprehensive Annual Financial Reports.

WATER SALES AND PURCHASES					TABLE 5
	Fiscal Year Ended				
	12/31/2018	**12/31/2017**	**12/31/2016**	**12/31/2015**	**12/31/2014**
Type of Connections					
Treated Water					
Governmental	12	12	12	12	11
5/8" & 3/4"	21	25	24	24	25
Water Suppliers	4	4	5	5	5
Other	17	17	22	19	19
Inactive	11	7	2	2	1
Raw Water					
Industry	3	8	9	9	7
Rurals	6	6	7	7	7
Governmental	0	0	0	0	0
Inactive	2	2	0	0	0
Number of Connections	76	81	81	78	75
Total Water Pumped into System (000's gallons)	6,670,986	6,651,954	7,386,337	7,498,749	7,689,375
Total Water Billed to Customers (000's gallons)	6,807,307	6,750,942	7,529,839	7,699,029	7,935,535
Percentage of Water Billed to Water Pumped	102.04%	101.49%	101.94%	102.67%	103.20%

NEW RATES

(Effective December 31, 2017)

Treated Water

Minimum monthly charges, by meter size, with all usage calculated as per Schedule A:

Meter Size	Min. Monthly Charge
5/8" x 3/4" meters	$25.00
1" meters	40.00
2" meters	60.00
4" meters	140.00
6" meters	315.00
8" & over shall be contracted	

Untreated Water

Minimum monthly charges, by meter size, with all usage calculated as per Schedule B:

Meter Size	Min. Monthly Charge
5/8" x 3/4" meters	$25.00
1" meters	40.00
2" meters	60.00
4" meters	140.00
10" meters	875.00

Schedule A Monthly Rates per 1,000 Gallons All users other than municipal or contractual:		**Schedule B** Monthly Rates per 1,000 Gallons Users up to 300,000 Gallons per month:	
Per 1,000 Gallons	$4.62	Per 1,000 Gallons	$3.12

Municipal

$3.11 per 1,000 Gallons

Special & Contractual

Connections requiring over 300,000 gallons per month shall be by special contract based on water costs, delivery cost, operating overhead and other necessary costs.

OLD RATES

(Effective December 31, 2014)

Treated Water

Minimum monthly charges, by meter size, with all usage calculated as per Schedule A:

Meter Size	Min. Monthly Charge
5/8" x 3/4" meters	$25.00
1" meters	40.00
2" meters	60.00
4" meters	140.00
6" & over shall be contracted	

Untreated Water

Minimum monthly charges, by meter size, with all usage calculated as per Schedule B:

Meter Size	Min. Monthly Charge
5/8" x 3/4" meters	$25.00
1" meters	40.00
2" meters	60.00
4" meters	140.00

Schedule A Monthly Rates per 1,000 Gallons All users other than municipal or contractual:		Schedule B Monthly Rates per 1,000 Gallons Users up to 300,000 Gallons per month:	
Per 1,000 Gallons	$4.58	Per 1,000 Gallons	$3.08

Municipal

$3.07 per 1,000 Gallons

Special & Contractual

Connections requiring over 300,000 gallons per month shall be by special contract based on water costs, delivery cost, operating overhead and other necessary costs.

Plan Description

San Patricio Municipal Water District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit pension plan in the state-wide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of more than 650 cash balance-like defined benefit pension plans. 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 Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Under state law governing TCDRS since 1991, the District has had the option of selecting the plan of benefits to provide in the future, while at the same time considering the level of the employer contribution rate required to adequately finance the plan. Effective, January, 1 1992, the District adopted an annually determined contribution rate plan, for which the employer contribution rate is actuarially determined as part of the annual actuarial valuation. The rate applicable for a calendar year, consists of the normal cost contribution rate plus the rate required to amortize the unfunded actuarial liability over the remainder of the plan's 25-year amortization period which began January 1, 1992 using the entry age actuarial cost method. Monthly contributions by the employer are based on the covered payroll and the employer contribution rate in effect.

The plan provisions are adopted by the governing body of the District, within the options available in the TCDRS Act. Members can retire at ages 60 and above with 8 or more years of service or with 30 years regardless of age or when the sum of their age and years of service equal 80 or more. Members are vested after 8 years but must leave their accumulated contributions in the plan. If a member withdraws his personal contributions in a lump-sum, he forfeits the right to any amounts contributed by the employer.

Benefits

Amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using purchase rates prescribed by the TCDRS Act. At December 31, 2016, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	14
Inactive employees entitled to but not yet receiving benefits	12
Active employees	38

Funding Policy

The employer has elected the annually determined contribution rate of (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the District based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The District's contribution rate for calendar year 2017 is 4.21% and for 2016 was 4.95%.

The contribution rate payable by the employee members for calendar year 2017 is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS At. The District has the opportunity to make additional contributions in excess of its annual required contribution rate wither by adopting an elected rate that is higher than the required rare or by making additional contributions on an dad hoc basis. The District has made additional contributions to pay down its liability faster, pre-fund benefit enhancements and/or to buffer against future adverse experience. In addition, the District annually reviews its plan and ay adjust benefits and costs based on its needs and budget. Although accrued benefits may not be reduced, the District may reduce future benefit accruals and immediately reduce costs.

Net Pension Asset

The District's net pension asset for the Plan is measured as the total pension liability less the pension plans fiduciary net position. The net pension asset of the Plan was measured as of December 31, 2016, using an annual actuarial valuation as of that date. The actuarial valuation as of that date amounted to $267,691.

Actuarial Assumptions

The actuarial assumptions that determined the total pension liability as of December 31, 2015 were based on the results of an actuarial experience study for the period January 1, 2009-December 31, 2012, except where required to be different by GASB 68. A summary of principal assumptions and methods used to determine the net pension liability is shown below:

Valuation Date	December 31, 2015
Measurement Date	December 31, 2015
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	
Smoothing Period	5 years
Recognition Method	Non-asymptotic
Corridor	None
Inflation	3.00%
Salary increases	0.50%
Long Term Investment rate of return (1)	8.00%
Cost-of-Living Adjustments	N/A
Mortality rate table (2)	RP-2000 with Projection Scale AA

(1) Net of pension plan investment expenses, including inflation.

(2) The mortality rate table was developed based on TCDRS specific data.

Discount Rate

The discount rate used to measure the total pension liability was 8.1%. This rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus 0.10% adjustment to be gross of administrative expenses as required by GASB68. The plan's fiduciary net position is projected to be available to make all projected future benefit payment of current active, inactive, and retired members. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, and the municipal bond rate does not apply.

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 valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. See Milliman's TCDRS investigation of Experience report for the period January 1, 2009-December 2013 for more details. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2015 information for a 7-10 year time horizon.

The following table reflects the long-term expected real rate of return by asset class

Asset Class	Benchmark	Target Allocation (1)	Geometric Real Rate of Return (Expected minus Inflation) (2)
US Equities	Dow Jones U.S. Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (3)	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equites - Developed	MSCI World Ex USA (Net)	10.00%	4.70%
International Equities - Emerging	MSCI World Ex USA (net)	7.00%	5.70%
Investment Grade - Bonds	Barclays Capital Aggregate Bond Index	3.00%	0.60%
High Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash - Pay Capped Index	2.00%	3.83%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	10.00%	8.15%
Distressed Debt	Citigroup High-Yield Cash - Pay Capped Index	3.00%	6.70%
REIT Equities	67% FTSE NARETIT Equity REITs Index +33% FRSE EPRA/NAREIT Global Real Estate Index	3.00%	3.85%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate	Cambridge Associates Real Estate Index (4)	6.00%	7.20%
Partnerships Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	20.00%	3.85%

(1)Target asset allocation adopted at the April 2016 TCDRS Board meeting.

(2) Geometric real rates of return in addition to assumed inflation of 1.6%, per Cliffwater's 2016 capital market assumptions.

(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs

(4) Includes vintage year 2007-present of Quarter Pooled Horizon IRRs

PENSION PLAN (CONTINUED)

Changes in the Net Pension Liability

The following table shows he changes in net pension liability recognized over the measurement period.

Changes in Net Pension Liability/(Asset)

Changes in Net Pension Liability/ (Asset)	Increase (Decrease) Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a)-(b)
Balances as of December 31, 2015	$ 9,037,992	$ 9,256,821	$ (218,829)
Changes for the year:			
Service cost	309,028	-	309,028
Interest on total pension liability [1]	729,125	-	729,125
Effect of plan changes [2]	-	-	-
Effect of economic/demographic gains or losses	(76,600)	-	(76,600)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(1,429)	(1,429)	-
Benefit payments	(381,954)	(381,954)	-
Administrative expenses	-	(7,466)	7,466
Member contributions	-	192,165	(192,165)
Net investment income	-	679,039	(679,039)
Employer contributions	-	129,574	(129,574)
Other [3]	-	17,103	(17,103)
Balances as of December 31, 2015	$ 9,616,162	$ 9,883,853	$ (267,691)

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

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

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

This presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is a 1 percentage point lower (7.10% or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	$ 10,868,089	$ 9,616,162	$ 8,568,156
Fiduciary net position	9,883,854	9,883,854	9,883,854
Net Pension liability/(asset)	$ 984,235	$ (267,692)	$ (1,315,698)

PENSION PLAN (CONTINUED)

Pension Expense

For the year ended December 31, 2016, the District's recognized pension expense of $178,239. A breakdown of the GASB 68 pension expense adjustment is as follows:

Calendar year ended December 31, 2016:		
Service Cost		309,028
Interest on total pension liability [1]		729,125
Effect of plan changes		-
Administrative expenses		7,466
Member contributions		(192,165)
Expected investment return net of investment expenses		(747,737)
Recognition of deferred inflows/outflows of resources		-
Recognition of economic/demographic gains or losses		(5,309)
Recognition of assumption changes or inputs		12,195
Recognition of investment gains or losses		178,949
Other[2]		(17,103)
Pension expense/(Income	$	274,449

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

[2]Relates to allocation of system-wide items.

Deferred Outflow/Inflow of Resources

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources for the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected & actual experience	$ 65,656	$ 26,858
Changes in assumptions	-	60,977
Net difference between projected & actual earnings	-	530,117
Contributions made subsequent to measurement date	N/A	117,075
Bond Reacquisition premium	-	
Construction Escrow accounts	7,318,553	-
Total	$ 7,384,209	$ 735,027

Contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended 12/31		
2017	$	185,836
2018		185,836
2019		165,364
2020		20,626
2021		5,574
Thereafter		10,943

Retirement Contribution Payable

At December 31, 2017, the District reported a payable of $16,855 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2017. The District, by law, is responsible for paying 100% of their actuarially determined required contributions annually. See the "Schedule of Employer Contributions" included in the required supplementary information.

APPENDIX C

GENERAL INFORMATION REGARDING SAN PATRICIO MUNICIPAL WATER DISTRICT

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GENERAL INFORMATION REGARDING THE DISTRICT

SAN PATRICIO MUNICIPAL WATER DISTRICT

In 1951, the fresh groundwater available to many cities in San Patricio County was becoming scarce and salty. At the same time, Reynolds Metals Company was constructing a 24-inch diameter potable water transmission line from the City of Corpus Christi treatment plant to its new manufacturing facility on Corpus Christi Bay near Gregory.

Wilbur Edwards of Ingleside and citizens of Gregory knew that without adequate fresh water, the county could not continue to grow and prosper. They saw the possibility of getting treated surface water to their cities and set out to get the San Patricio Municipal Water District created by the Texas Legislature. The District was "authorized and empowered to conserve, store, transport, treat and purify, distribute, sell and deliver water, both surface and underground, to persons, corporations, both public and private, political subdivisions of the State and others".

Reynolds was willing to transport water for the District that in turn delivered it to the two cities. Odem joined the District shortly after it was formed and was the first to receive water when its wells failed.

The following Cities are now District customers: Gregory, Ingleside, Ingleside On the Bay, Odem, Taft, Portland, Aransas Pass, Port Aransas (served through the Nueces County Water Control and Improvement District No.4), Rockport and Fulton.

As the area has grown, the District has constructed transmission lines and pumping stations to the cities, a new raw water transmission line from the Nueces River at Calallen to a site between Gregory and Ingleside, delivery lines to industry, a potable water treatment plant and a clarified water treatment plant. It has over taken ownership, operation and maintenance of the original Reynolds potable water transmission line.

A planning study completed by the District in 1995 concluded that major expansion would be required to support the continued economic health of its service area. It also found that major maintenance and replacement projects would be needed to guarantee continued system reliability. In 1997 and 1998, $35,000,000 of revenue bonds were sold by the District and projects were initiated including a new water treatment plant, a new raw water transmission line and an additional raw water storage reservoir. In 2009, the District sold $17,765,000 in additional revenue bonds in anticipation of additional growth in the northeast area, including Rockport/Fulton, Aransas Pass, Ingleside and Nueces County Water Control & Improvement District #4. The scope of this project included expanded treatment capacity at the plant site plus additional ground storage, new transmission pumping facilities and an extension of the potable water transmission lines.

A new operator station was completed in 2015 and the new office administration and laboratory building was completed in 2016.

The District obtains its water from the City of Corpus Christi through a potable water contract and a raw water contract. The Raw Water Contract is for a yearly amount of 41,200 acre feet. The maximum diversion rate from the Nueces River is 31 MGD and from the Mary Rhodes Memorial Pipeline 20 MGD. The term of the Raw Water Contract is in perpetuity.

The potable water contract is for 10,000 acre feet per year. This is equivalent to an average daily supply of 8.93 million gallons. The term is 30 years from the 1997 beginning date.

The District currently maintains and operates three treatment plants with a total treatment capacity of 31.5 million gallons per day, treated water storage of 11 million gallons, raw water storage of 212 million gallons, 47.7 miles of raw water transmission lines, 77 miles of potable water transmission lines, and 7.2 miles of reclaimed water transmission lines.

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APPENDIX D

FORM OF LEGAL OPINION OF BOND COUNSEL

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NORTON ROSE FULBRIGHT

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FINAL

IN REGARD to the authorization and issuance of the "San Patricio Municipal Water District Water Revenue Refunding Bonds, Series 2019" (the *Bonds*), dated May 1, 2019, in the principal amount of $4,405,000, we have reviewed the legality and validity of the issuance thereof by the Board of Directors of the San Patricio Municipal Water District (the *District*), which Bonds are issuable in fully registered form only, in denominations of $5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of July 10 in each of the years of 2020 through 2027. The Bonds are not subject to redemption prior to Stated Maturity. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the resolution (the *Resolution*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Resolution.

WE HAVE SERVED AS BOND COUNSEL for the District solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas, the defeasance and discharge of the District's obligations being refunded by the Bonds, and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the District or the System. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the District in connection with the issuance of the Bonds, including the Resolution, the Escrow Deposit Letter (the *Escrow Agreement*) between the Issuer and UMB Bank N.A., Austin, Texas (the *Escrow Agent*), and a special report (the *Report*) by Ritz & Associates, PA, Bloomington, Minnesota (the *Accountants*) concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; (2) customary certifications and opinions of officials of the District and certificates executed by officers of the District relating to the expected use and investment of proceeds of the Bonds and certain other funds of the District, and to certain other facts solely within the knowledge and control of the District; and (3) such other documentation, including an examination of the Bond executed and delivered initially by the District, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued by the District in conformity with the Constitution and laws of the State of Texas now in force, and the Bonds issued in compliance with the provisions of the Resolution are valid, legally binding and enforceable special obligations of the District payable, together with the currently outstanding Parity Bonds and any Additional Parity Bonds hereinafter issued, solely from and equally and ratably secured by a first and prior lien on and pledge of the Net Revenues of the System, together with certain other funds on deposit in the accounts established in the Resolution, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the District, except with respect to the Net Revenues of the System. The holder of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation. In the Resolution, the District retains the right to issue Additional Parity Bonds, Junior Lien Obligations, and Inferior Lien Obligations, without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the Issuer and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded, discharged, paid, and retired with certain proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement, the resolution authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Report of the Accountants concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

BASED ON OUR EXAMINATION IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the District with the provisions of the Resolution and in reliance upon the Report of the Accountants concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement and upon the representations and certifications of the District made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP

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APPENDIX E

FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

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

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ALLAN L. JOHNSTON
Certified Public Accountant, PC
11649 Leopard St., Suite 4
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(361) 242-9215

Report on Basic Financial Statements Accompanied by Required Supplementary Information, Supplementary Information, and other Information

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
San Patricio Municipal Water District, Ingleside, Texas

I have audited the accompanying financial statements of the business-type activities of San Patricio Municipal Water District, Ingleside, Texas, as of and for the year ended December 31, 2017 which comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of San Patricio Municipal Water District, Ingleside, Texas, as of December 31, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

I have previously audited the San Patricio Municipal Water District's 2016 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated May 5, 2017. In my opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of employer pension contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that comprise the San Patricio Municipal Water District's, Ingleside, Texas financial statements as a whole. The introductory section, other schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on them.

Corpus Christi, Texas
May 4, 2018

Management's Discussion and Analysis

The San Patricio Municipal Water District (District) is located in San Patricio County and is included in the Corpus Christi metropolitan statistical area. The area economy is healthy with continued industrial development expected in San Patricio County.

As management of the District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of San Patricio Municipal Water District for the fiscal year ended December 31, 2017.

Financial Highlights

- The assets of the San Patricio Municipal Water District exceeded its liabilities at the close of the most recent fiscal year by $52,855,881 *(net position)*. Of this amount, $12,604,766 *(unrestricted net position)* may be used to meet the District's ongoing obligations to citizens and creditors.
- The San Patricio Municipal Water District's total net position increased by $2,046,163.
- For the year 2002 and prior, the District had reported as a governmental fund and not depreciated or accrued principal and interest owed. Beginning with 2003, to comply with GASB 34, the District changed reporting methods from governmental fund accounting to proprietary fund accounting since the District has no governmental (tax supported) activities.
- As of the close of the current fiscal year, the San Patricio Municipal Water District's total assets equaled $96,123,610. Total capital assets were $101,116,713, net capital assets were $71,770,820, restricted assets were $9,708,212 and unrestricted current/other assets were $14,644,578.
- At the end of the current fiscal year, unrestricted fund balance was $12,604,766, or 74% of total expenditures, or 23.8% of net assets. The fund balance of capital assets net of related debt was $38,435,607 and for restricted assets was $1,547,817. The District refinanced existing debt with issuance of the 2015 Water Revenue Refunding Bonds on April 16, 2015 and 2017 Water Revenue Refunding Bonds on August 15, 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the San Patricio Municipal Water District's financial statements. The San Patricio Municipal Water District's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the San Patricio Municipal Water District's finances, presented in a manner similar to that of a private-sector business.

The **statement of net position** presents information on all of the San Patricio Municipal Water District's assets and liabilities, with the difference between the two reported as **net position**. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

The government-wide financial statements are intended to distinguish functions of the San Patricio Municipal Water District as either governmental or business-type. Even though the District was formed with the capability of taxing, the Board and management have always chosen to fund the operation of the District through charges for service. Consequently, all of the District's functions are business-type activities.

The San Patricio Municipal Water District has no component units.

The government-wide financial statements can be found on pages 12-14 of this report.

Fund financial statements. 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. The San Patricio Municipal Water District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds at the District are proprietary funds, with the exception of the escrowed accounts funded by new District customers who require additional infrastructure. These funds totaled $7,318,553 at the end of 2017 and are restricted for construction only.

Governmental funds. Due to the decision by the San Patricio Municipal Water District not to tax described above, the District has no governmental activities.

Proprietary funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Division (all retail and wholesale water sales) and the Reuse Division (reclaimed water sales) both of which are considered to be major funds of the San Patricio Municipal Water District.

The San Patricio Municipal Water District's general fund operates as an Enterprise Fund due to the above mentioned practice of all customer revenue coming from charges for services. Business-Type Activities is the only column reported in the government-wide financial statement. The basic proprietary fund financial statements can be found on pages 15-18 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the San Patricio Municipal Water District. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the San Patricio Municipal Water District's own programs.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-43 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents **other supplementary information.** Required and Other Supplementary Information can be found on pages 44-62 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the San Patricio Municipal Water District, assets exceeded liabilities by $52,855,881 at the close of the most recent fiscal year. A large portion of the San Patricio Municipal Water District's net assets (76 percent) reflects its investment in capital assets (e.g., land, buildings, pipelines, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. Fund balance capital assets net of related debt in 2017 was $38,435,607.

The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

SAN PATRICIO MUNICIPAL WATER DISTRICT'S Net Position

	Business-type Activities		
	2017	**2016**	**Increase/(Decrease)**
Current and other assets	$ 14,912,269	$ 12,923,127	$ 1,989,142
Restricted assets	9,440,521	10,867,950	(1,427,429)
Capital assets	71,770,820	73,431,713	(1,660,893)
Total assets	96,123,610	97,222,790	(1,099,180)
Deferred outflow of resources	735,027	875,605	(140,578)
Long-term liabilities outstanding	31,590,213	33,477,826	(1,887,613)
Other liabilities	5,028,334	5,735,372	(707,038)
Total liabilities	36,618,547	39,213,198	(2,594,651)
Deferred inflows of resources			
Refunding bond premium	65,656	-	65,656
Construction escrow	7,318,553	8,075,479	(756,926)
Total Inflow of Resources	7,384,209	8,075,479	(691,270)
Net position:			
Invested in capital assets, net of related debt	38,435,607	38,986,712	(551,105)
Invested in pension assets, net	267,691	218,829	48,862
Restricted for debt service	1,547,817	1,858,803	(310,986)
Unrestricted	12,604,766	9,745,374	2,859,392
Total net position	$ 52,855,881	$ 50,809,718	$ 2,046,163

An additional portion of the San Patricio Municipal Water District's net assets (2.9 percent) represents resources that are subject to external restrictions on how they may be used (restricted funds, $1,547,817). The remaining balance [unrestricted net assets (23.8 percent) $12,604,766] may be used to meet the government's ongoing obligations to citizens and creditors.

Business-type activities. Business-type activities increased the San Patricio Municipal Water District's net assets by $1,097,276. The District's additional revenues were due to two Special Items made up of new customer raw water fees and reimbursements for construction by new contractual industrial customers netting to $847,105, investment earnings of $101,782 for a total increase in Net Position of $2,046,163.

The key elements of the increase in net assets are as follows:

SAN PATRICIO MUNICIPAL WATER DISTRICT'S Changes in Net Assets

	Business-type Activities		
	2017	2016	Increase/(Decrease)
Revenue:			
Program revenues:			
Charges for services	$ 19,381,645	$ 20,667,080	$(1,285,435)
Other	3,315,527	9,486,463	(6,170,936)
Total revenues	22,697,172	30,153,543	(7,456,371)
Expenses:			
Operating expenses	17,075,187	17,375,907	300,720
Non-operating expenses	3,575,822	1,390,390	(2,185,432)
Total expenses	20,651,009	18,766,297	(1,884,712)
Increase (Decrease) in net position	2,046,163	11,387,246	(9,341,083)
Net position – January 1	50,809,718	39,422,472	11,387,246
Net position – December 31	$ 52,855,881	$ 50,809,718	$ 2,046,163

All expenses at the San Patricio Municipal Water District are accounted for in a cost accounting system. The District offers several qualities of water and in order to charge correctly for each type, expenses have to be coded correctly and entered into a cost model that adds actual expenses to the percentages of debt service based on customers' contracted amounts. District customers' payments are based upon rates calculated by that cost model.

The District's unrestricted fund balance at the end of 2017 was $12,604,766

Financial Analysis of the Government's Funds

As noted earlier, the San Patricio Municipal Water District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds-As stated earlier, the San Patricio Municipal Water District has no governmental activities.

Proprietary funds-The focus of the San Patricio Municipal Water District's proprietary funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financial requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The enterprise fund is the chief operating fund of the San Patricio Municipal Water District. As of the end of the current fiscal year, the San Patricio Municipal Water District's proprietary funds reported combined ending fund balances of $52,855,881 an increase of $2,046,163 in comparison with the prior year.

Unrestricted net assets of the San Patricio Municipal Water District at the end of the year amounted to $12,156,467 for the Water Division and $448,299 for the Reuse Division.

Budgetary Highlights

The San Patricio Municipal Water District's budget is not its legal authority to make expenditures and incur liabilities. The budget represents the District's plan of operations. Because budgeting is always an estimate, the District does not consider it necessary to amend the adopted budget and goes over or under as the operation of the District requires.

A Budgetary Comparison Schedule showing actual versus budgeted is included in the Required Supplemental Information section on page 44.

The District water sales were 99 percent of budgeted. The District's expenses were 89 percent of budget which excludes depreciation and debt service. The total net increase after non-operation revenue and expenditures for 2017 was $2,046,163.

In January of 2016 one of the District's long time industrial customers petitioned the bankruptcy court for protection from creditors under chapter 11. Consequently, the District has reserved $321,400 as a potential loss in this pending matter.

Capital Asset and Debt Administration

Capital assets. The San Patricio Municipal Water District's investment in capital assets as of December 31, 2017, amounts to $71,770,820 (net of accumulated depreciation). This investment in capital assets includes property, plant, equipment, and infrastructure assets (e.g., pipelines, pump stations, reservoirs, and similar items). The District practices continual asset maintenance and scheduled replacement in an effort to reduce the need for large unanticipated expenditures in a short timeframe.

In 2012, the District commissioned a Raw Water System Analysis. The purpose of this analysis was to identify possible improvements for increasing raw water delivery rates to the SPMWD facilities. The study focused on maximizing the existing system components in lieu of complete replacement. The analysis was revised in 2013, and outlines four scenarios and improvements that increase the current 29.51 million gallons per day (MGD) of capacity to an average daily raw water delivery of 45 MGD and increases the treated water capacity to the District by 10 MGD for a total of 55 MGD upon completion of the recommended improvements. All of the scenarios are detailed in the report and includes cost estimates. This allows the District to select the sequence and timing of improvements based upon future industrial and municipal customers' requirements.

In 2013, the District also commissioned a treated system Facility Sequencing Study. The purpose of this study was to describe the changes and modifications required to expand the SPMWD Ingleside facility by 20 MGD. The increase is primarily associated with the projected increase in industrial activity in the District's service area.

The majority of the growth in the District's service area has been in the industrial base and it is anticipated to continue. Over the last several years, contracts have been developed with new industrial customers, these include: TPCO America Corp., Ingleside Ethylene, LLC, Voestalpine Texas, LLC, and Corpus Christi Liquefaction, LLC/Cheniere. The District requires any capital improvements necessary to provide service for industrial growth to be funded by the industrial customer. The infrastructure necessary to serve TPCO increased the District's raw water delivery by 4.5 MGD and treatment capacity by 2 MGD, and also included an additional sedimentation basin. The Ingleside Ethylene contract is replacing approximately seventeen miles of twenty-four inch pipe.

SAN PATRICIO MUNICIPAL WATER DISTRICT'S Capital Assets (net of depreciation)

	2017	2016
Land & Easements	$ 1,475,885	$ 1,475,885
Water Division	60,268,505	61,224,996
Reuse Division	1,864,480	1,920,102
Furniture, Machinery, and Equipment	683,791	731,664
Construction in Progress	7,478,159	8,079,066
Total	$ 71,770,820	$ 73,431,713

Additional information on the San Patricio Municipal Water District's capital assets can be found in note 3 on page 30-31 of this report.

Long-term debt. At the end of the current fiscal year, the San Patricio Municipal Water District had total bonded debt outstanding of $32,935,000. The District's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Long term debt is summarized as follows:

	2017	2016
• 1998 Revenue Bonds	$ -	$540,000
• 2009 Water Revenue Bonds	6,640,000	15,905,000
• 2015 Water Revenue Refunding Bonds	16,785,000	18,000,000
• 2017 Water Revenue Refunding Bonds	9,510,000	-
• Total	$ 32,935,000	$34,445,000

San Patricio Municipal Water District management believes the District to be in excellent financial condition. Long term planning is an important component of the District's strategy for building and maintaining a financially sound and sustainable water utility.

In 2009, the District sold $17,765,000 in bonds to fund a comprehensive water system improvement project estimated to cost $20,400,000 using $2,635,000 from reserves. The project was begun in 2006 and called "Project 2008" in anticipation of additional growth in the northeast area, including Rockport/Fulton, Aransas Pass, Ingleside and Nueces County Water Control & Improvement District #4. As the need to address the deteriorated condition of the original "Reynolds" treated water transmission line in the west area of the system became more pressing, the District extended the scope to include expanded treatment capacity at the plant site plus additional ground storage and new transmission pumping facilities as well as additional office, operational and laboratory space. The new operator station was completed in the spring of 2015. All of the improvements associated with Project 2008 have been completed including the new office administration and laboratory building which was completed in October 2016.

It is anticipated that any District improvements necessary to meet industrial growth will be financed by future industrial customers. The District does not anticipate any other major capital funding needs in the next five years for municipal development and any minor capital project needs will be financed with funds generated by rates or accumulated cash reserves.

On April 16, 2015 the District issued $19,180,000 Water Revenue Refunding Bond, Series 2015 with an average interest rate of 3.769% to current refund $23,115,000 of outstanding Water Refunding Bonds New Series 2006 with an average interest rate of 4.268%. The transaction resulted in an economic gain of $3,700,215 and a reduction of $4,406,363 in future debt service payments.

On August 8, 2017 the District Board of Directors authorized the issuance of $9,510,000 Water Revenue Refunding Bond, Series 2017 with an average coupon rate of 3.07% to partially refund $8,880,000 of the outstanding Water Refunding Bonds New Series 2009 with an average interest rate of 5.02%. There is still a balance in the Water Refunding Bonds New Series 2009 of $6,640,000. Even though the reacquisition bond cost for year 2017 is $606,790, the transaction resulted in a net present value savings of $2,042,640 and a reduction of $3,710,512 in future debt service payments.

Additional information on the District's long-term debt can be found in note 4 on pages 32-34 of this report.

The San Patricio Municipal Water District has no debt limitations. The District's credit rating improved in 2009 and again in 2011. In September 2013, Fitch Ratings affirmed the District's rating and revised the Rating Outlook from Stable to Negative citing 'lower coverage' and a 'weak rate covenant' as key drivers for the change. The Board of Directors made the decision in October of 2013 to include one hundred and ten percent debt service coverage in the District's 2014 and future budgets in an effort to maintain an 'A' rating or better.

In February, 2017, Fitch Ratings, Inc. reaffirmed the Districts Outlook as Stable with a rating of A+. The District anticipates financing capital projects or banking any unused funds generated from the additional debt service coverage into a capital reserve account.

Economic Factors and Next Year's Budgets and Rates

The District maintains a high level of reserves; at the end of 2017, the unrestricted fund balance in the general fund was $12,604,766; over eight months of operations. This exceeds the three months operations level recommended by Texas Commission on Environmental Quality (approximately $4.5 million) and is above the Board of Directors' policy level of $6 million. The overall financial condition of the District is adequate to continue operations in the event of an unexpected catastrophe.

The District raises rates only as necessary to provide the highest quality product and service to our customers at the most reasonable cost. In 2014, the District increased the municipal rate by twenty five cents to $2.89 due to the additional debt service coverage and the sedimentation basins being funded over 2014 and 2015. In 2015, the municipal rate increased to $3.07 due to the Mary Rhodes Phase 2. The District maintained the $3.07 municipal rate through 2016 with a four cent increase in 2017 to $3.11. The District projects only modest rate increases over the next five years.

The District purchases one hundred percent of its water from the City of Corpus Christi (the City). In 1992, the City acting in the capacity as the regional water provider began the process to purchase the Garwood Irrigation water rights that amounted to an additional 35,000 acre feet per year of water. These water rights are the second oldest on the lower Colorado River. The City has moved forward with a $160 million construction project to deliver this water into the regional system and has increased the raw water rate by an additional $0.18 per 1000 gallons which was passed on to the District's customers in the 2015 rate. This project known as the Mary Rhodes Phase 2 was completed in 2016.

The District has a very conservative investment policy with preservation and safety of principal as the primary objective. The interest revenue the District has been able to generate on reserve balances has been extremely low for several years. As a result in 2012, the staff recommended and the Board of Directors approved a payment to reduce the District's unfunded retirement liability with Texas County and District Retirement System. Another payment was approved by the Board in 2013, eliminating any unfunded retirement liability. The retirement system has historically earned an annual average over six percent on their investments (30 years annualized return was 8.01 percent as of 12/31/2016).

Current and future payments to the retirement system have been reduced by approximately $100,000 per year. The Governmental Accounting Standards Board's statement number 68 changed the reporting rules to require governmental entities to include any unfunded retirement liability in their CAFR (comprehensive annual financial report). The additional payments sent to Texas County and District Retirement System eliminating the District's unfunded retirement liability resulted in an asset being added to our report instead of an increase to the District's outstanding liabilities in the 2015 Audit Report.

Most of Texas continues to experience areas of drought conditions. The combined Lake Corpus Christi/Choke Canyon reservoir system has been below sixty percent since before 2012. Consequently, the District's customers have been urged to conserve. In the past it was the District's practice to use the last audited year's numbers for budgeting purposes and a five year average to generate the consumption estimates. In the 2015 budget year, the five year average procedure was replaced with lower estimates based on prior usage. Consequently, the 2016 municipal revenue was only slightly lower than anticipated. Due to the dry conditions, the 2017 municipal revenue exceeded the District's estimates and helped to offset the unanticipated loss of some of our raw industrial consumption.

In response to recurring drought concerns and proposed allocations that could potentially impact our customers, the District continues to be interested in the development of groundwater, both fresh and brackish in San Patricio County, seawater desalination, and the potential for an aquifer storage and recovery facility. Drought concerns along with the anticipated industrial growth in San Patricio County, makes the pursuit of drought resistant water that can be used to supplement the existing water supply vital. The industrial customers served by the District have expressed an interest specifically in the development of seawater desalination. The District is part of a group composed of port industries from Nueces and San Patricio counties, the Corpus Christi Regional Economic Development Corporation and the City of Corpus Christi that is investigating the feasibility of desalination for industrial water use. A "Project Definition Package" report to determine the costs, location, and ownership of a facility to provide a "drought proof" supply of water to the industrial customer base has been completed. Based upon the information developed in this report, industries will make a decision whether or not to move forward with the construction of a seawater desalination facility. Also the District has launched a study to determine the feasibility of an Aquifer Storage and Recover (ASR) facility. The ASR would store water underground and could be used to supplement water supplies during times of drought.

Hurricane Harvey made landfall on August 25, 2017 causing damage to many of the District's assets. Although there is damage, the District's management expects that most, if not all, of the damages will be recovered either through insurance claims or FEMA's Public Assistance Programs. The District is still in the process of working with insurance providers and FEMA and is not yet able to estimate ultimate insurance recoveries or the amount of public assistance that FEMA will provide. Because management believes the insurance recoveries and public assistance provided by FEMA will offset a significant portion of the District's losses, no impairment loss has been reported.

Requests for Information

This financial report is designed to provide a general overview of the San Patricio Municipal Water District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Secretary/Treasurer, San Patricio Municipal Water District, P. O. Box 940; Ingleside, Texas 78362.

Government-Wide Financial Statements

San Patricio Municipal Water District

Statement of Net Position

December 31, 2017

		2017 Business-Type Activities	2016 Business-Type Activities
Assets:			
Cash and cash equivalents	$	12,193,272	$ 10,757,313
Interest receivable on investments		8,374	2,917
Receivables, customers		1,517,280	1,407,825
Receivables, other		925,652	755,072
Restricted Assets:			
Revenue bond current debt service account:			
Cash and cash equivalents		922,070	1,047,996
Revenue bond future debt service account:			
Cash and cash equivalents		1,198,104	1,523,432
Construction escrow accounts		7,318,553	8,075,479
Interest receivable on investments		1,794	2,214
Pension asset (net)		267,691	218,829
Capital Assets:			
Property, plant and equipment (cost)		101,116,723	99,584,622
Construction in Progress		7,478,159	8,079,066
Accumulated depreciation	(	36,824,062)	(34,231,975)
Total Assets	$	96,123,610	$ 97,222,790
Deferred Outflow of Resources:			
Differences between expected and actual earnings		26,858	32,491
Change of assumptions		60,977	73,173
Net difference between projected and actual earnings		530,117	640,367
Contributions made subsequent to the measurement date		117,075	129,574
Total Outflow of Resources	$	735,027	$ 875,605

See notes to financial statements.

San Patricio Municipal Water District

Statement of Net Position

December 31, 2017

	2017 Business-Type Activities	2016 Business-Type Activities
Liabilities:		
Accounts payable	$ 1,835,188	$ 2,026,585
Accrued compensated absences	532,995	502,947
Customer deposits	341,000	351,000
Liabilities Payable from Restricted Assets:		
Accrued interest payable	574,151	714,840
Current portion of revenue bonds	1,745,000	2,140,000
Non-Current Liabilities, Due in More Than One Year:		
Revenue bonds payable	31,190,000	32,305,000
Bond Refundings, Net	400,213	1,172,826
Total Liabilities	36,618,547	33,477,826
Deferred inflows of resources:		
Difference between expected and actual earnings	65,656	-
Construction escrow	7,318,553	8,075,479
Total Inflow of Resources	7,384,209	8,075,479
Net Position:		
Invested in capital assets, net of related debt	38,435,607	38,986,712
Invested in pension assets, net	267,691	218,829
Restricted for:		
For debt service	1,547,817	1,858,803
Unrestricted	12,604,766	9,745,374
Total Net Position	$ 52,855,881	$ 50,809,718

See notes to financial statements.

San Patricio Municipal Water District

Statement of Activities

Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets: Business-Type Activities	2017 Total	2016 Total
Business-Type Activities:						
Water distributions	$(17,075,187)	$ 19,381,645	$ -	$2,306,458	$2,306,458	$ 3,291,173
Financing of construction Activities	(1,209,182)	-	-	(1,209,182)	(1,209,182)	(1,390,390)
Total	$(18,284,369)	$ 19,381,645	$ -	$ 1,097,276	$1,097,276	$ 1,900,783

	Business-Type Activities	2017 Total	2016 Total
General revenues:			
Unrestricted investment earnings	86,458	86,458	35,082
Restricted investment earnings	15,324	15,324	9,144
Total	101,782	101,782	44,226
Special Item	3,213,745	3,213,745	9,442,237
Special Item	(2,366,640)	(2,366,640)	-
Total	847,105	847,105	9,442,237
Change in net Position:	2,046,163	2,046,163	11,387,246
Net Position, beginning	50,809,718	50,809,718	39,422,472
Pension Restatement	-	-	-
Net Position, ending	$52,855,881	$ 52,855,881	$50,809,718

See notes to financial statements.

San Patricio Municipal Water District

Statement of Net Position
Proprietary Funds
December 31, 2017

	Business-Type Activities – Enterprise Funds			
	Water Division	Reuse Division	2017 Total	2016 Total
Current Assets:				
Cash and cash equivalents	$ 11,786,343	$ 406,929	$ 12,193,272	$10,757,313
Interest receivable on investments	8,374	-	8,374	2,917
Receivables, customers (net)	1,475,600	41,680	1,517,280	1,407,825
Receivables, other	925,652	-	925,652	755,072
Total Current Assets	14,195,969	448,609	14,644,578	12,923,127
Restricted Assets:				
Revenue bond current debt service account:				
Cash and cash equivalents	922,070	-	922,070	1,047,996
Revenue bond future debt service account:				
Cash and cash equivalents	1,198,104	-	1,198,104	1,523,432
Construction escrow accounts	7,318,553	-	7,318,553	8,075,479
Interest receivable on investments	1,794	-	1,794	2,214
Total Restricted Assets	9,440,521	-	9,440,521	10,649,721
Pension Asset (net)	267,691	-	267,691	218,829
Capital Assets:				
Property, plant and equipment (cost)	98,326,087	2,790,636	101,116,723	99,584,622
Construction in Progress	7,478,159	-	7,478,159	8,079,066
Accumulated depreciation	(35,897,906)	(926,156)	(36,824,062)	(34,231,975)
Capital Assets (net of accumulated depreciation)	69,906,340	1,864,480	71,770,820	73,431,713
Total Assets	$ 93,810,521	$ 2,313,089	$ 96,123,610	$97,222,790
Deferred Outflow of Resources:				
Differences between expected and actual earnings	$ 26,858	$ -	$ 26,858	$ 32,491
Change of assumptions	60,977	-	60,977	73,173
Net difference between projected and actual earnings	530,117	-	530,117	640,367
Contributions made subsequent to the measurement date	117,075	-	117,075	129,574
Total Outflow of Resources	$ 735,027	$ -	$ 735,027	$ 875,605

See notes to financial statements.

San Patricio Municipal Water District
Statement of Net Position
Proprietary Funds
December 31, 2017

	Business-Type Activities - Enterprise Funds			
	Water Division	Reuse Division	2017 Total	2016 Total
Current Liabilities:				
Accounts payable	$ 1,834,878	$ 310	$ 1,835,188	$ 2,026,585
Accrued compensation	532,995	-	532,995	502,947
Customer deposits	341,000	-	341,000	351,000
Due to Other Funds	-	-	-	-
Total Current Liabilities	2,708,873	310	2,709,183	2,880,532
Current Liabilities Payable from Restricted Assets:				
Accrued interest payable	574,151	-	574,151	714,840
Current portion of revenue bonds	1,745,000	-	1,745,000	2,140,000
Total Current Liabilities Payable from Restricted Assets	2,319,151	-	2,319,151	2,854,840
Non-Current Liabilities Payable from Restricted Assets:				
Revenue bonds payable	31,190,000	-	31,190,000	32,305,000
Debt Refundings, Net	400,213	-	400,213	1,172,826
Total Non-Current Liabilities	31,590,213	-	31,590,213	33,477,826
Total Liabilities	36,618,237	310	36,618,547	39,213,198
Deferred Inflows of Resources:				
Difference between expected and actual earnings	65,656	-	65,656	-
Construction Escrow Account	7,318,553	-	7,318,553	8,075,479
	7,384,209	-	7,384,209	8,075,479
Net Position:				
Invested in capital assets (net of related debt)	36,571,127	1,864,480	38,435,607	38,986,712
Invested in pension asset (net)	267,691	-	267,691	218,829
Restricted:				
For debt service	1,547,817	-	1,547,817	1,858,803
Unrestricted	12,156,467	448,299	12,604,766	9,745,374
Total Net Position	$ 50,543,102	$ 2,312,779	$ 52,855,881	$ 50,809,718

See notes to financial statements.

San Patricio Municipal Water District

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
December 31, 2017

	Business-Type Activities – Enterprise Funds			
	Water Division	Reuse Division	2017 Total	2016 Total
Operating Revenues:				
Metered water sales	$ 18,456,019	$ -	$ 18,456,019	$ 20,002,249
Other	669,799	255,827	925,626	664,831
Total Operating Revenues	19,125,818	255,827	19,381,645	20,667,080
Operating Expenses:				
Personnel services	4,077,014	8,950	4,085,964	3,584,961
Supplies and materials	9,064,048	7,524	9,071,572	9,596,050
Contracted services	1,289,850	14,821	1,304,671	1,774,399
Depreciation	2,557,359	55,621	2,612,980	2,420,497
Bad Debt	-	-	-	-
Total Operating Expenses	16,988,271	86,916	17,075,187	17,375,907
Operating Income (Loss):	2,137,547	168,911	2,306,458	3,291,173
Other Non-Operating Revenues (Expenses):				
Investment income and other revenue	97,505	4,277	101,782	44,226
Interest expense and fiscal expense	(1,205,829)	(3,353)	(1,209,182)	(1,390,390)
Total Non-Operating Revenues (Expenses):	(1,108,324)	924	(1,107,400)	(1,346,164)
Special Item:	3,213,745	-	3,213,745	9,442,237
Special Item:	(2,366,640)	-	(2,366,640)	-
Total Special Item	847,105	-	847,105	9,442,237
Change in Net Position	1,876,328	169,835	2,046,163	11,387,246
Net Position, beginning of year	48,666,774	2,142,944	50,809,718	39,422,472
Net Position, end of year	$ 50,543,102	$ 2,312,779	$ 52,855,881	$ 50,809,718

See notes to financial statements.

San Patricio Municipal Water District

Statements of Cash Flows
Proprietary Funds
Year Ended December 31, 2017

	Business-Type Activities – Enterprise Funds			
	Water Division	Reuse Division	2017 Total	2016 Total
Cash Flows from Operating Activities:				
Cash received from customers	$ 18,828,800	$ 272,810	$ 19,101,610	$ 20,845,525
Cash payments for goods and services	(10,544,102)	(23,538)	(10,567,640)	(10,695,935)
Cash payments to employees	(3,889,594)	(8,950)	(3,898,544)	(3,530,475)
Operating Activities	4,395,104	240,322	4,635,426	6,619,115
Cash Flows from Non-Capital Financing Activities:				
Increase (decrease) in Customer Deposit	(10,000)	-	(10,000)	341,000
Special Item	3,213,745	-	3,213,745	9,442,237
Increase (decrease) in Deferred	(2,366,640)	-	(2,366,640)	-
Outflow of Resources	-	-	-	48,665
Net Cash Flows Used for Non-Capital Financing Activities:	837,105	-	837,105	9,831,902
Cash Flows from Capital and Related Financing Activities:				
Increase (decrease) in Deferred Inflow of Resources	(691,270)	-	(691,270)	5,165,084
Proceeds from bond refunding	(23,210)	-	(23,210)	-
Acquisition and construction of capital assets	(982,708)	-	(982,708)	(12,600,677)
Disposition of capital assets	11,385	-	11,385	15,494
Interest and principal paid	(3,096,501)	(559,193)	(3,655,694)	(3,386,898)
Net Cash Flow Used for Capital and Related Financing Activities	(4,782,304)	(559,193)	(5,341,497)	(21,137,165)
Cash Flows from Investing Activities:				
Sale (purchase) of Investment				
Interest received	92,363	4,382	96,745	41,416
Net Cash Flow Provided from Investing Activities	92,363	4,382	96,745	41,416
Net increase (decrease) in cash	542,268	(314,489)	227,779	(4,644,732)
Cash and cash equivalents, beginning of year	20,682,802	721,418	21,404,220	26,048,952
Cash and cash equivalents, end of year	$ 21,225,070	$ 406,929	$ 21,631,999	$ 21,404,220
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ 2,137,547	$ 168,911	$ 2,306,458	$ 3,291,173
Adjustments to reconcile operating activities:				
Depreciation expense	2,557,359	55,621	2,612,980	2,420,497
Pension expense	157,372	-	157,372	-
Bad debt expense	-	-	-	-
(Increase) decrease in receivable, customer	(126,438)	16,983	(109,455)	247,363
(Increase) decrease in receivable, other	(170,580)	-	(170,580)	(68,918)
Increase (decrease) in accounts payable	(190,204)	(1,193)	(191,397)	674,514
Increase (decrease) accrued compensated absences	30,048	-	30,048	54,486
Net Cash Flow Provided by Operating Activities	$ 4,395,104	$ 240,322	$ 4,635,426	$ 6,619,115

See notes to financial statements.

Reporting Entity

Management and control of the San Patricio Municipal Water District is vested in a board of seven elected directors and one appointed director. This Board has the power to levy taxes and is authorized to issue revenue bonds to provide funds for any and all of the purposes set forth in the statute creating San Patricio Municipal Water District.

Pursuant to the provisions of Article XVI of Section 59 of the Texas Constitution, the San Patricio Municipal Water District ("District") was created by Chapter 373, Acts of the 52nd Legislature of the Texas Regular Session, 1951, as a conservation and reclamation district. The District is authorized by the Act to conserve, store, transport, treat, purify, distribute, sell and deliver water to customers situated within and without the District. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of San Patricio Municipal Water District (the primary government) and its component units, entities for which the District is considered financially accountable (if any). In evaluating how to define the District for financial reporting purposes, management has considered potential component units (PCUs) and has determined there are no potential component units which should be included in the District's financial statements, either as blended or as discretely presented component units. Management has based its determination on the fact that there are no PCUs for which management holds the corporate powers and there are no PCUs which are legally separate from the District for which the District appoints a voting majority of the PCU's board or which are fiscally dependent upon the District. Management has also determined that it has not excluded any PCU which would cause the District's financial statements to be misleading. The District is not included in any other governmental "reporting entity".

Note 1 - <u>Summary of Significant Accounting Policies</u>

The San Patricio Municipal Water District's (District) annual financial report includes the accounts of all operations.

The accompanying policies of the San Patricio Municipal Water District conform to generally accepted accounting principles. The following is a summary of such significant policies:

<u>Principles Determining Scope of Reporting Entity</u> – The financial statements of the District consist only of the funds and account groups of the District. The District has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

<u>Accounting System</u> - The District accounts for its operations utilizing an enterprise fund system. Enterprise funds are used to account for operations (a) which 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 use charges; or (b) where the governing body has decided that periodic determination of revenues earned,

Note 1 - Summary of Significant Accounting Policies (continued)

expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements* – and *Management's Discussion and Analysis for State and Local Governments.* These Statements include the following:

The financial statements include:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and changes in financial position.
- Government-wide financial statements prepared using the accrual basis of accounting for all of the San Patricio Municipal Water District's business-type activities. The District has no governmental activities.
- Fund financial statements focusing on the major funds.
- GASB Statement 34 established standards for external financial reporting for all state and local government entities, which includes a statement of net assets and a statement of activities. It requires the classification of net assets into three components-invested in capital assets, net of related debt, restricted assets and unrestricted assets. These classifications are defined as follows:

    1. *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
    2. *Restricted assets*– This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
    3. *Unrestricted assets* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

- The District adopted the new accounting guidance from GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment to GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.

Note 1 - Summary of Significant Accounting Policies (continued)

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. Governmental activities are generally financed through intergovernmental revenues and reimbursements from participants. Business-type activities are financed by fees charged to external parties for goods or services.

In the Government-wide Statement of Net Assets, the business-type activities column is presented on a consolidated basis and reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the program and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as investment earnings, are presented as general revenues.

Fund Financial Statements

Fund financial statements of the District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenue, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all category or type; and
- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental and enterprise funds are combined.

The District does not have nonmajor funds. If the District did have nonmajor funds they would be presented in the aggregate in the financial statements.

Note 1 - Summary of Significant Accounting Policies (continued)

Proprietary Funds

All operations are accounted for in various enterprise funds, and the District has no governmental funds. GASB 34 required that an enterprise fund must be used to account for an activity if any one of the following criteria is satisfied:

- The activity is financed with debt that is secured *solely* by a pledge of the net revenues from fees and charges of the activity.
- Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or capital debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The District reports the following major enterprise funds:

Water Division –water pumping, transmission, storage and treatment system.

Reuse Division –water transmission system and related bond issue for City of Aransas Pass and Alcoa, Inc.

Measurement Focus - Measurement focus is a term used to describe which transactions are recognized within the various financial statements. The government-wide statement of net assets and statement of activities, business-like activities are presented using the economic resources measurement focus as defined below. In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is used as appropriate.

The proprietary and fiduciary funds utilize the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flow. All assets and liabilities (whether current or noncurrent) associated with the activities are reported. Fund equity is classified as net assets.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds 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 nonoperating revenues and expenses.

Note 1 - Summary of Significant Accounting Policies (continued)

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

Net Position Classifications and Procedures

Net Position previously called Fund Balance consists of the following classifications: **Invested in Capital Assets Net of Related Debt** and **Invested in Pension Assets (net)** are amounts or balances which cannot be expended. **Restricted** are amounts which have been legally restricted for any other use. **Unrestricted** are amounts which are available for district expenditures by the management. The amounts are considered to have been spent when an expenditure is incurred whether for restricted or unrestricted balances. When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources. When the District incurs an expenditure or expense for which either committed, assigned, or unassigned resources may be used, it is the District's policy to first use committed resources first, then assigned resources and then unassigned resources.

Basis of Accounting - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the account and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The District applies all GASB pronouncements up to the present as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The District uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when the liabilities are incurred.

Depreciation and Amortization – It is the policy of the District to provide for depreciation and amortization on a straight line basis for all assets acquired, using various rates on the estimated useful lives of the respective assets.

Other General Policies – Maintenance and repairs are charged to expense as incurred. Renewals, improvements, and equipment acquisitions exceeding $5,000 in costs are capitalized by charges to property, plant, and equipment and are depreciated at appropriate rates. The cost of property sold, retired, or otherwise disposed of and the related depreciation or amortization is removed from the accounts and the resulting gain or loss recorded as income.

Statement of Cash Flow – For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Note 1 - Summary of Significant Accounting Policies (continued)

Fiduciary Fund Types - These funds account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental entities and other funds. When these assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the District is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the government, as agent, holds on behalf of others.

Budgets and Budgetary Accounting - The District adopts an annual budget only for the Enterprise Fund and it is adopted on a basis consistent with GAAP. The budget is prepared by the District's management and approved by the Board of Directors. Although the District is required by the Texas Commission on Environmental Quality to adopt an annual budget, the District's budget is not its legal authority to make expenditures and incur liabilities. The budget represents the District's plan of financial operations. The budget presented in these financial statements represents only actual amounts over or under the amounts originally anticipated by the District's management. The District does not utilize encumbrance accounting, so there are no outstanding encumbrances. The following procedures are used by the District in establishing the budgetary data reflected in the financial statements: 1) Two months prior to the beginning of the fiscal year, the District Manager submits a proposed budget to the Board of Directors. The operating budget includes proposed expenditures and the means of financing them. The proposed budget is available to customers for comment prior to the adoption; 2) the budget is enacted through the passage of a resolution; 3) The District does not consider it necessary to amend the adopted budget.

Encumbrance Accounting (under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is not considered necessary.

Cash Deposits with Financial Institutions Cash and investments are deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with a third party bank, approved pledged securities in the amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") Insurance.

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 it. The District has a policy on Security of District funds. As of December 31, 2017 the District's bank balance was $2,089,752 with no amount exposed to custodial credit risk because it was insured and collateralized with securities pledged to the San Patricio Municipal Water District and held by the Federal Home Loan Bank-Dallas.

Note 1 - Summary of Significant Accounting Policies (continued)

Investments The San Patricio Municipal Water District currently utilizes a pooled investment concept for all its funds to maximize its investment program. Investment income from this internal pool is allocated to the respective funds based upon the sources of funds invested.

Texas Statutes authorize the District to invest in (1) obligations of the U.S. Treasury or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations the states, agencies, counties or cities rated A or better by a national investment rating firm; (5) certificates of deposit that are insured by the Federal Deposit Insurance Corporation or secured by obligations having a market value of at least the principal amount of the certificates; and (6) fully collateralized direct repurchase agreements in its investment program. Investments are shown at amortized cost and accrued interest on investments is shown under the caption accrued interest receivable.

As of December 31, 2017, the District has the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Federated Prime Value Obligations Fund	$ 19,174,454	0

Interest rate risk. In accordance with its investment policy, the San Patricio Municipal Water District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than six months.

Credit risk. While other investments are allowed by state law, the San Patricio Municipal Water District's policy limits the District to investments in U.S. Obligations, Certificates of Deposit and Pools.

As of December 31, 2017 the District's investment in The Federated Prime Value Obligations Fund (Fund) was rated A-mf by Moody's Investors Service. The Fund operates in accordance with state law, which requires it to meet all of the requirements of Rule 2a-7 of the Securities and Exchange Commission. Local government investment pools in this rating category standards for credit quality, conservative investment policies, and safety of principal. The fund invests in a high quality portfolio of debt securities investments legally permissible for municipalities and school districts in the state.

Concentration of credit risk. The District's investment policy does not allow for an investment in any one issuer that is in excess of 80 percent of the government's total investments.

Custodial credit risk-investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its

Note 1 - Summary of Significant Accounting Policies (continued)

investments or collateral securities that are in the possession of an outside party. The District's investment in the Federated Prime Value Obligations Fund money market is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in these funds. Money market funds rated A by Moody's are judged to be of an investment quality similar to A-rated fixed income obligations, that is they are judged to possess many favorable investment attributes and are considered as upper-medium-grade investment vehicles. The Federated Prime Value Obligations Fund meets certain quality and pricing guidelines such as: a rating of A or better by a Nationally Recognized Statistical Rating Organization (NRSRO), maintain a constant Net Asset Value (NAV) $1.00 at all times, allows a maximum seven day redemption of proceeds, and invests 95% in US government securities or securities rated in the highest short-term rating category by an NRSRO, or unrated securities determined by the fund's board to be of comparable quality or other registered money market funds or collateralized repurchase agreements with the remaining 5% in Second Tier securities from the Rule 2a-7.

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables are reported at gross value. The District uses the direct write off method to record uncollectible accounts. This method is not materially different from GAAP.

Inventories - Consumable supplies are charged to expenditures as acquired. Consumable supplies on hand at year end are not significant and are not recorded as inventory.

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

Fixed Assets - Assets required by GASB 34 to be accounted for in the proprietary fund were recorded at historical cost when available. When historical costs were not available the District used estimates of fair market value and useful lives.

Restricted Assets - Certain proceeds of the District's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue bond construction" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The "revenue bond current debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond future debt service" account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. The "revenue bond renewal and replacement"

Note 1 - Summary of Significant Accounting Policies (continued)

Restricted Assets (continued)

account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements. Also the escrow construction accounts are considered Restricted due to contract covenants. See Note 14 Special Item.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., pipelines, pump stations, reservoirs, and similar items), are reported in the business-type activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the District during the current calendar year was $1,209,182. Of this amount, $-0- was included as part of the cost of capital assets.

Property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building improvements	20
Pipeline infrastructure	50
System infrastructure	30
Machinery and Equipment	10
Furniture	7
Vehicles	5
Office and Computer equipment	5

Compensated Absences – In 2006, the District Board voted to combine sick and vacation leave in a Paid Time Off benefit effective January 1, 2007. The District no longer allows employees to accumulate sick leave. However, any carried forward sick days do not vest, and accordingly, employees can be paid sick leave only when sick. Since these carried over sick leave absences are contingent upon the absences being caused by future illness and are not compensated upon separation from employment, a liability for unused sick leave is not reported in the financial statements. Employees may carry unused Paid Time Off forward to the next year up to a maximum of 720 hours. Upon termination, accumulated Paid Time Off

Note 1 - Summary of Significant Accounting Policies (continued)

will be paid to employees. The amount expected to be paid from current resources is $532,995; this amount has been accrued at year end.

Interfund Transactions - During the course of normal operations, the District has various transactions between funds including expenditures and transfers of resources to provide services. The accompanying financial statements generally reflect such transactions as operating transfers which are included in the results of operations of the individual funds and nonrecurring transfers of equity between funds. Short-term interfund loans receivable (reported in "Due from Other Funds") are considered "available spendable resources".

Comparative Totals - Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Long-term obligations - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities, or proprietary fund type statement of net position Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In prior years, the District used a governmental fund to account for its activities.

Those governmental fund types would recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Note 2 - Cash and Investments

Cash - The District's cash deposits at December 31, 2017 were entirely covered by pledged collateral held by the Depository's agent bank in the District's name. Deposits were properly secured at all times. The highest combined account balance on deposit at American National Bank totaling $2,710,150 and occurring in December, 2017 was covered by securities pledged in the amount of $4,166,602 and $250,000 of FDIC. Cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

1. Deposits which are insured or collateralized with securities held by the entity or by its agent in the entity's name.

2. Deposits which are collateralized with securities held by pledging financial institution's trust department or agent in the entity's name.

San Patricio Municipal Water District
Notes to Financial Statements

Note 2 - Cash and Investments (continued)

3. Deposits which are not collateralized.

Based on these three levels of risk, all of the District's cash deposits are classified as *category 2.*

Investments - GASB Statement No. 3 requires assignment of categories for investments, except those in which securities are not used as evidence for the investment. Investments that are represented by specific identifiable investment securities are classified as to credit risk by three categories described as follows: **1)** insured or registered, or securities held by the District or its agent in the District's name; **2)** uninsured and unregistered, with securities held by counterparty's trust department or agent but not in the District's name; **3)** uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the District's name. Investments held in mutual funds have not been assigned risk categories since the District has not been issued securities, but rather owns undivided beneficial interest in the investments.

The valuation technique is level 1 for all San Patricio investments.

Investments held by the District at December 31, 2017 are as follows:

			Maturity	Risk Categories			Carrying	Market
INVESTMENT	Amount	Dated	Date	1	2	3	Amounts	Value
$				$ -	-	-	$ -	$ -
Total categorized investments				$ -	-	-	$ -	$ -
Investments not categorized:								
Short-Term Investments-Treasury Portfolios							19,174,454	19,174,454
							$ 19,174,454	$ 19,174,454

Note 3 - Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 790,928	$ -	$ -	$ 790,928
Easements	684,957	-	-	684,957
Total capital assets, not being Depreciated	1,475,885	-	-	1,475,885
Capital assets, being depreciated:				
Water Division	92,994,505	1,435,091	-	94,429,596
Reuse Division	2,790,636	-	-	2,790,636
Furniture, Machinery and equipment	2,323,596	148,525	(51,515)	2,420,606
Total capital assets, being depreciated	98,108,737	1,583,616	(51,515)	99,640,838
Less accumulated depreciation for:				
Water Division	(31,769,509)	(2,391,582)	-	(34,161,091)
Reuse Division	(870,534)	(55,622)	-	(926,156)
Furniture, Machinery and equipment	(1,591,932)	(165,776)	20,893	(1,736,815)
Total accumulated depreciation	(34,231,975)	(2,612,980)	20,893	(36,824062)
Total capital assets, being depreciated, Net	63,876,762	(1,029,364)	(30,622)	62,816,776
Business-type activities capital assets, Net	65,352,647	(1,059,986)	-	64,292,661
Construction in Progress	8,079,066	3,200,824	(3,801,731)	7,478,159
Total Capital Assets	$ 73,431,713	$ 2,140,838	$(3,801,731)	$ 71,770,820

Depreciation expense was charged to functions of the Enterprise Fund as follows:

Business-type activities:	
Water Division	$ 2,557,359
Reuse Division	55,621
Total depreciation expense – business-type activities	$ 2,612,980

Note 3 - Capital Assets (continued)

Construction Commitments – The District has active construction projects as of December 31, 2017 which are listed below. The District has capitalized as construction in progress the amount of $7,478,159. At year end the Districts' contractual commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitments
Ingleside Ethylene, LLC	5,737,919	-
GCGV	1,740,240	4,542,277
	$ 7,478,159	$ 4,542,277

These projects are being funded with reimbursements for construction by new contractual industrial customers or general fund revenue depending on the project. The new industrial customers include Ingleside Ethylene, LLC, and GCGV.

The District anticipates awarding Phase 3 of the Ingleside Ethylene, LLC replacement of the 24 inch treated waterline with an estimated construction cost of $3,900,000 during 2018.

Note 4 - Long-Term Debt

Bonded Debt and Accrued Interest - All revenue bonds authorized to be issued have been issued by the District. Bonded indebtedness of the District is reflected in the Statement of Net Assets and reported under the headings as liabilities payable from restricted assets. The current requirements for principal and interest expenditures are accounted for in the Enterprise Fund. Bonded debt at year end consists of three bond issues maturing at various annual amounts through fiscal year 2032 with interest rates varying between 3.769% and 5.021% annually. Long-term debt is summarized as follows:

Series Due Dates	Interest Rates	Outstanding	
2009 Water Revenue Construction Bonds	July 10, through 2039	5.021%	6,640,000
2015 Water Revenue Refunding Bonds	July 10, through 2028	3.769%	16,785,000
2017 Water Revenue Refunding Bonds	July 10, through 2032	3.070%	9,510,000
			$ 32,935,000

Note 4 - Long-Term Debt (continued)

Annual maturities of bonds payable are as follows:

Year Ending December 31,	Total Annual Requirements Principal	Interest	Total
2018	1,745,000	1,248,413	2,993,413
2019	1,760,000	1,216,875	2,976,875
2020	1,835,000	1,143,125	2,978,125
2021	1,910,000	1,066,275	2,976,275
2022	1,990,000	986,225	2,976,225
2023-2027	11,325,000	3,566,275	14,891,275
2028-2032	12,370,000	1,185,175	13,555,175
Total	$ 32,935,000	$ 10,412,363	$ 43,347,363

1998 Revenue Bonds – On November 10, 1998 the District issued $3,050,000 in Contract Revenue bonds with an average interest rate of 6.60 percent payable as scheduled over twenty years. These bonds are considered defeased as of February 1, 2017.

2006 Water Refunding Bonds – December 14, 2006 the District issued $29,965,000 in Water Refunding bonds with an average interest rate of 4.368 percent payable as scheduled over twenty years. These bonds were current refunded April 16, 2015. See 2015 Water Revenue Refunding Bonds.

2009 Water Revenue Construction Bond – On August 25, 2009 the District issued $17,765,000 in Water Revenue Construction bonds with an average interest rate of 5.021 percent payable as scheduled over thirty years.

2015 Water Revenue Refunding Bonds - On April 16, 2015 the District issued $19,180,000 Water Revenue Refunding Bond, Series 2015 with an average interest rate of 3.769% to current refund $23,115,000 of outstanding Water Refunding Bonds New Series 2006 with an average interest rate of 4.368%. On July 10, 2015 principal payments were made in the amount of $3,935,000 from the current refunding proceeds with an additional contribution from the District in the amount of $1,264,800.

The net proceeds of $22,347,494 ($19,180,000 par amount of the bonds plus $1,791,173 of premium on the bonds plus the District contribution of $1,764,592 less $388,271 of underwriting fees, insurance and other issuance costs) were transferred to the escrow agent for disbursement.

The current refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt in the amount of $1,402,902 gain. This difference reported in the accompanying financial statements as non-current liabilities is being amortized as a reduction of interest expense through the year 2028. The refunding was undertaken to reduce total future debt service payments. The transaction also resulted in an economic gain of

Note 4 - Long-Term Debt (continued)

$3,700,215 and a reduction of $4,406,363 in future debt service payments.

The reacquisition bond premium for the year 2017 is $1,007,003 after reducing interest expense by $165,823.

2017 Water Revenue Refunding Bonds - On August 8, 2017 the District Board of Directors authorized the issuance of $9,510,000 Water Revenue Refunding Bond, Series 2017 with an average coupon rate of 3.07% to partially refund $8,880,000 of the outstanding Water Refunding Bonds New Series 2009 with an average interest rate of 5.02%. There is still a balance in the Water Refunding Bonds New Series 2009 of $6,640,000.

On September 7, 2017 the Reacquisition price of $9,558,474 ($8,880,000 par amount of the bonds plus $678,574 of additional escrow costs) were transferred to the escrow agent for disbursement. The partially refunded revenue bonds of $8,880,000 are considered defeased in substance.

The advanced refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt in the amount of $ $606,790. The cost of refunding $959,809 less $353,019 of bond premium, accrued interest and escrow account discount amounted to the $606,790. This difference is reported in the accompanying financial statements as "Bond Refunding Net" as part of the non-current liabilities and is being amortized as an addition to interest expense through the year 2030. The refunding was undertaken to reduce total future debt service payments. The transaction resulted in a net present value savings of $2,042,640 and a reduction of $3,710,512 in future debt service payments.

The reacquisition bond cost for year 2017 is $606,790.

Bond Refundings, Net

The bond refundings premiums and cost are disclosed as part of Non Current Liabilities:

2015 Water Revenue Bond Refunding Premium	$ 1,007,003
2017 Water Revenue Bond Refunding Cost	(606,790)
Bond Refundings, Net	$ 400,213

Bond Redemption

1998 Revenue Bonds
The District can redeem bond obligations which mature on or after June 1, 2009 beginning on June 1, 2008. These bonds are considered defeased as of February 1, 2017.

2006 Water Refunding Bonds
The District can redeem bond obligations which mature on or after July 10, 2016 beginning on July 10, 2015. Term bonds maturing on July 10, 2028 are subject to mandatory

Note 4 - Long-Term Debt (continued)

redemption prior to maturity. These bonds were refunded April 16, 2015.

2009 Water Revenue Partial Refunding
The District can redeem bond obligations which mature on or after July 10, 2020 beginning on July 10, 2019. Term bonds maturing on July 10, in years 2034 and 2039 are subject to mandatory redemption prior to maturity.

2015 Water Revenue Refunding Bonds
The District can redeem bond obligations which mature on or after July 10, 2025 beginning on January 10, 2025.

2017 Water Revenue Refunding Bonds
The District can redeem bond obligations which mature on or after July 10, 2028 beginning on January 10, 2027.

Compliance with Debt Service Requirements - It has been the District policy to require the Enterprise Fund to maintain a minimum fund balance equal to or greater than three months operating expenditures. The District is in substantial compliance with bond requirements. The Construction Bond Funds were established under bond resolutions of the 1998 Revenue Bonds, the 2006 Water Revenue Refunding Bonds, and the 2009 Revenue Bonds to provide funding for the various system improvements.

Changes in long-term debt are summarized as follows:

	Balance 01-1-17	Additions	Retirements	Balance 12-31-17
Revenue Bonds Payable	$ 34,445,000	$ 630,000	$ 2,140,000	$ 32,935,000
Capitalized Leases	-	-	-	-
Compensated Absences	502,947	30,048	-	532,995
	$ 34,947,947	$ 660,048	$ 2,140,000	$ 33,467,995

Note 5 - Interfund Receivables and Payables

Interfund balances at December 31, 2017 consisted of the following receivables and payables:

Due to/from other fund

Receivable fund	Payable fund	Amount
Water Division	Reuse Division	$ -0-

Note 6 - Texas County and District Retirement System (TCDRS)

Plan Description – San Patricio Municipal Water District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit pension plan in the state-wide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of more than 650 cash balance-like defined benefit pension plans. 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 Board of Trustees at P. O. Box 2034, Austin, TX 78768-2034.

Under state law governing TCDRS since 1991, the District has had the option of selecting the plan of benefits to provide in the future, while at the same time considering the level of the employer contribution rate required to adequately finance the plan. Effective, January, 1 1992, the District adopted an annually determined contribution rate plan, for which the employer contribution rate is actuarially determined as part of the annual actuarial valuation. The rate applicable for a calendar year, consists of the normal cost contribution rate plus the rate required to amortize the unfunded actuarial liability over the remainder of the plan's 25-year amortization period which began January 1, 1992 using the entry age actuarial cost method. Monthly contributions by the employer are based on the covered payroll and the employer contribution rate in effect.

The plan provisions are adopted by the governing body of the District, within the options available in the TCDRS Act. Members can retire at ages 60 and above with 8 or more years of service or with 30 years regardless of age or when the sum of their age and years of service equals 80 or more. Members are vested after 8 years but must leave their accumulated contributions in the plan. If a member withdraws his personal contributions in a lump-sum, he forfeits the right to any amounts contributed by the employer.

Benefits - Amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At Retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using purchase rates prescribed by the TCDRS Act. At December 31, 2016, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	14
Inactive employees entitled to but not yet receiving benefits	12
Active employees	38

Note 6 - <u>Texas County and District Retirement System (TCDRS)</u> (continued)

<u>Funding Policy</u> - The employer has elected the annually determined contribution rate of (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the District based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The District's contribution rate for calendar year 2017 is 4.21% and for 2016 was 4.95%.

The contribution rate payable by the employee members for calendar year 2017 is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act. The District 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. The District has made additional contributions to pay down its liability faster, pre-fund benefit enhancements and/or to buffer against future adverse experience. In addition, the District annually reviews its plan and may adjust benefits and costs based on its needs and budget. Although accrued benefits may not be reduced, the District may reduce future benefit accruals and immediately reduce costs.

<u>Net Pension Asset</u> – The District's net pension asset for the Plan is measured as the total pension liability less the pension plan's fiduciary net position. The net pension asset of the Plan was measured as of December 31, 2016, using an annual actuarial valuation as of that date. The actuarial valuation as of that date amounted to $267,691.

<u>Actuarial Assumptions</u> - the actuarial assumptions that determined the total pension liability as of December 31, 2015 were based on the results of an actuarial experience study for the period January 1, 2009-December 31, 2012, except where required to be different by GASB 68. A summary of principal assumptions and methods used to determine the net pension liability is shown below:

Valuation date	December 31, 2015
Measurement date	December 31, 2015
Actuarial cost method	Entry Age Normal
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3.00%
Salary increases	4.9% average over career including inflation
Long Term Investment rate of return (1)	8.0%
Cost-of-Living Adjustments	N/A
Mortality rate table (2)	RP-2000 with Projection Scale AA

(1) Net of pension plan investment expenses, including inflation
(2) The mortality rate table was developed based on TCDRS specific data

Note 6 - Texas County and District Retirement System (TCDRS) (continued)

Discount Rate - The discount rate used to measure the total pension liability was 8.1%. This rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus 0.10% adjustment to be gross of administrative expenses as required by GASB 68. The plan's fiduciary net position is projected to be available to make all projected future benefit payment of current active, inactive, and retired members. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, and the municipal bond rate does not apply.

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 valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2009-December 2012 for more details. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2016 information for a 7-10 year time horizon.

The following table reflects the long-term expected real rate of return by asset class.

Asset Class	*Benchmark*	*Target Allocation (1)*	*Geometric Real Rate Of Return (Expected minus Inflation) (2)*
US Equities	Dow Jones U. S. Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (3)	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equities - Developed	MSCI World Ex USA (net)	10.00%	4.70%
International Equities- Emerging	MSCI World Ex USA (net)	7.00%	5.70%
Investment Grade-Bonds	Barclays Capital Aggregate Bond Index	3.00%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	10.00%	8.15%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (4)	6.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	20.00%	3.85%

(1) Target asset allocation adopted at the April 2017 TCDRS Board meeting.
(2) Geometric real rates of return in addition to assumed inflation of 1.6%, per Cliffwater's 2016 capital market assumptions.
(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.
(4) Includes vintage year 2005-present of Quarter Pooled Horizon IRRs.
(5) Includes vintage year 2007-present of Quarter Pooled Horizon IRRs.

Note 6 - Texas County and District Retirement System (TCDRS) (continued)

Changes in the Net Pension Liability – The following table shows the changes in net pension liability recognized over the measurement period.

Changes in Net Pension Liability / (Asset)

	Increase (Decrease)		
Changes in Net Pension Liability / (Asset	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of December 31, 2015	$ 9,037,992	$ 9,256,821	$ (218,829)
Changes for the year:			
Service cost	309,028		309,028
Interest on total pension liability [1]	729,125		729,125
Effect of plan changes [2]	0		0
Effect of economic/demographic gains or losses	(76,600)		(76,600)
Effect of assumptions changes or inputs	0		0
Refund of contributions	(1,429)	(1,429)	0
Benefit payments	(381,954)	(381,954)	0
Administrative expenses		(7,466)	7,466
Member contributions		192,165	(192,165)
Net investment income		679,039	(679,039)
Employer contributions		129,574	(129,574)
Other [3]	0	17,103	(17,103)
Balances as of December 31, 2016	$ 9,616,162	$ 9,883,854	$ (267,691)

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.
(2) Reflects new annuity purchase rates applicable to all TCDRS employers effective January 1, 2018.
(3) Relates to allocation of system-wide items.

Note 6 - Texas County and District Retirement System (TCDRS) (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – This presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is a 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease	Current Discount Rate	1%.Increase
	7.10%	8.10%	9.10%
Total pension liability	$ 10,868,089	$ 9,616,162	$ 8,568,156
Fiduciary net position	9,883,854	9,883,854	9,883,854
Net Pension liability / (asset)	$ 984,235	$ (267,691)	$ (1,315,698)

Pension Expense – For the year ended December 31, 2017, the District's recognized pension expense of $274,449. A breakdown of the GASB 68 pension expense adjustment is as follows:

Calendar year ended December 31, 2016:	
Service Cost	$ 309,028
Interest on total pension liability[1]	729,125
Effect of plan changes	0
Administrative expenses	7,466
Member contributions	(192,165)
Expected investment return net of investment expenses	(747,737)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	(5,309)
Recognition of assumption changes or inputs	12,195
Recognition of investment gains or losses	178,949
Other[2]	(17,103)
Pension expense/(income)	$ 274,449

[1]*Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.*
[2]*Relates to allocation of system-wide items.*

Note 6 - Texas County and District Retirement System (TCDRS) (continued)

Deferred Outflow/Inflow of Resources - At December 31, 2016, the District reported deferred inflows and outflows of resources as follows:

	Deferred Inflows of Resources	*Deferred Outflows of Resources*
Differences between expected & actual experience	$ 65,656	$ 26,858
Changes in assumptions	-	60,977
Net difference between projected & actual earnings	-	530,117
Contributions made subsequent to measurement date [1]	N/A	117,075
Construction Escrow accounts (12/31/2017)	7,318,553	-
Total	$ 7,384,209	$ 735,027

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended December 31:	
2017	$ 185,836
2018	185,836
2019	165,364
2020	20,626
2021	5,574
Thereafter	10,943

Retirement Contribution Payable - At December 31, 2017, the District reported a payable of $16,855 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2017. The District, by law, is responsible for paying 100% of their actuarially determined required contributions annually. See the "Schedule of Employer Contributions" included in the required supplementary information.

Note 7 - Post Employment Health Care Benefits - COBRA

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District provides health care benefits to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premiums are paid in full by the insured for the actual month covered. This program is offered for 18 months after the termination date. There is no associated cost to the District under this program.

Note 8 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The district's program for managing risks includes: **1)** participation in a public entity risk pool (Texas Municipal League) to cover liability claims such as workers compensation, life, medical and general liability claims; **2)** purchasing commercial property insurance for protection from theft and damages due to windstorms, hurricanes, hail storms, floods, accidents and Directors' liability; and **3)** providing employees with various safety programs. Except for deductibles of up to $5,000, the District has transferred risk of loss to the public entity risk pool and commercial insurers. There have been no significant reductions in insurance coverage from coverage in the prior year. Except for deductibles paid, settlement amounts have not exceeded insurance coverage for the current year or the three prior fiscal years. In the event of a loss for uninsurable assets (underground pipelines and similar facilities) the District policy has been to maintain substantial reserves within fund balances.

Note 9 - Commitments for Water Purchases

The District's sole supplier of water is the City of Corpus Christi, Texas.

Note 10 - Commitments Under Non-Capitalized Leases

The District is not obligated under any significant leases. Operating leases do not give rise to property rights or lease obligations, therefore the results of such agreement would not be reflected in the District's Statement of Net Assets.

Note 11 - Other Commitments and Contingencies

Hurricane Harvey made landfall on August 25, 2017 causing damage to many of the District's assets. Although there is damage, the District's management expects that most, if not all, of the damages will be recovered either through insurance claims or FEMA's Public Assistance Programs. The District is still in the process of working with its insurance providers and FEMA and is not yet able to estimate ultimate insurance recoveries or the amount of public assistance that FEMA will provide. Because management believes the insurance recoveries and public assistance provided by FEMA will offset a significant portion of the District's losses, no impairment loss has been reported.

Litigation - The District's management is not aware of any pending claims against the District.

Note 12 - Utility Rates and Connections

The District adopted rate schedule changes December 2016. The following rate schedules went into effect January 1, 2017:

Note 12 - Utility Rates and Connections (continued)

Treated Water
Minimum monthly charges, by meter size, with all usage calculated as per Schedule A:

5/8" & 3/4"	$	25.00
1"	$	40.00
2"	$	60.00
4"	$	140.00
6"	$	315.00

8" & over shall be contracted

Untreated Water
Minimum monthly charges, by meter size, with all usage calculated as per Schedule B:

5/8" & 3/4"	$	25.00
1"	$	40.00
2"	$	60.00
4"	$	140.00
10"	$	875.00

Schedule A
Monthly Rates Per 1,000 Gallons
All users other than municipal or contractual:

All Gallons	$	4.62
Municipal	$	3.11
Special & Contractual	$	4.25

Schedule B
Monthly Rates Per 1,000 Gallons
Users up to 300,000 Gallons per month:

All Gallons	$	3.12

Connections requiring over 300,000 gallons per month, shall be by special contract based on water costs, delivery cost, operating overhead and other necessary costs.

Connection Count:

Treated Water Connections					Raw Water Connections				
Govt's	5/8" & 3/4"	Water Suppliers	Other/ Industry	Inactive	Industry	Rural	Govt's	Inactive	Total Connections
12	25	4	17	7	8	6	0	2	81

Note 13 - Excess of Expenditures over Budgeted Amounts

Expenditures for some of the District's accounts exceeded their budgeted amounts. Since the District's budget is not its legal authority to make expenditures or to incur liabilities, the budget excesses do not represent violations of law nor do they have a material effect on the District's financial statements.

Note 14 – Special Item

The District is expanding the capacity of both the plant and transmission lines. The District's additional revenues were due to a Special Item made up of new customer raw water fees and reimbursements for construction by new contractual industrial customers totaling $3,213,745 for 2017 and $9,442,237 for 2016.

These special item revenues and expenditures are recognized when the District acting a disbursement agent transfer funds for the payment for the above mentioned expansion invoices.

For 2017 the District recognized $2,366,640 as Special Item expenditures for clients. The clients retained ownership of the assets created by the $2,366,640 expenditures.

For 2017 the Special Items net to $847,105.

These funds are transferred from restricted Customer Escrowed Construction accounts. The District does have substantial control of these funds until such time as a construction payment is required by contract.

These restricted escrowed accounts are funded by District customers who require additional water and services provided by the expansion. The amount deposited with the District is determined by engineering estimates. The balance of these financial accounts as of December 31, committed by these participating customers amounted to $7,318,553 as of 2017 and $8,075,479 for 2016. Any unused funds due to actual costs being less than estimated will be returned to the original depositor of those funds.

Note 15 – Subsequent Events

Customer Chapter 11 - In January 2016, Sherwin Alumina Company, LLC petitioned the bankruptcy court for protection from creditors. The District has reserved $321,400 as a potential loss. This matter is pending.

In February 2017, the District paid off the remaining bonds on this project (Series 1998 Water Revenue Bonds). The final payment was due in February of 2018. The District used the Aransas Pass Reynolds Reuse Bond Reserve account balance to pay off the final year, saving $20,020 in interest.

APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _________

Risk Premium: $__________
Member Surplus Contribution: $ _________
Total Insurance Payment: $_________

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ______________________________________
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
200 Liberty Street, 27th floor
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)

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Financial Advisory Services
Provided By:

SAMCO Capital