

NEW ISSUE: BOOK-ENTRY-ONLY

Ratings: S&P: "AA-"
(See "RATINGS" herein)

**PRELIMINARY OFFICIAL STATEMENT
October 30, 2019**

In the opinion of Bond Counsel (identified below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Notes (defined below) with certain covenants contained in the Resolution (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Notes for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Notes. See "TAX MATTERS" herein.

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

\$1,995,000*

**BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10
(A political subdivision of the State of Texas located within Bexar County, Texas)
WATERWORKS AND SEWER SYSTEM REVENUE NOTES, SERIES 2019B**

Dated Date: November 1, 2019 (interest will accrue from the Delivery Date)

Due: March 1, as shown on page ii

Bexar County Water Control and Improvement District No. 10 (the "District") is issuing its \$1,995,000* Waterworks and Sewer System Revenue Notes, Series 2019B (the "Notes") pursuant to the Constitution and general laws of the State of Texas (the "State"), including, particularly, Article 16, Section 59 of the Texas Constitution, Chapters 49 and 51, Texas Water Code, as amended, and Chapter 1371, Texas Government Code, as amended, and are special obligations of the District as provided in the resolution authorizing the Notes (the "Resolution") to be adopted on November 7, 2019. The Notes are payable, both as to principal and interest, solely from and equally secured by a first lien on and pledge of the Net Revenues (as defined herein) of the District's waterworks and sewer system (the "System") (see "SECURITY FOR THE NOTES"). The Notes do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the System, except with respect to the Net Revenues. The Notes are not general obligations of the City of Windcrest, Texas, the City of San Antonio, Texas, Bexar County, Texas or the State of Texas, and the owners of the Notes shall never have the right to demand payment out of any funds raised or to be raised by taxation.

Interest on the Notes will accrue from the Delivery Date (defined below), and will be payable on March 1 and September 1 each year, commencing September 1, 2020, until stated maturity or prior redemption. The Notes will be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. Interest accruing on the Notes will be calculated on the basis of a 360-day year consisting of twelve 30-day months. (See "THE NOTES – General Description.")

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. The principal of and interest on the Notes will be payable to Cede & Co., as nominee for DTC, by UMB Bank, N.A., Austin, Texas, as the initial Paying Agent/Registrar (the "Paying Agent/Registrar") for the Notes. No physical delivery of the Notes will be made to the owners thereof. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer. (See "BOOK-ENTRY-ONLY SYSTEM.")

The District reserves the right, at its option, to redeem Notes having stated maturities on and after March 1, ____, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on March 1, ____ or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. (See "THE NOTES – Redemption Provisions.")

Proceeds from the sale of the Notes will be used to (i) finance improvements to the System, and (ii) pay the costs of issuing the Notes. (See "THE NOTES – Authorization and Purpose.")

MATURITY SCHEDULE ON INSIDE COVER

The Notes are offered for delivery when, as and if issued and received by initial purchasers thereof named below (the "Underwriter"), subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, San Antonio, Texas. The Notes are expected to be available for initial delivery through the services of DTC on or about December 5, 2019 (the "Delivery Date").

SAMCO CAPITAL MARKETS

*Preliminary, subject to change.

MATURITY SCHEDULE

\$1,995,000*

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10 WATERWORKS AND SEWER SYSTEM REVENUE NOTES, SERIES 2019B

Base CUSIP No: 08856A⁽¹⁾

Maturity Date (03/01)	Principal Amount*	Interest Rate	Initial Yield	CUSIP Suffix No. ⁽¹⁾	Maturity Date (03/01)	Principal Amount*	Interest Rate	Initial Yield	CUSIP Suffix No. ⁽¹⁾
2021	\$25,000				2033	\$90,000			
2022	60,000				2034	90,000			
2023	60,000				2035	95,000			
2024	65,000				2036	100,000			
2025	65,000				2037	105,000			
2026	70,000				2038	105,000			
2027	70,000				2039	110,000			
2028	75,000				2040	115,000			
2029	75,000				2041	120,000			
2030	80,000				2042	125,000			
2031	80,000				2043	130,000			
2032	85,000								

(Interest to accrue from the Delivery Date)

REDEMPTION PROVISIONS.... The District reserves the right, at its option, to redeem Notes having stated maturities on and after March 1, _____, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on March 1, _____ or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. (See “THE NOTES – Redemption Provisions.”)

* Preliminary, subject to change.

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP numbers have been assigned to the Notes by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association and are included solely for the convenience of owners of the Notes. 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 Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

BOARD OF DIRECTORS

<u>Name</u>	<u>Term Expires</u>	<u>Occupation</u>
Bertie Sue Alexander, President	2022	Retired
Eugenia Snead, Vice President	2022	Retired
Gale Scheibler, Treasurer	2020	Retired
Fernando Richards, Jr., Secretary	2020	Human Resources Professional
Eddie Guerrero, Director	2022	Utility Foreman

ADMINISTRATION

<u>Name</u>	<u>Position</u>	<u>Years of Experience</u>	<u>Years in Current Position</u>
David Wallace	General Manager	31	4

CONSULTANTS AND ADVISORS

McCall, Parkhurst & Horton L.L.P. San Antonio, Texas	Bond Counsel
RBC Capital Markets, LLC San Antonio, Texas	Financial Advisor
Baker Tilly Virchow Krause LLP Austin, Texas	Independent Auditor
Langley & Banack, Inc. San Antonio, Texas	Legal Counsel

USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities Exchange Commission, as amended (“Rule 15c2-12”), this document constitutes an “official statement” of the District with respect to the Notes that has been “deemed final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

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

This Official Statement contains, in part, estimates and matters of opinion and certain forward-looking statements which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

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

THE NOTES 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 NOTES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE NOTES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

None of the District, the Financial Advisor or the Underwriter make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company (“DTC”) or its Book-Entry-Only System, if any, as such information has been provided by DTC.

The District’s Legal Counsel has provided the following sentence for inclusion in this Official Statement. The District’s Legal Counsel did not take part in the preparation of this Official Statement nor has assumed any responsibility with respect hereto. The District’s Legal Counsel has reviewed the information in this Official Statement, but the District’s Legal Counsel does not insure, warrant, or guarantee and makes no representation as to the accuracy, completeness or fairness of the information contained in this Official Statement. Moreover, the District’s Legal Counsel was not obligated to undertake, and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

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

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

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The cover page hereof, the section entitled "Selected Data from the Official Statement," this Table of Contents and the 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 Notes 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 District	<p>Bexar County Water Control and Improvement District No. 10 (the “District”), created in 1955, is a water control and improvement district and political subdivision of the State of Texas located within Bexar County, Texas. (See “THE DISTRICT,” “THE SYSTEM,” and “APPENDIX B – General Information Regarding the City of Windcrest, Texas and Bexar County, Texas” herein”).</p> <p>The District is governed by a Board of Directors, consisting of five Board Members.</p>
The Notes	<p>The District is issuing its \$1,995,000* Waterworks and Sewer System Revenue Notes, Series 2019B (the “Notes”) as serial Notes maturing on March 1 in the years 2021 through and including 2043. (See “THE NOTES – Description of the Notes.”)</p>
Payment of Interest	<p>Interest on the Notes will accrue from the Delivery Date, and will be payable on March 1 and September 1 each year, commencing September 1, 2020, until stated maturity or prior redemption. (See “THE NOTES – General Description.”)</p>
Authority for Issuance	<p>The Notes are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including, particularly, Article 16, Section 59 of the Texas Constitution, Chapters 49 and 51, Texas Water Code, as amended, and Chapter 1371, Texas Government Code, as amended, and are special obligations of the District as provided in the resolution authorizing the Notes (the “Resolution”) to be adopted on November 7, 2019. (See “THE NOTES – Authorization and Purpose.”)</p>
Security	<p>The Notes are payable, both as to principal and interest, solely from and equally secured by a first lien on and pledge of the Net Revenues (as defined herein) of the District's waterworks and sewer system (the “System”). The Notes do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the System, except with respect to the Net Revenues. (See “SECURITY FOR THE NOTES”).</p>
Paying Agent/Registrar	<p>The initial Paying Agent/Registrar for the Notes is UMB Bank, N.A., Austin, Texas (see “REGISTRATION, TRANSFER AND EXCHANGE – Paying Agent/Registrar” herein). Initially, the District intends to use the Book-Entry-Only System of The Depository Trust Company. (See “BOOK-ENTRY-ONLY SYSTEM.”)</p>
Use of Proceeds	<p>Proceeds from the sale of the Notes will be used to (i) finance improvements to the System and (ii) pay the costs of issuing the Notes. (See “THE NOTES – Authorization and Purpose”).</p>
Redemption Provisions	<p>The District reserves the right, at its option, to redeem Notes having stated maturities on and after March 1, ____ in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on March 1, ____ or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. (See “THE NOTES – Redemption Provisions.”)</p>
Ratings	<p>The Notes have been assigned an unenhanced rating of “AA-” by S&P Global Ratings (“S&P”). An explanation of the significance of such rating may be obtained from S&P. (See “RATINGS” herein.”)</p>
Tax Exemption	<p>In the opinion of Bond Counsel, interest on the Notes is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions, subject to the matters described under “TAX MATTERS” herein. (See “TAX MATTERS” for a discussion of the opinion of Bond Counsel.)</p>
Qualified Tax-Exempt Obligations	<p>The District expects to designate the Notes as “Qualified Tax-Exempt Obligations” for financial institutions. (See “TAX MATTERS - Qualified Tax-Exempt Obligations” herein.)</p>

*Preliminary, subject to change.

Book-Entry-Only System	The definitive Notes will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Notes may be acquired in denominations of \$5,000 in principal amount or integral multiples thereof. No physical delivery of the Notes will be made to the purchasers thereof (the “Beneficial Owners”). The principal of and interest on the Notes will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Notes. (See “BOOK-ENTRY-ONLY SYSTEM.”)
Payment Record	The District has never defaulted on the payment of its outstanding debt.
Legal Opinion	Delivery of the Notes is subject to the approval by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. (See “LEGAL MATTERS” and “Form of Legal Opinion of Bond Counsel” attached hereto as Appendix E.)
Delivery	When issued, anticipated on or about December 5, 2019.
Future Issuances	The District does not expect to issue additional debt in the next 12 months.

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PRELIMINARY OFFICIAL STATEMENT RELATING TO
\$1,995,000*
BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10
(A political subdivision of the State of Texas located within Bexar County, Texas)
WATERWORKS AND SEWER SYSTEM REVENUE NOTES, SERIES 2019B

INTRODUCTORY STATEMENT

General

This Official Statement, including Appendices A, B and C hereto, have been prepared by the Bexar County Water Control and Improvement District No. 10 located in Bexar County, Texas (the “District”) in connection with the offering by the District of its \$1,995,000* Waterworks and Sewer System Revenue Notes, Series 2019B (the “Notes”) identified on the cover page hereof.

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 revenues and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future. (See “FORWARD LOOKING STATEMENTS.”)

There follows in this Official Statement descriptions of the Notes and the Resolution (as defined herein), and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by electronic mail or upon payment of reasonable copying, mailing, and handling charges by writing the Bexar County Water Control and Improvement District No. 10, 8601 Midcrown Drive, Windcrest, Texas 78239, and, during the offering period, from the District’s Financial Advisor, RBC Capital Markets, LLC, 303 Pearl Parkway, Suite 220, San Antonio, Texas 78215, by electronic mail or upon payment of reasonable handling, mailing and delivery charges.

This Official Statement speaks only as of its date and the information contained herein is subject to change. A copy of this Official Statement will be deposited with the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access (“EMMA”) system. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the undertakings of the District to provide certain information on a continuing basis.

Description of the District

The District is a water control and improvement district created by an order of the State Board of Water Engineers on November 28, 1955 and confirmed by the voters within the District at an election held on February 4, 1956. The District is a political subdivision of the State of Texas (the “State”) with the rights, powers, privileges, and authority established by the general laws of the State of Texas, including particularly Chapters 49 and 51 of the Texas Water Code. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality (the “TCEQ”) and is located entirely within Bexar County, Texas and primarily within the City of Windcrest, Texas, with a small portion located within the City of San Antonio, Texas.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water, the collection, transportation and treatment of sewage, the control of flood waters, and the control and diversion of storm water. Despite the District being empowered to control flood waters and conduct, control and divert local storm waters, only the City of Windcrest controls flood waters, and conducts, controls and diverts local storm waters. The District issues bonds and other forms of indebtedness to purchase or construct such facilities. The District provides water and sewage service to residents and commercial customers of the District. The District currently provides water service to over 2,488 accounts (over 2,317 living unit equivalents [“LUEs”]) and sewage service to approximately 2,418 connections.

The TCEQ exercises continuing supervisory jurisdiction over the District. Construction and operation of the District’s water and sewer system (the “System”) is subject to the regulatory jurisdiction of federal and state governmental agencies.

For additional information regarding the District, see “THE DISTRICT” and “THE SYSTEM” herein and Appendices A and B attached hereto.

^{*} Preliminary, subject to change.

THE NOTES

Authorization and Purpose

The Notes are being issued in accordance with the Constitution and general laws of the State, including, particularly, Article 16, Section 59 of the Texas Constitution, Chapters 49 and 51, Texas Water Code, as amended, and Chapter 1371, Texas Government Code, as amended, and are special obligations of the District as provided in the resolution authorizing the Notes (the "Resolution") to be adopted on November 7, 2019. Capitalized terms used herein have the same meanings assigned to such terms in the Resolution (excerpts from which are included in Appendix C of this Official Statement), except as otherwise indicated.

Proceeds from the sale of the Notes will be used to (i) finance improvements to the System, and (ii) pay the costs of issuing the Notes.

General Description

The Notes will be dated November 1, 2019. Interest on the Notes will accrue from the Delivery Date (anticipated to be on or about December 5, 2019), will be calculated on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on March 1 and September 1 each year, commencing September 1, 2020, until stated maturity or prior redemption. The Notes mature on the dates and in the principal amounts shown on page ii hereof. The Notes will be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. The paying agent/registrar for the Notes is initially UMB Bank, N.A., Austin, Texas (the "Paying Agent/Registrar").

Initially, the Notes will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described below. No physical delivery of the Notes will be made to the beneficial owners. Principal of and interest on the Notes will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Notes. See "BOOK-ENTRY-ONLY SYSTEM" below for a more complete description of such system.

In the event the Notes are no longer held in the Book-Entry-Only System, interest on the Notes shall be payable to the registered owner whose name appears on the bond registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and such accrued interest will be paid by (i) check sent United States mail, first class, postage prepaid, to the address of the registered owner appearing on such registration books of the Paying Agent/Registrar or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for any payment on the Notes shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. The principal of the Notes is payable at maturity or, upon prior redemption, upon their presentation and surrender to the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Notes, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein.

Redemption Provisions

Optional Redemption. . . The District reserves the right, at its sole option, to redeem Notes having stated maturities on or after March 1, ____, in whole or in part thereof, in principal amounts of \$5,000 or any integral multiple thereof on March 1, ____, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

Selection of Notes for Redemption. . . If less than all the Notes of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Notes are in Book-Entry-Only form) shall determine by lot the Notes, or portions thereof, within such maturity to be redeemed. If a Note (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Note (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption. . . Not less than thirty (30) days prior to a redemption date for the Notes, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Notes to be redeemed at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. The notice with respect to an optional redemption may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar no later than the redemption date, or (2) that the District retains the right to rescind such notice at any time prior to the scheduled redemption date if the District delivers a certificate of an authorized representative to the Paying

Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is so rescinded.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE NOTES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY NOTE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH NOTE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC Redemption Provisions . . . The Paying Agent/Registrar, so long as a book-entry system is used for the Notes, will send any notice of redemption, or other notices with respect to the Notes only to DTC (or any successor securities depository for the Notes). Any failure by DTC to advise any Direct Participant (defined herein), or of any Direct Participant or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), will not affect the validity of the redemption of the Notes called for redemption or any other action premised on any such notice. Redemption of portions of the Notes by the District will reduce the outstanding principal amount of such Notes held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Notes held for the account of Direct Participants in accordance with its rules or other agreements with Direct Participants and then Direct Participants and Indirect Participants may implement a redemption of such Notes from the Beneficial Owners. Any such selection of Notes to be redeemed will not be governed by the Resolution and will not be conducted by the District or Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants, or the persons for whom Direct Participants act as nominees, with respect to the payments on the Notes or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Notes for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Legality

The Notes are offered when, as and if issued, and subject to the approving opinion of the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. (See "LEGAL MATTERS" and "Appendix E – Form of Legal Opinion of Bond Counsel.")

Payment Record

The District has never defaulted on the payment of its outstanding debt.

Defeasance of Notes

The Resolution provides for the defeasance of any Note (a "Defeased Note") when payment of the principal of such Note, plus interest thereon to the due date (whether such due date be by reason of maturity or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar in accordance with an escrow agreement or other instrument (the "Future Escrow Agreement") for such payment (1) lawful money of the United States of America sufficient to make such payment and/or (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been made by the District with the Paying Agent/Registrar for the payment of its services until all Defeased Notes shall have become due and payable. At such time as a Note shall be deemed to be a Defeased Note under the Resolution, as aforesaid, such Note and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the revenues pledged as provided in the Resolution, and such principal and interest shall be payable solely from such money or Defeasance Securities. In the event the District elects to defease less than all of the principal amount of the Notes of a maturity, the Paying Agent/Registrar shall select, or cause to be selected, such amount of Notes of such maturity by such random method as it deems fair and appropriate.

The Resolution provides that Defeasance Securities means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) 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, (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 on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (iv) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Notes. An authorized District official may limit these Defeasance Securities as deemed necessary in connection with the sale of the Notes. The District has additionally reserved the right in the Resolution, subject to satisfying the requirements of (1) and (2) in the

preceding paragraph, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, the Notes will no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or satisfying any rate covenants. After firm banking and financial arrangements for the discharge and final payment of the Notes have been made as described above, all rights of the District to take any action amending the terms of the Notes are extinguished; provided, however, that the right to call for redemption any Notes that have been defeased to final maturity is not extinguished if the District: (i) in the proceedings providing for the defeasance of the Notes, expressly reserves the right to call such Notes for redemption; (ii) gives notice of the reservation of that right to the owners of such Notes immediately following the making of such banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Amendments

In the Resolution, the District has reserved the right, without the consent of or notice to any registered owners of the Parity Obligations (as described below under “SECURITY FOR THE NOTES – Net Revenue Pledge”), amend, change, or modify the Resolution (i) as may be required by the provisions thereof, (ii) as may be required for the purpose of curing any ambiguity, inconsistency, or formal defect or omission therein, or (iii) in connection with any other change (other than any change described in clauses (i) through (iv) of the following paragraph) with respect to which the District receives written confirmation from each rating agency then maintaining a rating on the Parity Obligations at the request of the District that such amendment would not cause such rating agency to withdraw or reduce its then current rating on the Parity Obligations.

In addition, the District may, with the written consent of the registered owners of at least a majority in aggregate principal amount of the remaining Parity Obligations then outstanding and affected thereby, amend, change, modify, or rescind any provisions of the Resolution; provided that without the consent of all of the registered owners affected, no such amendment, change, modification, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Parity Obligations, reduce the principal amount thereof or the rate of interest thereof, (ii) give any preference to any Parity Obligation over any other Parity Obligation, (iii) extend any waiver of default to subsequent defaults, or (iv) reduce the aggregate principal amount of Parity Obligations required for consent to any such amendment, change, modification, or rescission.

Sources and Uses of Funds

The proceeds from the sale of the Notes will be applied approximately as follows:

Sources:	
Principal Amount of the Notes	\$
[Net] Reoffering Premium/Discount on the Notes	
Total Source of Funds	<u>\$</u>
Uses:	
Deposit to the Project Fund	\$
Costs of Issuance and Underwriter’s Discount	
Total Uses of Funds	<u>\$</u>

SECURITY FOR THE NOTES

The following summary of the provisions of the Resolution that describe the security for the Notes is qualified by reference to the Resolution, excerpts of which are included in “APPENDIX C - SELECTED PROVISIONS OF THE RESOLUTION.”

Net Revenue Pledge

The Notes, together with the District’s Waterworks and Sewer System Revenue Notes, Series 2019A, and any "Additional Obligations" issued in the future by the District (collectively referred to herein and in the Resolution as the "Parity Obligations"), are special obligations of the District and are secured by a first lien on and pledge of the "Net Revenues" of the System. The term "Net Revenues" is defined in the Resolution to mean the amount remaining after deducting the "Current Expenses of the System" from the "Gross Revenues of the System," the term "Gross Revenues of the System" is defined in the Resolution to mean all of the revenues, income, and receipts of every nature derived from the ownership or operation of the System, and the term "Current Expenses of the System" is defined in the Resolution to mean the current, ordinary, reasonable, necessary, and proper expenses of operation and maintenance of the System, including reasonable, necessary, and proper salaries, labor, fees, materials, repairs, paying agents' charges, and properly allocated charges for insurance, with the clarification that depreciation and payments into and out of the Interest and Sinking Fund and the other Funds established in

the Resolution shall never be considered as expenses of operation and maintenance of the System.) The Net Revenues are further pledged irrevocably to the establishment and maintenance of the Interest and Sinking Fund and the appropriate series accounts established in the Debt Service Reserve Fund, if any (such as the Series 2019B Account established for the benefit of the Notes). (See Appendix C - "SELECTED PROVISIONS OF THE RESOLUTION"). **The District has not covenanted or obligated itself to pay the Notes from monies raised or to be raised from taxation.**

Perfection of Security Interest

Chapter 1208, Texas Government Code, applies to the issuance of the Notes and the pledge of the Net Revenues thereto, and such pledge is, therefore, valid, effective and perfected. Should Texas law be amended at any time while the Notes are outstanding and unpaid, the result of such amendment being that the pledge of the Net Revenues is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the Notes a security interest in such pledge, the District has covenanted to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

Rate Covenant

In the Resolution, the District has covenanted that it will at all times fix, revise, maintain, charge, and collect for services rendered by the System, rates and charges which will produce Net Revenues that will (i) equal at least 125% of the average annual Principal and Interest Requirements on the Parity Obligations outstanding during each Fiscal Year, (ii) maintain or restore the amount on deposit in the respective Accounts of the Debt Service Reserve Fund to the amounts and in the manner required by the respective resolutions authorizing the issuance of the outstanding Parity Obligations, and (iii) pay all Reimbursement Obligations coming due during each Fiscal Year, if any. Additionally, the District has covenanted that should it become legally liable for any other obligations or indebtedness, the District shall fix, maintain, charge and collect additional rates and charges for services rendered by the System sufficient to establish and maintain funds for the payment thereof.

Revenue Fund

All Gross Revenues of the System shall be deposited as collected into the Revenue Fund. The Current Expenses of the System shall be paid from the Revenue Fund or from any other funds of the District lawfully available therefor. The Gross Revenues of the System not actually used to pay Current Expenses of the System shall be transferred from the Revenue Fund into the Interest and Sinking Fund and the Debt Service Reserve Fund created by the Resolution, in the manner and amounts and at the times described below, and each of such Funds shall have priority as to such deposits in the order in which they appear in the following paragraphs.

Interest and Sinking Fund

Use of Funds . . . Funds on deposit in the Interest and Sinking Fund shall be used solely to pay the principal of and interest on the Parity Obligations when due, and the General Manager of the District has been authorized to cause funds to be transferred from the Interest and Sinking Fund to the Paying Agent/Registrar at the times and in the amounts to pay Principal and Interest Requirements.

Deposit of Accrued Interest and Capitalized Interest . . . Immediately after the delivery of any series of Parity Obligations, all moneys representing accrued interest, if any, received by the District upon the sale and delivery of such Parity Obligations to the initial purchaser thereof, together with all capitalized interest being financed with proceeds of such Parity Obligations, if any, shall be deposited to the credit of the Interest and Sinking Fund.

Monthly and Other Deposits . . . In addition, the District shall transfer Net Revenues from the Revenue Fund and deposit into the Interest and Sinking Fund the following:

(i) on or before the last business day of each month, commencing with the month immediately following the issuance of any series of Parity Obligations, the District shall deposit into the Interest and Sinking Fund in approximately equal installments an amount as will be sufficient, together with other amounts, if any, then on deposit therein and available for such purpose, to pay the interest scheduled to come due on all outstanding Parity Obligations on the next interest payment date;

(ii) on or before the last business day of each month, commencing with the twelfth (12th) month preceding the first principal payment date for a series of Parity Obligations, or commencing with the month immediately following the issuance of any series of Parity Obligations if delivery of such series of Parity Obligations is made less than twelve months preceding the first principal payment date for such series of Parity Obligations, the District shall deposit into the Interest and Sinking Fund in approximately equal installments an amount as will be sufficient, together with other

amounts, if any, then on deposit therein and available for such purpose, to pay the principal scheduled to come due (either at stated maturity or due to mandatory sinking fund redemption) on all outstanding Parity Obligations on the next principal payment date; and

(iii) on or before any optional redemption date set by the District for any Parity Obligations, the District shall deposit into the Interest and Sinking Fund or an Escrow Fund an amount as will be sufficient to pay the principal of, premium, if any, and interest on the Parity Obligations scheduled to be redeemed on such optional redemption date.

Debt Service Reserve Fund

Use of Funds . . . Funds on deposit in an account of the Debt Service Reserve Fund established for the benefit of a particular series of Parity Obligations shall be used to (i) pay the principal of and interest on such series of Parity Obligations for which such account was created at any time when there is not sufficient money available in the Interest and Sinking Fund for such purpose, (ii) pay the principal of or interest on the last maturing Parity Obligations of such series, or (iii) pay Reimbursement Obligations to restore the amount available to be drawn under a Reserve Fund Credit Facility to its original amount. If the amount on deposit in an account of the Reserve Fund for a particular series of Parity Obligations consists of cash and investments and a Debt Service Reserve Fund Credit Facility, all cash and investments in such account shall be liquidated and withdrawn prior to drawing on the Reserve Fund Credit Facility. If more than one Reserve Fund Credit Facility is maintained in an account of the Debt Service Reserve Fund, any withdrawals on such Reserve Fund Credit Facilities shall be pro rata.

Notes Secured with an Account in the Debt Service Reserve Fund . . . The District has established an account in the Debt Service Reserve Fund, to be known as the "Series 2019B Reserve Account," for the benefit of the registered owners of the Notes. The amount required to be on deposit in the Series 2019B Reserve Account is equal to the average annual Principal and Interest Requirements of the Notes calculated on the date of issuance and delivery of the Notes (the "Series 2019B Reserve Account Requirement"). The District initially will fund the Series 2019B Reserve Account by purchasing a Reserve Fund Credit Facility issued by _____ (the "Series 2019B Reserve Fund Credit Facility") with an amount available to be drawn thereunder equal to the Series 2019B Reserve Account Requirement. The Series 2019B Reserve Fund Credit Facility will be deposited into the Series 2019B Reserve Account of the Debt Service Reserve Fund and used only to secure payment of debt service on the Series 2019B Notes, and will expire on the date the Series 2019B Notes are defeased or otherwise no longer outstanding.

When and so long as the money and investments in the Series 2019B Reserve Account total not less than the Series 2019B Reserve Account Requirement, no deposits need be made to the credit of the Series 2019B Reserve Account; but when and if the Series 2019B Reserve Account at any time contains less than the Series 2019B Reserve Account Requirement, the District has covenanted and agreed to cure the deficiency in the Series 2019B Reserve Account Requirement within sixty (60) months from the date the deficiency occurred by making monthly deposits from funds on deposit in the Revenue Fund (but only after making the required deposits into the Interest and Sinking Fund and paying all Current Expenses then due) on the last business day of each month in approximately equal amounts. During such time as the Series 2019B Reserve Account contains the Series 2019B Reserve Account Requirement, the District may, at its option, withdraw all surplus funds in the Series 2019B Reserve Account in excess of the Series 2019B Reserve Account Requirement and deposit such surplus in the Revenue Fund. For the purpose of determining the amount on deposit to the credit of the Series 2019B Reserve Account, investments in which money in such account shall have been invested shall be computed at cost. The amount on deposit to the credit of the Series 2019B Reserve Account shall be computed by the District at least annually, and shall be computed immediately upon any withdrawal from the Series 2019B Reserve Account.

Additional Reserve Fund Requirements to be Set Forth in Additional Obligations Resolution . . . In the event the District establishes an account in the Reserve Fund for the benefit of the Holders of a particular series of Additional Obligations, all provisions with respect to the funding requirements and other details shall be set forth in the resolution authorizing such series of Parity Obligations.

Issuance of Additional Obligations

In the Resolution, the District has reserved the right to issue additional parity revenue bonds, notes or other obligations for any purpose related to the System, to be known as Additional Obligations, which, when issued and delivered, shall be payable from and secured by a first lien on and pledge of the Net Revenues, in the same manner and to the same extent as the Notes and any other then outstanding Parity Obligations, and the Parity Obligations shall in all respects be on a parity and of equal dignity. For more information regarding the issuance of Additional Obligations, see Section 18 of the Resolution, excerpts of which are attached hereto under Appendix C – "SELECTED PROVISIONS OF THE RESOLUTION."

Registered Owners' Remedies

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

The Resolution provides no additional remedies to a Registered Owner. Specifically, the Resolution does not provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners or for the acceleration of maturity of the Notes upon the occurrence of a default in the District's obligations. Consequently, the remedy of mandamus is a remedy which may have to be enforced from year-to-year by the Registered Owners and may prove time consuming, costly and difficult to enforce.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Resolution may not be reduced to a judgment for money damages. The Notes are not secured by an interest in any improvements or any other property of the District. Under Texas law, no judgment obtained against the District may be enforced by execution of a levy against the District's public purpose property. The Registered Owners themselves cannot foreclose on property within the District or sell property within the District in order to pay principal of or interest on the Notes. In addition, the enforceability of the rights and remedies of the Registered Owners may be delayed, reduced or otherwise affected or limited by federal bankruptcy laws or other similar laws affecting the rights of creditors of a political subdivision or by a state statute reasonably required to attain an important public purpose.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Notes. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Notes (as further described under the caption "THE NOTES - Authorization and Purpose"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages beyond Chapter 1371, holders of the Notes may not be able to bring such a suit against the District for breach of the Notes or Resolution covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Notes.

In *Tooke*, the Court noted the enactment in 2005 of sections 271.151- 160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers districts, such as the District, and relates to contracts entered into by these districts for providing goods or services to these districts. The District is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings by local governments, such as the District, that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act.

As noted above, the Resolution provides that registered owners may exercise the remedy of mandamus to enforce the obligations of the District under the Resolution. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or registered owners 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.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Notes is to be transferred and how the principal of, premium, if any, and interest on the Notes are to be paid to and credited by DTC, while the Notes 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 Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered Notes 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 Note certificate will be issued for each maturity the Notes, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of the Notes ("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 Notes 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 Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit

notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes 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 (hereinafter defined). The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Notes are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

All payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of interest and principal 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 securities depository with respect to the Notes at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, the Notes are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates 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 Underwriter believe to be reliable, but the District, the Financial Advisor and the Underwriter take no responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Notes, the District 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.

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Notes are in Book-Entry-Only form, 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 Notes, 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.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

UMB Bank, N.A., Austin, Texas, has been named to serve as initial Paying Agent/Registrar for the Notes. In the Resolution, the District retains the right to replace the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the applicable law; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Notes. Upon any change in the Paying Agent/Registrar for the Notes, the District agrees to

promptly cause a written notice thereof to be sent to each registered owner of the Notes by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Future Registration

In the event the Book-Entry-Only System is discontinued, printed certificates will be delivered to the Beneficial Owners of the Notes and thereafter the Notes may be transferred, registered and assigned on the registration books only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the Registered Owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. Notes may be assigned by the execution of an assignment form on the respective Notes or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Note or Notes will be delivered by the Paying Agent/Registrar in lieu of the Note being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new Registered Owner at the Registered Owner's request, risk and expense. To the extent possible, new Notes issued in an exchange or transfer of Notes 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 Notes 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 Notes registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount as the Note or Notes surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to the ownership and transferability of the Notes.

Record Date for Interest Payment

The record date ("Record Date") for determining the party to whom the interest on a Note is payable on any interest payment date for the Notes means the close of business on the 15th day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (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 Note appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Limitation on Transfer of Notes

Neither the District nor the Paying Agent/Registrar are required (1) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Notes and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any Notes so selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Note.

Replacement Notes

If any Note is mutilated, destroyed, stolen or lost, a new Note in the same principal amount as the Note so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Note, such new Note will be delivered only upon surrender and cancellation of such mutilated Note. In the case of any Note issued in lieu of and in substitution for a Note which has been destroyed, stolen or lost, such new Note will be delivered only (a) upon filing with the District and the Paying Agent/Registrar of satisfactory evidence to the effect that such Note has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Note must pay taxes, governmental charges and other expenses as the Paying Agent/Registrar may incur in connection therewith.

THE DISTRICT

Authority

The District is a political subdivision of the State created by an order of the State Board of Water Engineers on November 28, 1955 and confirmed by the voters within the District at an election held on February 4, 1956. The District is a political subdivision of the State with the rights, powers, privileges, and authority established by the general laws of the State, including particularly Chapters 49 and 51 of the Texas Water Code.

The District (as qualified in the “INTRODUCTORY STATEMENT” of this Official Statement) is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water, and the collection, transportation and treatment of sewage. The District can issue bonds and other forms of indebtedness to purchase or construct such facilities.

The TCEQ exercises continuing supervisory jurisdiction over the District. Construction and operation of the System is subject to the regulatory jurisdiction of federal and state governmental agencies.

Description

At creation, the District encompassed approximately 1,058 acres of land. The District is located entirely within Bexar County, Texas and contains within its boundaries most of the City of Windcrest, Texas, and less than one acre of the City of San Antonio, Texas.

Management of the District

The District is governed by the Board of Directors, consisting of five Directors, who have control over management and supervision of all affairs of the District. All of the directors reside within the District. The directors serve four-year staggered terms. Elections are held in November.

General Manager and Staff

The District's full-time staff includes the General Manager, Office Manager, Billing Clerk and a technical crew consisting of the Field Supervisor and three technicians. Professional services (engineering, legal, and audit) are provided by retained professionals. David Wallace has managed the District since 2015. District Field Supervisor Israel Guerra and Office Manager Lyn Cruz assist Mr. Wallace.

Annexation

Under certain conditions, Texas law provides that when a utility district lies within the extraterritorial jurisdiction of two or more cities, any of such cities may annex that portion of the utility district lying within its extraterritorial jurisdiction without dissolving the utility district.

The District's service area within its boundaries is entirely comprised of area within the corporate boundaries of the City of Windcrest and less than one acre within the corporate boundaries of the City of San Antonio. Consequently since the District is no longer within the extraterritorial jurisdiction of the Cities of Windcrest, San Antonio, or any other city, annexation of the District is not an issue.

Consolidation

A district, such as the District, has the legal authority to consolidate with other districts. Under Texas law, a consolidation becomes effective only after the directors of each district have agreed on the terms and conditions of consolidation stated in a consolidation agreement, an elections is called and the electors in each district vote in favor of consolidation. After two or more districts are consolidated, the debt of the original districts (which would include the Notes) are protected and not impaired. To the District's knowledge, there are currently no other water and sewer utility service districts adjacent to the District that could even be potential candidates for a consolidation of districts. Nevertheless, no representation is made concerning the likelihood of consolidation.

Change of Boundaries

In certain circumstance and/or upon satisfying certain conditions and/or requirements, Texas law provides that the District may change its boundaries to (1) annex additional territory; and/or (2) exclude territory. No representation is made concerning the likelihood that the District would effect any change in its boundaries.

THE SYSTEM

The District provides water and sewage service to residents and commercial customers of the District. The District currently provides water service to over 2,488 accounts (over 2,317 LUEs) and sewage service to approximately 2,418 connections. The District provides water and sewage service to most citizens of the City of Windcrest and a small number of residents of the City of San Antonio located adjacent to the City of Windcrest.

Water for the District comes solely from four wells located strategically around the City of Windcrest that are drilled into the Edwards Aquifer, which pump into a common distribution system. The wells can pump up to 4.6 million gallons per day, which is more than triple the District's record demand of 1.5 million gallons per day and almost four times its average daily demand of 1.2 million gallons. The largest well is equipped with an auxiliary diesel engine that will, by itself, supply all but the District's heaviest demand.

System Facilities

The water distribution system consists of approximately 30 miles of water mains, the four wells, two elevated storage tanks and one standpipe. The tanks hold 750,000, 100,000 and 235,000 gallons, respectively. The water mains, pumps and tanks are interconnected, and the District is able to isolate individual components which ensures a failure at any point will have little or no effect on the rest of the system.

The District does not have sewage treatment capabilities. The District has contracted with the San Antonio Water System to treat sewage. The District's sewer system collects and transports sewage by gravity lines to the San Antonio Water System's major collection line on Walzem Road.

The District's water production and distribution system and sanitary sewer collection system have been designed in accordance with the criteria of various regulatory agencies including Bexar County, the City of Windcrest and the TCEQ. The construction and installation of the facilities must be made in accordance with the standards and specifications of such entities and are subject to inspection by each such entity.

For additional statistical and financial information regarding the District and the System, see Appendix A – "FINANCIAL INFORMATION REGARDING THE DISTRICT."

Additional Obligations

The District does not expect to issue Additional Obligations in the next 12 months.

RATINGS

The Notes have been assigned an unenhanced rating of "AA-" by S&P Global Ratings ("S&P"). An explanation of the significance of such ratings may be obtained from S&P. The rating of the Notes by S&P reflects only the views of S&P at the time the ratings are given, and the District makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings 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.

LEGAL MATTERS

Legal Opinions

The District will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Notes, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the initial Note is a valid and legally binding obligation of the District, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Notes will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein.

Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Notes, Bond Counsel has been engaged by, and only represents, the District in the issuance of the Notes. Except as noted below, Bond Counsel did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas has reviewed the information under the captions and subcaptions "THE NOTES" (except for the subcaptions "Payment Record", and "Sources and Uses of Funds" as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "LEGAL MATTERS" (except for the last two sentences of the third paragraph), "TAX MATTERS", and "CONTINUING DISCLOSURE OF INFORMATION" (except the information under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed) in the Official Statement and such firm is of the opinion that the information relating to the Notes and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Notes, such information conforms to the Resolution. 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 Notes or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Notes will also be furnished.

The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Notes are contingent on the sale and delivery of the Notes. The legal opinion of Bond Counsel will accompany the Notes deposited with DTC or will be printed on the definitive Notes in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by Norton Rose Fulbright US LLP, San Antonio, Texas, as counsel to the Underwriter. The legal fee of such firm is contingent upon the sale and delivery of the Notes.

The various legal opinions to be delivered concurrently with the delivery of the Notes 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.

Legal Investment and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Notes are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Notes are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, the Notes must be rated at least “A” or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to invest in the Notes, except for purchases of interest and sinking funds of such entities. See “RATINGS” herein. Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Notes. The Notes are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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 Notes for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Notes for such purposes. The District has made no review of laws in other states to determine whether the Notes are legal investments for various institutions in those states.

Registration and Qualification of Notes for Sale

No registration statement relating to the Notes has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Notes have not been approved or disapproved by the Securities and Exchange Commission, nor has the Securities and Exchange Commission passed upon the accuracy or adequacy of the Official Statement. The Notes have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Notes been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Notes under the securities laws of any jurisdiction in which the Notes may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Notes 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 Underwriter to register or qualify the sale of the Notes under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Underwriter’s written request and sole expense, in registering or qualifying the Notes 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.

TAX MATTERS

Opinion

On the date of initial delivery of the Notes, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing

Law"), (1) interest on the Notes for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Notes will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the District will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Notes. See Appendix E – "Form of Legal Opinion of Bond Counsel."

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

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

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Notes.

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

Under Existing Law, the original issue discount on each Original Issue Discount Note is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Notes and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Note for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Note.

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

Collateral Federal Income Tax Consequences

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

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

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

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Notes, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Notes, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount Notes" to the extent such gain does not exceed the accrued market discount of such Notes; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Notes will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to withholding under sections 1471 through 1474 or backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Future and Proposed Legislation

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

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District expects that the Notes will be designated as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Notes as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Notes would not be "qualified tax-exempt obligations."**

INVESTMENT POLICIES

Investments

The District invests its funds in investments authorized by Texas law 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 Texas law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors; (8) interest-bearing banking deposits, other than those described by clause (7), if (A) the funds invested in the banking deposits are invested through (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or designated investment committee of the District adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this state that the District selects; (B) the broker or depository institution as described in clause (8)(A), above, arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by Paragraph (A); (ii) an entity described by Section 2257.041(d) of the Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit or share certificates (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund (or their respective successors), or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for District deposits or, (ii) where the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main

office or a branch office in the State of Texas that is selected by the District; (iii) 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; (iv) 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 (v) the District appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3- 3) as custodian for the District with respect to the certificates of deposit issued for the account of the District; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), and require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that are continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer (as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003) or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, and that comply with SEC Rule 2a-7; and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (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, clauses (11) through (13) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

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

Investment Policies

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

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

Additional Provisions

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

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Notes qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the District's continuing disclosure obligations because the District does not have more than \$10,000,000 in aggregate amount of outstanding debt that were offered pursuant to SEC Rule 15c2-12 (the "Rule") and no person is committed by contract or other arrangement with respect to payment of the Notes. Pursuant to the exemption, the District in the Resolution has made the following agreement for the benefit of the holders and beneficial owners of the Notes. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Notes. Under the agreement, the District will be obligated to provide certain updated financial information and operating data and timely notice of specified events to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be publicly available on the MSRB's Electronic Municipal Market Access System ("EMMA") at <http://emma.msrb.org/>.

Annual Report

The District will provide certain updated financial information and operating data, which is customarily prepared by the District and is publicly available, to the MSRB on an annual basis. Such information to be provided consists of the District's financial statements. The District will update and provide this information within 12 months after the end of each fiscal year commencing with the fiscal year ending December 31, 2019. The financial statements of the District will be audited, if the District commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such financial statements becomes available. The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule.

The District's current fiscal year end is December 31. Accordingly, the District must provide updated financial statements by the last day of December in each following year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will also provide to the MSRB notices of certain events on a timely basis no later than 10 business days after the event. The District will provide notice of any of the following events with respect to the Notes: (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 Notes, or other material events affecting the tax status of the Notes; (7) modifications to rights of holders of the Notes, if material; (8) Note calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Notes, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into 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 trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties. Neither the Notes nor the Resolution make any provision for credit enhancement or a trustee). 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, (A) 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 order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (B) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Limitations and Amendments

The District has agreed to update information and to provide notices of 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 Notes 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 Notes 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 Notes 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 Notes 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 registered and beneficial owners of the Notes. 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

Since it first became obligated in 2019, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

LITIGATION

The District is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial statements or operations of the District. At the time of the initial delivery of the Notes, the District will provide the Underwriter with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Notes or that affects the payment and security of the Notes or in any other manner questioning the issuance, sale or delivery of the Notes.

FINANCIAL ADVISOR

RBC Capital Markets, LLC is employed as Financial Advisor to the District. The fee paid to the Financial Advisor for services rendered in connection with the issuance and sale of the Notes is based on the amount of Notes actually issued, sold and delivered, and therefore such fee is contingent on the sale and delivery of the Notes.

The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

UNDERWRITING

The Underwriter has agreed, subject to certain customary conditions, to purchase the Notes at a price equal to the initial offering prices to the public, as shown on page ii, less an Underwriter's discount of \$_____. The Underwriter's obligations are subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Notes if any Notes are purchased. The Notes may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter have provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in the 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 Underwriter does not guarantee the accuracy or completeness of such information.

FORWARD LOOKING STATEMENTS

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

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered by the District 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.

MISCELLANEOUS

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 the Rule.

The Resolution authorizing the issuance of the Notes will approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and will authorize its further use in the reoffering of the Notes by the Underwriter.

This Official Statement will be approved by District officials for distribution in accordance with the provisions of the Rule.

President, Board of Directors

ATTEST:

Secretary, Board of Directors

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APPENDIX A

**FINANCIAL INFORMATION
REGARDING THE DISTRICT**

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**FINANCIAL INFORMATION REGARDING
BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10**

Table 1 - Historical Water Consumption (Gallons)

<u>Fiscal Year Ended 12/31:</u>	<u>Daily Average</u>	<u>Total Usage</u>
2013	775,540	283,072,000
2014	796,268	290,638,000
2015	758,592	276,886,000
2016	704,000	257,664,000
2017	763,485	278,672,000
2018	673,630	245,875,000
2019*	926,379	251,975,000

Source: The District.

*Unaudited. As of September 30, 2019.

Table 2 - Ten Largest Water Customers (Based on Gallons Consumed) - Fiscal Year Ended December 31, 2018

<u>Customer</u>	<u>Type of Industry</u>	<u>Water Usage</u>	<u>% of Total Water Usage</u>	<u>Water Revenue</u>	<u>% of Total Revenue</u>
Senior Care of Windcrest ⁽¹⁾	Retirement Home	4,321,196	1.757%	\$ 16,473	2.085%
Windcrest Elementary	School	3,577,684	1.455%	13,806	1.747%
Crestwind Townhomes	Apartment Complex	3,223,132	1.311%	12,201	1.544%
Senior Care of Windcrest ⁽¹⁾	Retirement Home	2,941,136	1.196%	11,128	1.408%
Hampton Inn	Hotel	2,888,776	1.175%	10,888	1.378%
Luby's Cafeteria	Restaurant	2,520,760	1.025%	9,460	1.197%
B&M Real Estate Limited	Retail Center	2,282,896	0.928%	8,507	1.076%
Holiday Inn	Hotel	2,020,348	0.822%	7,397	0.936%
Red Lobster	Restaurant	1,786,224	0.726%	6,575	0.832%
Crestwind Townhomes	Apartment Complex	1,668,788	0.679%	6,136	0.776%
		27,230,940	11.075%	\$ 102,569	12.979%

Source: The District.

⁽¹⁾ The parent company of Senior Care of Windcrest, Senior Care Centers, filed for Chapter 11 bankruptcy in December 2018.

Table 3 - Water Rates (Effective February 23, 2019)

A minimum charge per month, or fraction thereof shall be made for each connection with mains of the District's water system. This charge shall be based on the size of the service connection.

In addition to the minimum charges, the rates per month shall also be the rates charged for water furnished under the standard water rate to the water customers within the boundaries of the District. Usage is measured per "hundred cubic feet" (CCF) of water.

Residential

Base Service Charge	
Size	Base Fee
5/8 inch & 3/4 inch	\$ 8.85
1 inch	13.98
1-1/2 inch	26.08
2 inch	38.13

Rate Table	
Monthly Usage (CCF)	
Usage	Rate
0 - 1 CCF	\$ 0.99
2 - 5 CCF	1.13
6 - 15 CCF	1.22
16 - 25 CCF	2.09
26 - 30 CCF	2.76
31 - 40 CCF	5.30
41 - 50 CCF	8.48
51 - 60 CCF	9.54
61+ CCF	10.60

Commercial

Base Service Charge	
Size	Base Fee
5/8 inch & 3/4 inch	\$ 10.89
1 inch	17.35
1-1/2 inch	29.27
2 inch	40.65
3 inch	60.12

Rate Table	
Monthly Usage (CCF)	
Usage	Rate
0 - 1 CCF	\$ 0.80
2 - 5 CCF	0.89
6 - 15 CCF	0.98
16 - 25 CCF	1.25
26 - 30 CCF	1.56
31 - 40 CCF	2.02
41 - 50 CCF	2.47
51 - 60 CCF	2.94
61+ CCF	2.94

Source: The District.

Table 4 - Future Water Rates

In order to finance the Notes and its Series 2019A Notes described under "SECURITY FOR THE NOTES - Net Revenue Pledge", the District has implemented a residential rate increase plan through 2022. Each February 23 the rates will increase as detailed below.

Base Service Charge				
	02/23/2019	02/23/2020	02/23/2021	02/23/2022
Size	Base Fee	Base Fee	Base Fee	Base Fee
5/8 inch & 3/4 inch	\$ 8.85	\$ 10.62	\$ 12.39	\$ 14.17
1 inch	13.98	16.73	19.48	22.23
1-1/2 inch	26.08	31.18	36.27	41.36
2 inch	38.13	46.60	55.07	63.54

Rate Table				
Monthly Usage (CCF)				
	02/23/2019	02/23/2020	02/23/2021	02/23/2022
Usage	Rate	Rate	Rate	Rate
0 - 1 CCF	\$ 0.99	\$ 1.08	\$ 1.18	\$ 1.29
2 - 5 CCF	1.13	1.30	1.30	1.75
6 - 15 CCF	1.22	1.39	1.39	1.79
16 - 25 CCF	2.09	2.19	2.19	2.39
26 - 30 CCF	2.76	2.76	2.76	2.76
31 - 40 CCF	5.30	5.30	5.30	5.30
41 - 50 CCF	8.48	8.48	8.48	8.48
51 - 60 CCF	9.54	9.54	9.54	9.54
61+ CCF	10.60	10.60	10.60	10.60

Source: The District.

Table 5 - Ten Largest Wastewater Customers (Based on Gallons Consumed) Fiscal Year Ended December 31, 2018

<u>Customer</u>	<u>Type of Industry</u>	<u>Wastewater Usage</u>	<u>Wastewater Revenue</u>	<u>% of Total Revenue</u>
Senior Care of Windcrest ⁽¹⁾	Retirement Home	4,321,196	\$ 21,596	1.846%
Windcrest Elementary	School	3,577,684	12,109	1.035%
Crestwind Townhomes	Apartment Complex	3,223,132	15,538	1.328%
Senior Care of Windcrest ⁽¹⁾	Retirement Home	2,941,136	14,751	1.261%
Hampton Inn	Hotel	2,888,776	13,942	1.192%
Luby's Cafeteria	Restaurant	2,520,760	15,652	1.338%
B&M Real Estate Limited	Retail Center	2,282,896	11,988	1.025%
Holiday Inn	Hotel	2,020,348	9,800	0.838%
Red Lobster	Restaurant	1,786,224	8,681	0.742%
Crestwind Townhomes	Apartment Complex	1,668,788	8,122	0.694%
		27,230,940	\$ 132,181	11.298%

Source: The District.

⁽¹⁾ The parent company of Senior Care of Windcrest, Senior Care Centers, filed for Chapter 11 bankruptcy in December 2018.

Table 6 - Wastewater Rates (Effective February 23, 2019)

A minimum charge per month, or fraction thereof shall be made for each connection with mains of the District's sewer system.

In addition to the minimum charges, the rates per month shall also be the rates charged for wastewater usage under the standard wastewater rate to the water customers within the corporate limits of the District. Usage is measured per "hundred cubic feet" (CCF) of water.

<i>Residential</i>	Base Fee	\$ 13.20
	0-5 CCF	3.14 per CCF
	5+ CCF	3.67 per CCF
<i>Commercial</i>	Base Fee	\$ 13.65
Regular Accounts	All CCF	3.6700 per CCF
Car Washes	All CCF	3.6700 per CCF
Multi-User Facilities	All CCF	3.8750 per CCF
Nursing Homes	All CCF	3.7104 per CCF
Restaurants	All CCF	4.5968 per CCF
Churches and Schools	All CCF	2.5690 per CCF

Source: The District.

Table 7 - Outstanding System Revenue Obligations (Debt Service Requirements)

Fiscal Year					Total Parity	Total Subordinate	Total System
Ending 12/31	Existing Debt Service	The Notes⁽¹⁾			Obligations Debt Service	Obligations Debt Service	Debt Service
		Principal	Interest	Total			
2019	\$ 82,783				\$ 82,783	\$ -	\$ 82,783
2020	276,819		\$ 62,344	\$ 62,344	339,163	-	339,163
2021	297,919	\$ 25,000	74,344	99,344	397,263	-	397,263
2022	322,919	60,000	72,750	132,750	455,669	-	455,669
2023	322,219	60,000	70,500	130,500	452,719	-	452,719
2024	321,319	65,000	68,156	133,156	454,475	-	454,475
2025	320,219	65,000	65,719	130,719	450,938	-	450,938
2026	318,919	70,000	63,188	133,188	452,106	-	452,106
2027	322,319	70,000	60,563	130,563	452,881	-	452,881
2028	320,419	75,000	57,844	132,844	453,263	-	453,263
2029	318,319	75,000	55,031	130,031	448,350	-	448,350
2030	320,919	80,000	52,125	132,125	453,044	-	453,044
2031	323,119	80,000	49,125	129,125	452,244	-	452,244
2032	320,019	85,000	46,031	131,031	451,050	-	451,050
2033	321,619	90,000	42,750	132,750	454,369	-	454,369
2034	322,819	90,000	39,375	129,375	452,194	-	452,194
2035	318,719	95,000	35,906	130,906	449,625	-	449,625
2036	319,319	100,000	32,250	132,250	451,569	-	451,569
2037	319,519	105,000	28,406	133,406	452,925	-	452,925
2038	319,319	105,000	24,469	129,469	448,788	-	448,788
2039	318,719	110,000	20,438	130,438	449,156	-	449,156
2040	318,244	115,000	16,219	131,219	449,463	-	449,463
2041	322,822	120,000	11,813	131,813	454,634	-	454,634
2042	321,947	125,000	7,219	132,219	454,166	-	454,166
2043	320,709	130,000	2,438	132,438	453,147	-	453,147
Total	\$ 7,711,980	\$ 1,995,000	\$ 1,059,000	\$ 3,054,000	\$ 10,765,980	\$ -	\$ 10,765,980
Average Annual Parity Debt Service							\$ 430,639
Maximum Annual Parity Debt Service							\$ 455,669
Average Subordinate Debt Service							\$ -
Maximum Annual Subordinate Debt Service							\$ -
Average Total Debt Service							\$ 430,639
Maximum Annual Total Debt Service							\$ 455,669

⁽¹⁾ Preliminary, subject to change. Interest calculated at an assumed rate solely for illustrative purposes.

Table 8 - Waterworks and Sewer System Operating Statement

	Fiscal Year Ended					
	<u>09/30/2019⁽¹⁾</u>	<u>12/31/18</u>	<u>12/31/17</u>	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
<u>Operating Revenues:</u>						
Water Sales	\$ 897,218	\$ 790,258	\$ 722,438	\$ 667,621	\$ 704,726	\$ 725,934
Wastewater service charges	1,154,469	1,169,933	1,139,763	1,159,556	1,134,508	1,150,056
Tap connections and other revenue	201,852	255,069	207,667	202,462	198,647	196,173
Total Revenues	\$ 2,253,539	\$ 2,215,260	\$ 2,069,868	\$ 2,029,639	\$ 2,037,881	\$ 2,072,163
<u>Operating Expenses:</u>						
Personnel services	\$ 459,698	\$ 471,155	\$ 471,023	\$ 766,088	\$ 383,117	\$ 385,215
Professional fees	42,758	80,000	145,542	189,150	252,921	107,325
Contractual services	115,238	132,223	134,227	132,209	132,492	132,279
Wastewater services ⁽²⁾	606,466	762,252	731,417	716,873	677,846	702,671
Repairs and maintenance	189,142	109,653	120,266	130,465	129,467	98,073
Utilities	57,241	85,331	77,065	68,371	74,072	76,730
Other supplies and expenses	82,651	130,793	104,738	115,329	135,324	133,089
Total Operating Expenses	\$ 1,553,194	\$ 1,771,407	\$ 1,784,278	\$ 2,118,485	\$ 1,785,239	\$ 1,635,382
Net Revenue Available for Debt Service	\$ 700,345	\$ 443,853	\$ 285,590	\$ (88,846)	\$ 252,642	\$ 436,781
Annual Revenue Obligation Debt Service	\$ 82,783	\$ -	\$ -	\$ -	\$ -	\$ -
Coverage on Revenue Obligations	8.46 x	N/A	N/A	N/A	N/A	N/A
Customer Count						
Water	2,485	2,484	2,482	2,462	2,313	2,459
Sewer	2,414	2,412	2,413	2,402	2,298	2,409
Gallons of Water Consumed	317,053,000	245,875,000	278,672,000	257,664,000	276,886,000	290,638,000

Source: District's Comprehensive Annual Financial Reports. The District.

⁽¹⁾ Unaudited. Shows rolling 12-month revenues, expenses and gallons from October 1, 2019 through September 30, 2019.

⁽²⁾ Paid entirely to San Antonio Water System for wastewater treatment services.

Table 9 - Water and Sewer System Plant in Operations

	Fiscal Year Ended				
	<u>12/31/18</u>	<u>12/31/17</u>	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
Land	\$ 10,776	\$ 227,565	\$ 227,565	\$ 227,565	\$ 227,565
Water Rights	2,091,790	2,091,790	2,091,790	2,091,790	2,091,790
Construction in Progress	-	-	-	-	619,874
Gathering and Distribution Systems	4,332,312	4,374,888	4,556,752	4,148,147	3,558,229
Equipment	<u>197,982</u>	<u>126,297</u>	<u>116,194</u>	<u>44,646</u>	<u>70,961</u>
Total Value	\$ 6,632,860	\$ 6,820,540	\$ 6,992,301	\$ 6,512,148	\$ 6,568,419

Source: District's Comprehensive Annual Financial Report.

Table 10 - Current Investments (unaudited, as of September 30, 2019)

<u>Investment Description</u>	<u>Total Invested</u>	<u>Percent</u>
Checking and Savings	\$ 4,598,275	85.91%
Texpool Investments	302,501	5.65%
Certificates of Deposit	<u>451,447</u>	<u>8.43%</u>
Total	<u>\$ 5,352,223</u>	<u>100.00%</u>

Source: The District..

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APPENDIX B

**GENERAL INFORMATION REGARDING THE CITY OF WINDCREST, TEXAS
AND BEXAR COUNTY, TEXAS**

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GENERAL INFORMATION REGARDING THE CITY OF WINDCREST AND BEXAR COUNTY, TEXAS

General Description of the City

Location. The City of Windcrest, Texas (the “City”) is located on within Bexar County, along Interstate State Highway 35 and Loop 410, approximately 10 miles from downtown San Antonio.

Government. The City was incorporated in 1959, with the current City Charter being adopted November 6, 2007, and amended at elections held in 2010 and 2015. The City is a home-rule municipality and operates under a City Council-Manager form of government. The City is governed by a Mayor, and five council members elected by place. All are elected for two-year terms.

Population.

<u>Census Report</u>	<u>City of Windcrest</u>	<u>Bexar County</u>
2010	5,364	1,714,773
2000	5,105	1,392,931
1990	5,331	1,185,394
1980	5,332	988,971
1970	3,371	830,460

Economy. The City’s economy primarily consists of retail establishments, light industrial business, and IT. Rackspace relocated its corporate headquarters to the City of Windcrest in 2008.

Utilities. AT&T and Spectrum provide telephone television, and internet service, San Antonio’s CPS Energy provides electricity. Water and Sewer Service is provided by the Bexar County Water Control and Improvement District No. 10.

Schools. The City lies within the North East Independent School District (the “District”), which provides bus service for the students within Windcrest to Windcrest Elementary, White Middle School and Roosevelt High School. The District is located in Central Texas and comprises a large portion of Bexar County.

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Bexar County

Bexar County was organized in 1836 as one of the original counties of the Republic of Texas and is now the third most populous of the 254 counties in the State of Texas with a 2016 estimated population of 1,928,680. The County has an area of approximately 1,248 square miles and contains 27 incorporated cities within its boundaries.

The County is located in south central Texas and is a component of the Metropolitan Statistical Area (“MSA”) of San Antonio. The San Antonio MSA is one of the nation's largest MSAs and the third largest MSA in Texas.

The County has a diversified economic base which is composed of financial services, healthcare, agriculture, manufacturing, construction, military, and tourism.

Labor Force Statistics

State of Texas

	2019 ^(a)	2018	2017	2016	2015
Labor Force	14,066,138	13,848,080	13,538,385	13,317,176	13,078,304
Employed	13,542,200	13,314,203	12,960,595	12,702,122	12,494,350
Unemployed	523,938	533,877	577,790	615,054	583,954
Unemployed Rate	3.7%	3.9	4.3%	4.6%	4.5%

Bexar County

	2019 ^(a)	2018	2017	2016	2015
Labor Force	953,182	940,900	924,590	903,856	878,118
Employed	921,262	909,581	892,277	870,020	844,697
Unemployed	31,920	31,319	32,313	33,836	33,421
Unemployed Rate	3.3%	3.3%	3.5%	3.7%	3.8%

^(a) As of July 2019.

Source: Labor Market Information Department, Texas Workforce Commission.

APPENDIX C

SELECTED PROVISIONS OF THE RESOLUTION

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APPENDIX C

SELECTED PROVISIONS OF THE RESOLUTION

SECTION 6. DEFINITIONS. As used in this Resolution, the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"Additional Obligations" shall mean the additional parity revenue bonds, notes or other obligations which the District reserves the right to issue and deliver in the future, as provided by this Resolution.

"Current Expenses of the System" shall mean the current, ordinary, reasonable, necessary, and proper expenses of operation and maintenance of the System, including reasonable, necessary, and proper salaries, labor, fees, materials, repairs, paying agents' charges, and properly allocated charges for insurance. Depreciation and payments into and out of the Interest and Sinking Fund and the other Funds, hereinafter described, shall never be considered as expenses of operation and maintenance.

"Fiscal Year" shall mean the twelve-month period commencing on September 1 and ending on the next December 31, or such other period commencing on the date designated by the District and ending one year later.

"Gross Revenues of the System" shall mean all of the revenues, income, and receipts of every nature derived from the ownership or operation of the System.

"Net Revenues" shall mean the amount remaining after deducting the Current Expenses of the System from the Gross Revenues of the System.

"Parity Obligations" shall mean the Series 2019A Notes, the Series 2019B Notes and any Additional Obligations.

"Principal and Interest Requirements" shall mean for any Fiscal Year the amount required to pay the interest on and principal of (whether pursuant to a stated maturity or redemption requirements applicable thereto) all outstanding Parity Obligations becoming due in such Fiscal Year. In calculating Principal and Interest Requirements the principal and interest coming due in any Fiscal Year on any Parity Obligations which bear interest at a variable rate which cannot be predetermined shall be assumed to be that which would come due if (i) the interest rate on such Parity Obligations for the applicable period was the interest rate that was in effect on the last day of the immediately preceding Fiscal Year (or, if such Parity Obligations were issued during the current Fiscal Year, then the first interest rate in effect for such Parity Obligations), and (ii) the principal amortization schedule would be that which would result in substantially level debt service throughout the remaining term of such Parity Obligations assuming such interest rate. In calculating Principal and Interest Requirements if any such outstanding Parity Obligations do not pay current interest during the term to maturity thereof, but rather accrete in value according to a schedule, the principal and interest coming due on any such Parity Obligation shall be calculated as equal to the accreted value at maturity.

"Reimbursement Obligation" shall mean any obligation entered into by the District in connection with any Reserve Fund Credit Facility pursuant to which the District obligates itself to reimburse a financial institution, insurance company or other entity for amounts paid or advanced by such entity pursuant to a Reserve Fund Credit Facility. Reimbursement Obligations may be payable from and secured by a lien on Net Revenues which is on parity with, or subordinate to, the lien on Net Revenues which secures the Parity Obligations pursuant to this Resolution.

"Reserve Fund Credit Facility" shall mean a policy of insurance, surety bond, letter of credit or similar instrument or contract which (i) is issued by an insurance company or financial institution whose senior debt securities are rated in the one of the three highest rating categories by the rating agencies which provide a rating, at the District's request, on the Parity Obligations, (ii) may not be terminated by the entity providing the facility prior to the final maturity date of the particular series of Parity Obligations for which an account in the Debt Service Reserve Fund is established pursuant to the order authorizing such series of Parity Obligations, and (iii) may be drawn upon demand by the District to provide funds to pay Principal and Interest Requirements on such particular series of Parity Obligations in the event moneys on deposit in the Interest and Sinking Fund are insufficient to make such payment.

"**Series 2019A Notes**" shall mean the outstanding *Bexar County Water Control and Improvement District No. 10 Waterworks and Sewer System Revenue Notes, Series 2019A*, dated as of March 1, 2019 and issued in the original principal amount of \$4,950,000.

"**Series 2019B Notes**" shall mean the *Bexar County Water Control and Improvement District No. 10 Waterworks and Sewer System Revenue Notes, Series 2019B*, issued pursuant to this Resolution.

"**System**" shall mean the District's existing waterworks and sanitary sewer system, together with all future improvements, enlargements, and additions thereto, and replacements thereof, and any other facilities acquired, constructed and designated by the District to be a component of the System, all as acquired or constructed from any source, including the issuance of Parity Obligations.

SECTION 7. CUMULATIVE EFFECT OF RESOLUTION; PLEDGE OF NET REVENUES; SECURITY INTEREST.

(a) *Cumulative Effect of Resolution.* The Series 2019B Notes being issued pursuant to this Resolution are "Additional Obligations" issued pursuant to applicable sections of the resolution authorizing the issuance of the currently outstanding Parity Obligations, and are in all respects on a parity with the currently outstanding Parity Obligations. Sections 7 through 24 of this Resolution substantially restate, and are supplemental to and cumulative of, Sections 7 through 24 of the resolution authorizing the issuance of the most recently issued series of Parity Obligations, so that Sections 7 through 24 of this Resolution are applicable to all Parity Obligations (i.e., the outstanding Series 2019A Notes, the Series 2019B Notes, and any future Additional Obligations) and state all requirements with respect thereto.

(b) *Pledge of Net Revenues.* The District hereby covenants and agrees that all Gross Revenues of the System shall be deposited and paid into the special funds hereby established for the Parity Obligations as provided in this Resolution, and shall be applied in the manner set out herein, to provide for the payment of all Current Expenses of the System and to provide for the payment of Principal and Interest Requirements on the outstanding Parity Obligations and all expenses of paying, securing and insuring the same. The Parity Obligations shall constitute special obligations of the District payable solely from, and are equally and ratably secured by, a first lien on and pledge of the Net Revenues, as collected and received by the District, from the operation and ownership of the System, which Net Revenues shall, in the manner herein provided, be set aside for and pledged to the payment of the Parity Obligations in the Interest and Sinking Fund and the Debt Service Reserve Fund as hereinafter provided, and the Parity Obligations shall be in all respects on a parity with and of equal dignity with one another. The owners of the Parity Obligations shall never have the right to demand payment out of any funds raised or to be raised by taxation.

(c) *Perfection of Security Interest.* Chapter 1208, Government Code, applies to the issuance of the Parity Obligations and the pledge of the Net Revenues granted by the District under Section 7(a) of this Resolution, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time while the Parity Obligations are outstanding an unpaid such that the pledge of the revenues granted by the District under Section 7(a) of this Resolution is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the owners of the Parity Obligations the perfection of the security interest in said pledge, the District agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

SECTION 8. RATES. The District covenants and agrees with the holders of the Parity Obligations as follows:

(a) *Rate Covenant.* It will at all times fix, revise, maintain, charge, and collect for services rendered by the System, rates and charges which will produce Net Revenues that will (i) equal at least 125% of the average annual Principal and Interest Requirements on the Parity Obligations outstanding during each Fiscal Year, (ii) maintain or restore the amount on deposit in the respective accounts of the Debt Service Reserve Fund to the amounts and in the manner required by the respective resolutions authorizing the issuance of the outstanding Parity Obligations, and (iii) pay all Reimbursement Obligations coming due during each Fiscal Year, if any.

(b) *Rates Sufficient to Satisfy Other Obligations.* If the System should become legally liable for any other obligations or indebtedness, the District shall fix, maintain, charge and collect additional rates and charges for services rendered by the System sufficient to establish and maintain funds for the payment thereof.

SECTION 9. FUNDS. (a) Creation of Revenue Fund and Interest and Sinking Fund. All revenues of the System shall be kept separate and apart from all other funds of the District, and the following special Funds have previously been created and established and shall continue to be maintained on the financial records of the District (or at an official depository of the District), so long as any of the Parity Obligations, or interest thereon, are outstanding and unpaid:

(i) **BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10 WATERWORKS AND SEWER SYSTEM REVENUE FUND**, hereinafter called the "**Revenue Fund**"; and

(ii) **BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10 WATERWORKS AND SEWER SYSTEM REVENUE NOTES INTEREST AND SINKING FUND**, hereinafter called the "**Interest and Sinking Fund**."

(b) Creation of Debt Service Reserve Fund. Additionally, there has been created for the benefit only of the registered owners of a particular series of Parity Obligations for which an account is created in the resolution authorizing such series of Parity Obligations, and shall continue to be maintained on the financial records of the District (or at an official depository of the District), for the pro rata benefit of all Parity Obligations of such series for which an account is created, the **BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10 WATERWORKS AND SEWER SYSTEM REVENUE NOTES DEBT SERVICE RESERVE FUND**, hereinafter called the "**Debt Service Reserve Fund**." The District may create and establish accounts in the Debt Service Reserve Fund pursuant to the provisions of any resolution authorizing the issuance of Parity Obligations for the purpose of securing that particular issue or series of Parity Obligations or any specific group of issues or series of Parity Obligations and the amounts once deposited or credited to said account shall no longer constitute Net Revenues and shall be held solely for the benefit of the registered owners of the particular Parity Obligations for which such account in the Debt Service Reserve Fund was established. Each such account in the Debt Service Reserve Fund shall be designated in such manner as is necessary to identify the Parity Obligations it secures and to distinguish such account from all other accounts in the Debt Service Reserve Fund created for the benefit of a particular series of Parity Obligations. All terms relating to the requirements to establish, fund and maintain required balances in an account of the Debt Service Reserve Fund, including but not limited to the use of any Reserve Fund Credit Facility therein, shall be set forth in the resolution authorizing the issuance of the particular series of Parity Obligations for which such account is established.

(c) Creation of Construction Fund. There has been created and established, and shall continue to be maintained on the financial records of the District (or at an official depository of the County), a fund to be called the **BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10 WATERWORKS AND SEWER SYSTEM REVENUE NOTES CONSTRUCTION FUND** (herein called the "**Construction Fund**"). Proceeds from the sale and delivery of a series of Parity Obligations which are issued to finance improvements to the System (other than proceeds representing accrued interest on such Parity Obligations and any premium on such Parity Obligations that is not used by the District to pay costs of issuance in accordance with the provisions of Section 1201.042(d), Texas Government Code, which shall be deposited in the Interest and Sinking Fund) shall be deposited in an account of the Construction Fund established by the District in connection with the issuance of such series of Parity Obligations. Money in the Construction Fund shall be subject to disbursements by the District for payment of all costs incurred in carrying out the purpose for which such series of Parity Obligations are issued, including but not limited to costs for construction, engineering, architecture, financing, financial consultants and legal services related to the project being financed with proceeds of such series of Parity Obligations, and to pay related costs of issuance.

SECTION 10. REVENUE FUND. All Gross Revenues of the System shall be deposited as collected into the Revenue Fund. The Current Expenses of the System shall be paid from the Revenue Fund or from any other funds of the District lawfully available therefor. The Gross Revenues of the System not actually used to pay Current Expenses of the System shall be deposited from the Revenue Fund into the other Funds created by this Resolution, in the manner and amounts and at the times hereinafter provided, and each of such Funds shall have priority as to such deposits in the order in which they are treated in the following sections.

SECTION 11. INTEREST AND SINKING FUND. (a) Use of Funds. The Interest and Sinking Fund shall be used solely to pay the principal of and interest on the Parity Obligations when due, and the General Manager of the District is hereby authorized to cause funds to be transferred from the Interest and Sinking Fund to the Paying Agent/Registrar at the times and in the amounts to pay Principal and Interest Requirements on the Parity Obligations.

(b) Deposit of Accrued Interest and Capitalized Interest. Immediately after the delivery of any series of Parity Obligations, all moneys representing accrued interest, if any, received by the District upon the sale and delivery of such Parity Obligations to the initial purchaser thereof, together with all capitalized interest being financed with proceeds of such Parity Obligations, if any (but in no event in excess of the amount permitted by Section 1201.042(a)(1), Texas Government Code, or other applicable law), shall be deposited to the credit of the Interest and Sinking Fund.

(c) Monthly Deposits. In addition, there shall be transferred and deposited into the Interest and Sinking Fund the following:

(i) on or before the last business day of each month, commencing with the month immediately following the issuance of any series of Parity Obligations, Net Revenues from the Revenue Fund shall be deposited into the Interest and Sinking Fund in approximately equal installments an amount as will be sufficient, together with other amounts, if any, then on deposit therein and available for such purpose, to pay the interest scheduled to come due on all outstanding Parity Obligations on the next interest payment date; and

(ii) on or before the last business day of each month, commencing with the twelfth (12th) month preceding the first principal payment date for a series of Parity Obligations, or commencing with the month immediately following the issuance of any series of Parity Obligations if delivery of such series of Parity Obligations is made less than twelve months preceding the first principal payment date for such series of Parity Obligations, Net Revenues from the Revenue Fund shall be deposited into the Interest and Sinking Fund in approximately equal installments an amount as will be sufficient, together with other amounts, if any, then on deposit therein and available for such purpose, to pay the principal scheduled to come due (either at stated maturity or due to mandatory sinking fund redemption) on all outstanding Parity Obligations on the next principal payment date.

SECTION 12. DEBT SERVICE RESERVE FUND. (a) Use of Funds. Funds on deposit in an account of the Debt Service Reserve Fund established for the benefit of a particular series of Parity Obligations shall be used to (i) pay the principal of and interest on such series of Parity Obligations for which such account was created at any time when there is not sufficient money available in the Interest and Sinking Fund for such purpose, (ii) pay the principal of or interest on the last maturing Parity Obligations of such series, or (iii) pay Reimbursement Obligations to restore the amount available to be drawn under a Reserve Fund Credit Facility to its original amount. If the amount on deposit in an account of the Debt Service Reserve Fund for a particular series of Parity Obligations consists of cash and investments and a Reserve Fund Credit Facility, all cash and investments in such account shall be liquidated and withdrawn prior to drawing on the Reserve Fund Credit Facility. If more than one Reserve Fund Credit Facility is maintained in an account of the Debt Service Reserve Fund, any withdrawals on such Reserve Fund Credit Facilities shall be pro rata.

(b) Series 2019A Notes Secured with Account in Debt Service Reserve Fund. In connection with the issuance of the Series 2019A Bonds, the District established an account in the Debt Service Reserve Fund, known as the "**Series 2019A Reserve Account**," for the benefit of the registered owners of the Series 2019A Notes. The amount required to be on deposit in the Series 2019A Reserve Account is equal to the average annual Principal and Interest Requirements of the Series 2019A Notes calculated on the date of issuance and delivery of the Series 2019A Notes (i.e., **\$322,302.39**, the "**Series 2019A Reserve Account Requirement**"). The District initially funded the Series 2019A Reserve Account by purchasing a Reserve Fund Credit Facility issued by **ASSURED GUARANTY MUNICIPAL CORP.** (the "**Series 2019A Reserve Fund Credit Facility**") with an amount available to be drawn thereunder equal to the Series 2019A Reserve Account Requirement. The Series 2019A Reserve Fund Credit Facility was purchased with proceeds of the Series 2019A Notes pursuant to authority granted to the District in Section 1371.051(3)(A), Texas Government Code, was deposited into the Series 2019A Reserve Account of the Debt Service Reserve Fund and may be used only to secure payment of debt service on the Series 2019A Notes, and expires on the date the Series 2019A Notes are defeased or otherwise no longer outstanding. As long as the Series 2019A Reserve Fund Credit Facility is in full force and effect, the procedures set forth in Exhibit B attached to the resolution which authorized the issuance of the Series 2019A Notes shall govern payments made from draws on the Series 2019A Reserve Fund Credit Facility, and the District covenanted to comply with and to direct the Paying Agent/Registrar to comply with such procedures. In addition, the Board of Directors of the District approved, in substantially the form attached as Exhibit C to the resolution which authorized the issuance of the Series 2019A Notes, an agreement relating to the Series 2019A Reserve Fund Credit Facility between the District and the provider of the Series 2019A Reserve Fund Credit Facility (the "**2019A Insurance Agreement**").

An executed copy of the 2019A Insurance Agreement is on file in the records of the District.

After making the monthly transfer of Net Revenues from the Revenue Fund to the Interest and Sinking Fund as required by Section 11(c)(i) and (ii) above, the District shall transfer Net Revenues from the Revenue Fund to pay to the issuer of the Series 2019A Reserve Fund Credit Facility any Reimbursement Obligation incurred by the District (including interest) in the amount then due in accordance with the Insurance Agreement.

When and so long as the money and investments (including the Series 2019A Reserve Fund Credit Facility) in the Series 2019A Reserve Account total not less than the Series 2019A Reserve Account Requirement, no deposits need be made to the credit of the Series 2019A Reserve Account; but when and if the Series 2019A Reserve Account at any time contains less than the Series 2019A Reserve Account Requirement, the District has covenanted and agreed to cure the deficiency in the Series 2019A Reserve Account Requirement within sixty (60) months (or such shorter period agreed to by the District and the provider of the Series 2019A Reserve Fund Credit Facility in the 2019A Insurance Agreement) from the date the deficiency occurred by making monthly deposits from funds on deposit in the Revenue Fund (but only after making the required deposits into the Interest and Sinking Fund and paying all Current Expenses of the System then due) on the last business day of each month in approximately equal amounts. During such time as the Series 2019A Reserve Account contains the Series 2019A Reserve Account Requirement, the District may, at its option, withdraw all surplus funds in the Series 2019A Reserve Account in excess of the Series 2019A Reserve Account Requirement and deposit such surplus in the Revenue Fund. For the purpose of determining the amount on deposit to the credit of the Series 2019A Reserve Account, investments in which money in such account shall have been invested shall be computed at cost. The amount on deposit to the credit of the Series 2019A Reserve Account shall be computed by the District at least annually, and shall be computed immediately upon any withdrawal from the Series 2019A Reserve Account.

(c) *Series 2019B Notes Secured with Account in Debt Service Reserve Fund.* The District hereby establishes an account in the Debt Service Reserve Fund, to be known as the "***Series 2019B Reserve Account***," for the benefit of the registered owners of the Series 2019B Notes. The amount required to be on deposit in the Series 2019B Reserve Account is equal to the average annual Principal and Interest Requirements of the Series 2019B Notes calculated on the date of issuance and delivery of the Series 2019B Notes (i.e., \$ _____, the "***Series 2019B Reserve Account Requirement***"). The District initially shall fund the Series 2019B Reserve Account by purchasing a Reserve Fund Credit Facility issued by _____ (the "***Series 2019B Reserve Fund Credit Facility***") with an amount available to be drawn thereunder equal to the Series 2019B Reserve Account Requirement. The Series 2019B Reserve Fund Credit Facility shall be purchased with proceeds of the Series 2019B Notes pursuant to authority granted to the District in Section 1371.051(3)(A), Texas Government Code, shall be deposited into the Series 2019B Reserve Account of the Debt Service Reserve Fund and used only to secure payment of debt service on the Series 2019B Notes, and shall expire on the date the Series 2019B Notes are defeased or otherwise no longer outstanding. As long as the Series 2019B Reserve Fund Credit Facility shall be in full force and effect, the procedures set forth in *Exhibit B* attached to this Resolution shall govern payments made from draws on the Series 2019B Reserve Fund Credit Facility, and the District covenants to comply with and to direct the Paying Agent/Registrar to comply with such procedures. In addition, the District hereby approves in substantially the form attached hereto as *Exhibit C* an agreement relating to the Series 2019B Reserve Fund Credit Facility between the District and the provider of the Series 2019B Reserve Fund Credit Facility (the "***Insurance Agreement***"), and the President and Vice President of the Board of Directors and the General Manager of the District each may execute the Insurance Agreement on behalf of the District and approve any changes in the final form thereof.

After making the monthly transfer of Net Revenues from the Revenue Fund to the Interest and Sinking Fund as required by Section 11(c)(i) and (ii) above, the District shall transfer Net Revenues from the Revenue Fund to pay to the issuer of the Series 2019B Reserve Fund Credit Facility any Reimbursement Obligation incurred by the District (including interest) in the amount then due in accordance with the Insurance Agreement.

When and so long as the money and investments (including the Series 2019B Reserve Fund Credit Facility) in the Series 2019B Reserve Account total not less than the Series 2019B Reserve Account Requirement, no deposits need be made to the credit of the Series 2019B Reserve Account; but when and if the Series 2019B Reserve Account at any time contains less than the Series 2019B Reserve Account Requirement, the District covenants and agrees to cure the deficiency in the Series 2019B Reserve Account Requirement within sixty (60) months (or such shorter period agreed to by the District and the provider of the Series 2019B Reserve Fund Credit Facility in the Insurance Agreement) from

the date the deficiency occurred by making monthly deposits from funds on deposit in the Revenue Fund (but only after making the required deposits into the Interest and Sinking Fund and paying all Current Expenses of the System then due) on the last business day of each month in approximately equal amounts. During such time as the Series 2019B Reserve Account contains the Series 2019B Reserve Account Requirement, the District may, at its option, withdraw all surplus funds in the Series 2019B Reserve Account in excess of the Series 2019B Reserve Account Requirement and deposit such surplus in the Revenue Fund. For the purpose of determining the amount on deposit to the credit of the Series 2019B Reserve Account, investments in which money in such account shall have been invested shall be computed at cost. The amount on deposit to the credit of the Series 2019B Reserve Account shall be computed by the District at least annually, and shall be computed immediately upon any withdrawal from the Series 2019B Reserve Account.

(d) Additional Debt Service Reserve Fund Requirements to be Set Forth in Additional Obligations Resolution. In the event the District establishes an account in the Debt Service Reserve Fund for the benefit of the Holders of a particular series of Additional Obligations, all provisions with respect to the funding requirements and other details shall be set forth in the resolution authorizing such series of Additional Obligations.

SECTION 13. INVESTMENTS. Funds on deposit in the Interest and Sinking Fund, the Debt Service Reserve Fund, and the Construction Fund shall be secured by the depository bank of the District in the manner and to the extent required by law to secure other public funds of the District and may be invested from time to time in any investment authorized by applicable law, including but not limited to the Public Funds Investment Act (Chapter 2256, Texas Government Code), and the District's investment policy adopted in accordance with the provisions of the Public Funds Investment Act; provided, however, that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times when expected to be needed. Income and profits from such investments shall be deposited in the respective Fund which holds such investments; however, any such income and profits from investments in the Construction Fund may be withdrawn by the District and deposited in the Interest and Sinking Fund to pay all or a portion of the interest next coming due on the Parity Obligations. It is further provided, however, that any interest earnings on proceeds which are required to be rebated to the United States of America pursuant to Section 26 hereof in order to prevent any Parity Obligations from being arbitrage bonds shall be so rebated and not considered as interest earnings for the purposes of this Section.

SECTION 14. DEFICIENCIES IN FUNDS. If in any month the District shall fail to deposit into any Fund created by this Resolution the full amounts required, amounts equivalent to such deficiencies shall be set apart and paid into said Funds from the first available and unallocated Net Revenues for the following month or months, and such payments shall be in addition to the amounts otherwise required to be paid into said Funds during such month or months. To the extent necessary, the District shall increase the rates and charges for services of the System to make up for any such deficiencies.

SECTION 15. EXCESS REVENUES. The Net Revenues, in excess of those necessary to establish and maintain the Funds as required in this Resolution, or as hereafter may be required in connection with the issuance of Additional Obligations, may be used for any lawful purpose.

SECTION 16. SECURITY FOR FUNDS. All Funds created by this Resolution shall be secured in the manner and to the fullest extent permitted or required by law for the security of public funds, and such Funds shall be used only for the purposes and in the manner permitted or required by this Resolution.

SECTION 17. ADDITIONAL OBLIGATIONS. The District reserves the right to issue additional parity revenue bonds, notes or other obligations for any purpose related to the System, to be known as Additional Obligations, which, when issued and delivered, shall be payable from and secured by a first lien on and pledge of the Net Revenues, in the same manner and to the same extent as the Parity Obligations, and the Parity Obligations shall in all respects be on a parity and of equal dignity. The Additional Obligations may be issued in one or more installments or series, provided, however, that no installment or series of Additional Obligations shall be issued unless:

(a) The President of the Board of Directors of the District or the General Manager of the District signs a certificate to the effect that, except for the issuance of refunding bonds to cure a default, no default exists in connection with any of the covenants or requirements of the resolutions authorizing the issuance of all then Outstanding Parity Obligations and that the Interest and Sinking Fund and the Debt Service Reserve Fund each contains the amount then required to be on deposit

therein;

(b) The President of the Board of Directors of the District or the General Manager of the District signs a certificate to the effect that, during either the next preceding Fiscal Year, or any twelve (12) consecutive calendar month period ending not more than ninety (90) days prior to the adoption of the resolution authorizing the issuance of the then proposed Additional Obligations, the Net Revenues were at least equal to an aggregate of (i) 115% of the average annual Principal and Interest Requirements of all then Outstanding Parity Obligations after giving effect to the Additional Obligations proposed for issuance, plus (ii) 100% of all Reimbursement Obligations required to be made during the first twelve months following the date of delivery of such Additional Obligations, if any. In the event (A) the certificate of the President of the Board of Directors or the General Manager of the District states that the Net Revenues for the period covered thereby were less than required above, and (B) a change in the rates and charges of the System went into effect after the first day, but prior to the last day, of the period covered by the certificate of the President of the Board of Directors or the General Manager of the District, and (C) the President of the Board of Directors or the General Manager of the District will additionally certify that, had such change in rates and charges been effective for the entire period covered by the certificate of the President of the Board of Directors or the General Manager of the District, the Net Revenues covered by the certificate of the President of the Board of Directors or the General Manager of the District would have been, in his or her opinion, at least equal to an aggregate of (1) 115% of the average annual Principal and Interest Requirements (calculated on a Fiscal Year basis) of the Outstanding Parity Obligations, after giving effect to the Additional Obligations proposed to be issued, plus (2) 100% of all Reimbursement Obligations required to be made during the first twelve months following the date of delivery of such Additional Obligations, if any, then in such event the coverage specified in the first sentence of this paragraph (b) shall not be required for the period specified, and such certificate of the President of the Board of Directors or the General Manager of the District will be sufficient if accompanied by such additional certificate of the President of the Board of Directors or the General Manager of the District to the above effect;

(c) The Additional Obligations are scheduled to mature only on March 1 and/or September 1, and the interest thereon is scheduled to be paid only on March 1 and September 1; and

(d) All calculations of average annual Principal and Interest Requirements made pursuant to this Section are to be made as of and from the date of the Additional Obligations then proposed to be issued.

SECTION 18. OPERATION AND MAINTENANCE; INSURANCE. (a) While any of the Parity Obligations are outstanding the District covenants and agrees to keep all of the buildings, structures, and facilities of the System in good condition, repair, and working order, and to operate and maintain the System in an efficient manner and at reasonable expense.

(b) The District shall procure and maintain fire and extended coverage insurance on the facilities of the System, public liability insurance, and other insurance, including self-insurance, of kinds and in amounts which usually would be carried by private companies engaged in operating or owning sewage facilities. Any proceeds from fire and extended coverage insurance shall be used promptly to repair any property damaged or to replace any property destroyed, and all surplus insurance proceeds shall be deposited into the Revenue Fund, provided that if the insurance proceeds, together with other available funds, are not sufficient to repair or replace such property, the insurance proceeds shall be deposited into the Interest and Sinking Fund and maintained therein as an additional reserve for the benefit of the Parity Obligations.

SECTION 19. ACCOUNTS AND FISCAL YEAR. The District shall keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the System. The District agrees to operate the System and keep its books of records and accounts pertaining thereto on the basis of its current Fiscal Year; provided, however, that the Board of Directors of the District may change such Fiscal Year by resolution duly passed, if such change is deemed necessary by the Board of Directors.

SECTION 20. AUDIT. After the close of each Fiscal Year while any of the Parity Obligations are outstanding, an audit will be made of the books and accounts relating to the Net Revenues, and the Funds created pursuant to this Resolution, by an independent certified public accountant. As soon as practicable after the close of each such Fiscal Year, and when said audit has been completed and made available to the District, a copy of such audit for the preceding year shall be mailed to the Paying Agent/Registrar and to any of registered owners of the Parity Obligations who shall so request in writing. The annual audit reports shall be open to the inspection of the registered owners and their agents and representatives at all reasonable times.

SECTION 21. INSPECTIONS. Any holder or holder of any Parity Obligations shall have the right at all reasonable time to inspect the System and all records, accounts, and data of the District relating thereto.

SECTION 22. SPECIAL COVENANTS. The District further covenants as follows:

(a) Other than for the payment of the Parity Obligations herein authorized, the revenues and income of the System have not in any manner been pledged to the payment of any debt or other obligation of the District or the System.

(b) While any of the Parity Obligations are outstanding, the District will not, except for the issuance of Additional Obligations expressly permitted by this Resolution, additionally encumber the revenues and income of the System unless such encumbrance is made junior and subordinate in all respect to the Parity Obligations and all liens and pledges in connection therewith.

(c) No free service of the System shall be allowed, and should the District or any of its agencies or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made by the District out of funds from sources other than the revenues and income of the System.

(d) So long as any Parity Obligations are outstanding, and except as hereinafter specifically permitted, the District shall not sell, lease, mortgage, encumber, or otherwise dispose of any part of the System. The District shall be authorized from time to time to sell any real or personal property if the District shall determine that any such real or personal property is no longer needed or is no longer useful in connection with the operation and maintenance of the System. The proceeds from the sale of any real or personal property shall be used to replace or provide substitutes for property sold, if deemed necessary by the District, or, if not, the proceeds shall be deposited into the Revenue Fund. The District shall be authorized to lease (including oil, gas, or mineral leases) any property of the System, if such lease or the use of such property will not adversely affect the operation and maintenance of the System, or in any way cause a decrease in the Net Revenues. No lease shall be made which will result in damage to or substantial diminution of the value of other property of the System. All rentals, revenues, receipts, and royalties derived by the District from any and all leases so made shall be placed in the Revenue Fund. It is further covenanted and agreed by the District that no real property of the System shall be sold or leased unless the District shall first procure a recommendation in writing from an independent Registered Professional Engineer of the State of Texas, to the effect that, in his or her opinion, the proposed sale or lease, should be made and executed, and that such proposed sale or lease will not adversely affect the operation and maintenance of the System and will not cause a decrease in the Net Revenues.

SECTION 23. PARITY OBLIGATIONS ARE SPECIAL OBLIGATIONS. The Parity Obligations shall be special obligations of the District payable solely from the Net Revenues, and the holder or holders thereof shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

SECTION 24. RESOLUTION A CONTRACT; AMENDMENTS. (a) Resolution a Contract. This Resolution shall constitute a contract with the registered owners of the Parity Obligations, binding on the District and its successors and assigns, and shall not be amended or repealed by the District as long as any Parity Obligations remain outstanding except as permitted in this Section.

(b) Amendments Without Notice to or Consent of Registered Owners. The District may, without the consent of or notice to any registered owners of any Parity Obligations, amend, change, or modify this Resolution (i) as may be required by the provisions hereof, (ii) as may be required for the purpose of curing any ambiguity, inconsistency, or formal defect or omission herein, or (iii) in connection with any other change (other than any change described in clauses (i) through (iv) of the first sentence in subsection (c) below) with respect to which the District receives written confirmation from each rating agency then maintaining a rating on the Parity Obligations at the request of the District

that such amendment would not cause such rating agency to withdraw or reduce its then current rating on the Parity Obligations.

(c) Amendments With Notice to and Consent of Registered Owners. In addition, the District may, with the written consent of the registered owners of at least a majority in aggregate principal amount of the remaining Parity Obligations then outstanding and affected thereby, amend, change, modify, or rescind any provisions of this Resolution; provided that without the consent of all of the registered owners affected, no such amendment, change, modification, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Parity Obligations, reduce the principal amount thereof or the rate of interest thereof, (ii) give any preference to any Parity Obligation over any other Parity Obligation, (iii) extend any waiver of default to subsequent defaults, or (iv) reduce the aggregate principal amount of Parity Obligations required for consent to any such amendment, change, modification, or rescission.

(d) Notice of Amendment. Whenever the District shall desire to make any amendment or addition to or rescission of this Resolution requiring consent of the registered owners of the Parity Obligations, the District shall cause notice of the amendment, addition, or rescission to be sent by first class mail, postage prepaid, to the registered owners at the respective addresses shown on the Registration Books. Whenever at any time within one year after the date of the giving of such notice, the District shall receive an instrument or instruments in writing executed by the registered owners of all or a majority (as the case may be) in aggregate principal amount of the remaining Parity Obligations then outstanding and affected by any such amendment, addition, or rescission requiring the consent of the registered owners, which instrument or instruments shall refer to the proposed amendment, addition, or rescission described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the District may adopt such amendment, addition, or rescission in substantially such form, except as herein provided.

(e) Effect of Amendment on Registered Owners. No registered owner may thereafter object to the adoption of any amendment, addition, or rescission which is accomplished pursuant to and in accordance with the provisions of this Section, or to any of the provisions thereof, and such amendment, addition, or rescission shall be fully effective for all purposes.

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APPENDIX D

**AUDITED FINANCIAL REPORT FOR
THE FISCAL YEAR ENDED DECMEBER 31, 2018**

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**BEXAR COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 10**

Windcrest, Texas

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2018 and 2017

ANNUAL FINANCIAL REPORT
OF THE
BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

For the Years Ended December 31, 2018 and 2017

President	Sue Alexander
Vice-President	Eugenia Snead
Treasurer	Gale Scheibler
Secretary	Fernando Richards, Jr
Director	Eddie Guerrero
General Manager	David Wallace

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Bexar County Water Control and Improvement District No. 10
Windcrest, Texas

We have audited the accompanying financial statements of Bexar County Water Control and Improvement District No. 10, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Bexar County Water Control and Improvement District No. 10's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 over financial reporting relevant to the Bexar County Water Control and Improvement District No. 10'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 Bexar County Water Control and Improvement District No. 10's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bexar County Water Control and Improvement District No. 10 as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 35 and 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information included on pages 33, 34, 35, 38, 39, and 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated March 21, 2019, on our consideration of the Bexar County Water Control and Improvement District No. 10's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bexar County Water Control and Improvement District No. 10's internal control over financial reporting and compliance.

Baker Tilly Voichau Krause, LLP

Austin, Texas
March 21, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2018 and 2017

As management of Bexar County Water Control and Improvement District No. 10 (the "District"), we offer readers the following discussion and analysis of the District's financial activities for the calendar years ended December 31, 2018 and 2017. The MD&A should be read in conjunction with the accompanying basic financial statements.

The District was recognized by the Texas Commission on Environmental Quality (TCEQ) as the Outstanding Public Drinking Water System of the Year in 2012. This award is presented once every two years to two systems out of over 7,000 public drinking water systems in the State. The District was also recognized as a Superior Water System by the TCEQ in 2011. The criterion for either award is comprehensive and includes compliance with water quality standards, financial stability, customer service, capacity development and physical plant capabilities. We are proud of the service we provide and proud to receive the recognition from our peers.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements and is comprised of three components: (1) basic financial statements, (2) notes to the financial statements, and (3) required supplementary information.

BASIC FINANCIAL STATEMENTS

The District maintains a single enterprise fund. This fund is presented in the statements of net position, the statements of revenues, expenses, and changes in net position and the statements of cash flows.

The statement of net position presents all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference being 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 revenues, expenses, and changes in net position reports how the District's net position changed during the most recent calendar year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The statement of cash flows reflects cash receipts and payments for operating, noncapital financing, capital and related financing, and investing activities for the years presented.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes provide additional information essential to a full understanding of the data provided in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

The accompanying RSI provide historical information on the defined benefit pension plan including changes in net pension liability, annual contributions, and notes to the RSI.

See accompanying independent auditors' report.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2018 and 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

OTHER INFORMATION

In addition to the basic financial statements, accompanying notes and RSI, this report also presents various statistical and financial data for the District as supplementary and other information required by the Texas Commission on Environmental Quality.

FINANCIAL HIGHLIGHTS

2018

- > The assets and deferred outflows of resources of the District exceed its liabilities and deferred inflows of resources by \$8,286,750 (net position) for the fiscal year reported. This is an increase of \$182,573 from the prior year.
- > Total net position is comprised of the following:
 1. Net investment in capital assets in the amount of \$6,632,860 includes all property and equipment owned by the District, net of accumulated depreciation.
 2. Net position restricted for net pension asset in the amount of \$57,285 includes the difference between the pension plan's net position and the actuarially calculated pension liability.
 3. Unrestricted net position of \$1,596,605 represents the portion available to fund the District's operations.
- > Operating revenues increased by \$145,392, an increase of 7.02% from calendar year 2017. Revenue slightly increased primarily due to a 19% increase in water rates.
- > Operating expenses decreased by \$8,824 a decrease of 0.43% from calendar year 2017.

2017

- > The assets and deferred outflows of resources of the District exceed its liabilities and deferred inflows of resources by \$8,104,177 (net position) for the fiscal year reported. This is an increase of \$19,979 from the prior year.
- > Total net position is comprised of the following:
 1. Net investment in capital assets in the amount of \$6,820,540 includes all property and equipment owned by the District, net of accumulated depreciation.
 2. Unrestricted net position of \$1,283,637 represents the portion available to fund the District's operations.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2018 and 2017

FINANCIAL HIGHLIGHTS (cont.)

2016 (cont.)

- > Operating revenues increased by \$40,229, an increase of 1.98% from calendar year 2016. Revenue slightly increased primarily due to a 5% increase in water consumption.
- > Operating expenses decreased by \$315,866 a decrease of 13.27% from calendar year 2016. The decrease was primarily due to incurring higher noncash pension expenses in the prior year.

FINANCIAL ANALYSIS

The District's net position at calendar year end is \$8,282,167. This is a \$177,990 increase over last year's net position of \$8,104,177. The following table provides a summary of the District's net position at December 31:

Summary of Net Position

	Business-type Activities			2018-2017 Amount Change	Percent Change
	2018	2017	2016		
Current and Other Assets	\$ 1,915,176	\$ 1,662,665	\$ 1,574,064	\$ 252,511	15.19%
Capital Assets	6,831,649	6,888,197	6,992,301	(56,548)	(0.82)
Total Assets	8,746,825	8,550,862	8,566,365	195,963	2.29
Deferred Outflows of Resources	33,496	64,424	69,704	(30,928)	(48.01)
Current Liabilities	230,598	203,900	199,303	26,698	10.02
Noncurrent Liabilities	16,830	39,109	30,848	(22,279)	(56.97)
Total Liabilities	247,428	243,009	230,151	4,419	1.82
Deferred Inflows of Resources	246,143	268,100	321,720	(21,957)	(8.19)
Net Position					
Net Investment in Capital Assets	6,632,860	6,820,540	6,992,301	(187,680)	(2.75)
Restricted for Net Pension Asset	57,285	-	-	57,285	100
Unrestricted	1,596,605	1,283,637	1,091,897	312,968	24.38
Total Net Position	\$ 8,286,750	\$ 8,104,177	\$ 8,084,198	\$ 182,573	2.25%

See accompanying independent auditors' report.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

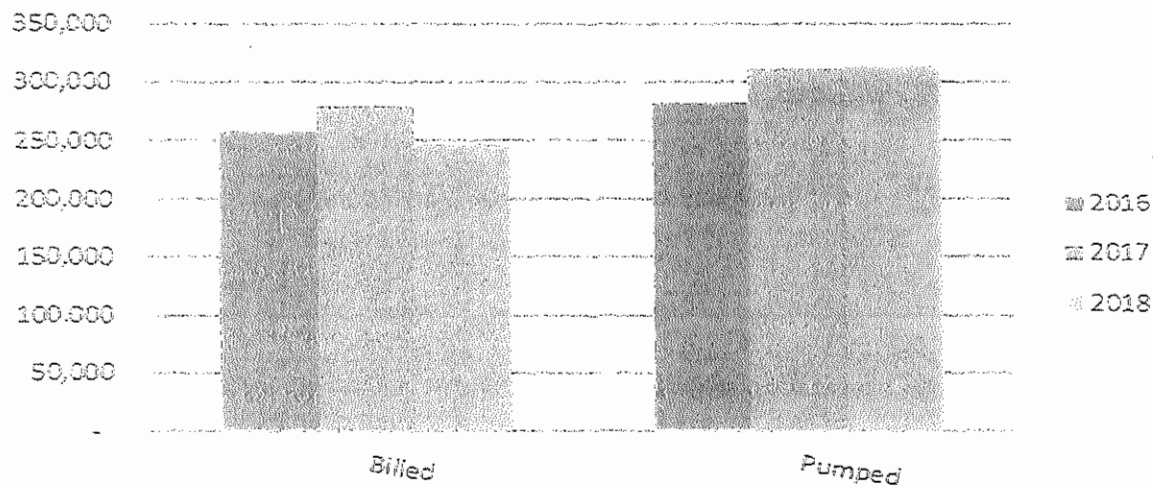
MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2018 and 2017

FINANCIAL ANALYSIS (cont.)

2018 had significant increased rainfall in the fall as compared to 2017. The aquifer increased its level in 2018 to 686 feet from 667 at the end of 2017. This resulted in a decrease in water consumption offset with a 19% increase in rates for overall increased revenues.

2017 had decreased rainfall as compared to 2016. The aquifer slightly dropped its level in 2017 to 667 feet from 685 at the end of 2016. This resulted in an increase in water consumption and increased revenues.

Comparison of Gallons Pumped vs. Billed
(in Thousands)



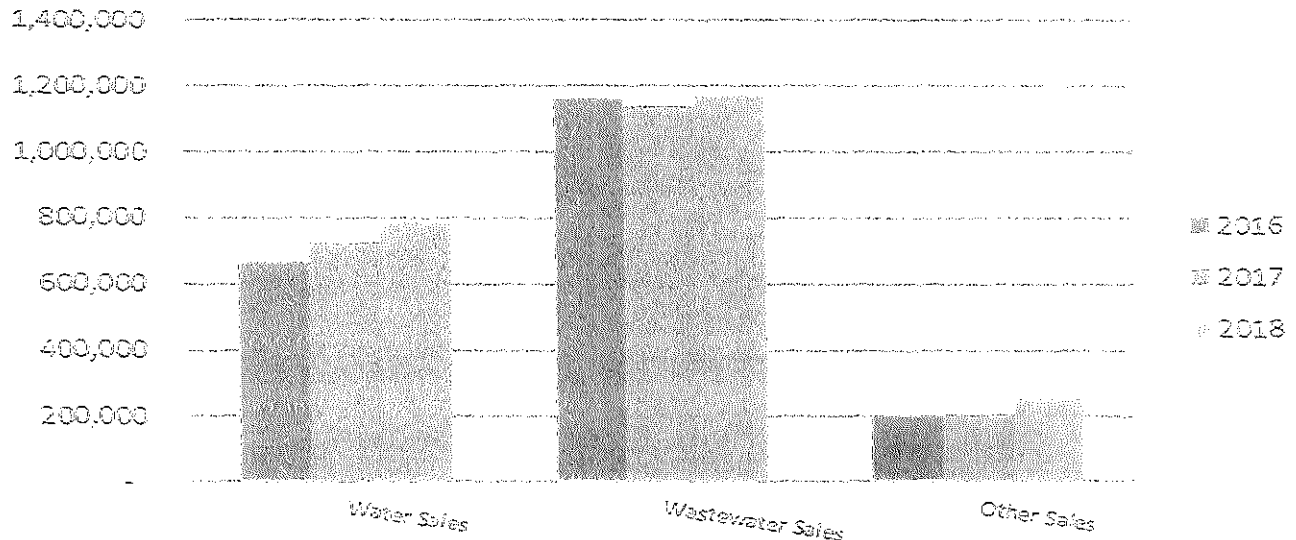
See accompanying independent auditors' report.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2018 and 2017

FINANCIAL ANALYSIS (cont.)

Comparison of Revenues



Although revenues exceeded budget in 2018, the District's rate structure ensures that its financial objectives are achieved. With only necessary rate adjustments the District will be able to meet its objectives of creating enough revenue to ensure day-to-day operations are adequately funded, charge premium rates high enough to discourage waste, and generate enough revenue to meet its long-term strategic objectives.

While on the subject of rates, it should be noted that annual rate adjustments, while unpopular, should be recognized as a necessary evil. The cost of providing service is on the rise on all fronts. Personnel costs grow with seniority of staff (cost of living, longevity, promotions, insurance, etc), equipment cost (purchase and maintenance) go up, regulatory expenses creep up, utility costs go up because of their increased cost of doing business. The list is endless. In some areas such as fuel and metals, the changes can be explosive. Failing to systematically pursue rate increases usually results in financial uncertainty for the entity with the result it has to impose a large, and consequently very unpopular, rate increase. Or succumb to rate payer pressure to reduce the increase, thereby worsening the financial problem. It has been and remains this District's policy to pass along rate increases as expenses rise. However, not all is doom and gloom; the customers of this District still enjoy the lowest rates in the region and are only about one-half what its nearest competitor, the San Antonio Water System, charges. The Edwards Aquifer Authority (EAA) Fees were adjusted to meet requirements.

Investment returns in 2018 and 2017 were low. The weighted return was low on the District's \$496,736 invested in certificates of deposit in 2017 so the District reduced their investments to \$446,308 in 2018. Inflation remained low, 1.3% for the year. The District's options are limited by the State's public investment rules.

See accompanying independent auditors' report.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2018 and 2017

FINANCIAL ANALYSIS (cont.)

Summary of Changes in Net Position

	Business-type Activities			2018-2017 Amount Change	Percent Change
	2018	2017	2016		
Revenues					
Charges for services	\$ 2,215,260	\$ 2,069,868	\$ 2,029,639	\$ 145,392	7.02%
Expenses					
Operating expenses	2,055,520	2,064,344	2,380,210	(8,824)	(0.43)
Other Revenues (Expenses)					
Gain on sale of property	16,437	-	-	16,437	100
Investment income	25,651	14,455	14,124	11,196	77.45
Debt issuance costs	(19,255)	-	-	(19,255)	(100)
Total Other Revenues	22,833	14,455	14,124	8,378	57.96
Change in Net Position	182,573	19,979	(336,447)	162,594	813.82
Beginning Net Position	8,104,177	8,084,198	8,420,645	19,979	(0.25)
ENDING NET POSITION	<u>\$ 8,286,750</u>	<u>\$ 8,104,177</u>	<u>\$ 8,084,198</u>	<u>\$ 182,573</u>	2.25%

FINANCIAL ANALYSIS OF THE DISTRICT'S OPERATIONS

2018

For the calendar year ended December 31, 2018, the District has an overall positive fund balance of \$8,286,750. Of this year-end total, \$1,596,605 is unrestricted, indicating availability for continuing service requirements. This year's increase in net position was \$182,573.

2017

For the calendar year ended December 31, 2017, the District has an overall positive fund balance of \$8,104,177. Of this year-end total, \$1,283,637 is unrestricted, indicating availability for continuing service requirements. This year's increase in net position was \$19,979.

See accompanying independent auditors' report.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2018 and 2017

CAPITAL ASSETS

2018

The District's investment in capital assets, net of accumulated depreciation, as of December 31, 2018, was \$6,632,860. The total decrease in this net investment was 2.75%. See Note 3 (on Pages 20-21) for additional information about changes in capital assets during the calendar year.

In 2018, the District rebuilt Well #3 and purchased a backhoe. The district also sold the Randolph Boulevard Lot in 2018.

2017

The District's investment in capital assets, net of accumulated depreciation, as of December 31, 2017, was \$6,820,540. The total decrease in this net investment was 2.46%. See Note 3 (on Pages 20-21) for additional information about changes in capital assets during the calendar year.

In 2017, the District completed the 2016 water replacement project and performed the Spanish Moss sewer main replacement of 151 feet of main and 1 manhole. In addition, a new trailer for the Vactor Jetter and new SCADA servers were purchased. Engineering and design began in 2017 for the upcoming 2018- 2020 infrastructure replacement project.

Capital Assets Net of Accumulated Depreciation

	Business-type Activities			2018-2017 Amount Change	Percent Change
	2018	2017	2016		
Nondepreciable assets					
Land	\$ 10,776	\$ 227,565	\$ 227,565	\$ (216,789)	(95)%
Water rights	2,091,790	2,091,790	2,091,790	-	-
Depreciable Assets (Net)					
Gathering and distribution Systems	4,332,312	4,374,888	4,556,752	(42,576)	(1)
Equipment	197,982	126,297	116,194	71,685	56
Totals	<u>\$ 6,632,860</u>	<u>\$ 6,820,540</u>	<u>\$ 6,992,301</u>	<u>\$ (187,680)</u>	(2.75)%

See accompanying independent auditors' report.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2018 and 2017

BUDGET, ECONOMIC ENVIRONMENT, AND PROJECTED PROJECTS

The District is on solid financial ground. It has one goal in mind: to have the necessary resources and reserves available to ensure the District is able to continue providing safe, affordable water. The numbers in this report support that objective, and we've done that without losing sight of the general economic difficulties we currently face; we have some of the lowest, if not the lowest rates in the region.

The one factor we cannot control is the weather. It directly effects water consumption and can have pronounced effects on the revenue derived from sales. Our budget is based on an "average" year as best we can define that term, but is weighted toward a wet year. This assures that if we have a wet year and the attendant drop in both water and wastewater revenue, we will be able to meet expenses and still build critical reserves.

One of the long-term objectives of this District is to continue rehabilitating and upgrading our water and wastewater infrastructure. We began that effort in 1997, and have had a project under way or in the planning stage continuously since then. In that time, we have spent over \$5.47 million on system upgrades and acquisitions. In 2013/2014 alone, we spent \$1.32 million on capital additions and improvements. Our Capital Improvement Plan calls for us to continue dedicating at least \$300,000 per year to those efforts. In addition to infrastructure upgrades, the District has also been building reserves for refurbishing the District's ground and elevated storage facilities, building its own administrative complex and repairing or replacing a well.

We have confidence in the future because of work performed in the past.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to provide the board of directors, citizens, customers, bond rating agencies, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact: General Manager, Bexar County Water Control and Improvement District No. 10, 8601 Midcrown Drive, Windcrest, TX 78239 or call 210 655 2888.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

STATEMENTS OF NET POSITION - WATER AND WASTEWATER
PROPRIETARY FUND
As of December 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,164,805	\$ 1,046,389
Investments	446,308	396,735
Accounts receivable	165,683	160,556
Inventory	25,147	25,147
Other accounts receivable	24,510	-
Cash and cash equivalents - restricted assets	31,438	33,838
Total Current Assets	1,857,891	1,662,665
NONCURRENT ASSETS		
Preliminary survey and investigation	198,789	67,657
Net pension asset	57,285	-
Capital Assets		
Land	10,776	227,565
Water rights	2,091,790	2,091,790
Gathering and distribution systems	10,327,007	10,156,414
Equipment	457,893	403,377
Less: Accumulated depreciation	(6,254,606)	(6,058,606)
Total Noncurrent Assets	6,888,934	6,888,197
Total Assets	8,746,825	8,550,862
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - TCDRS	33,496	64,424
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	166,978	139,935
Accrued expenses	32,182	30,127
Total Current Liabilities	199,160	170,062
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	31,438	33,838
NONCURRENT LIABILITIES		
Accrued compensated absences	16,830	16,830
Net pension liability	-	22,279
Total Noncurrent Liabilities	16,830	39,109
Total Liabilities	247,428	243,009
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - TCDRS	246,143	268,100
NET POSITION		
Net investment in capital assets	6,632,860	6,820,540
Restricted for net pension asset	57,285	-
Unrestricted	1,596,605	1,283,637
TOTAL NET POSITION	\$ 8,286,750	\$ 8,104,177

See accompanying notes to financial statements.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WATER AND WASTEWATER - PROPRIETARY FUND
For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Charges for Services		
Water sales	\$ 790,258	\$ 722,438
Wastewater services	1,169,933	1,139,763
Other fees and assessments	255,069	207,667
Total Operating Revenues	<u>2,215,260</u>	<u>2,069,868</u>
OPERATING EXPENSES		
Personnel and benefits	471,155	471,023
Professional fees	80,000	145,542
Contractual services	132,223	134,227
Wastewater services	762,252	731,417
Repairs and maintenance	109,653	120,266
Utilities	85,331	77,065
Other supplies and expenses	130,793	104,738
Depreciation	284,113	280,066
Total Operating Expenses	<u>2,055,520</u>	<u>2,064,344</u>
Operating Income	<u>159,740</u>	<u>5,524</u>
NONOPERATING REVENUES		
Investment income	25,651	14,455
Gain on sale of property	16,437	-
Debt issuance costs	(19,255)	-
Total Non-Operating Expenses	<u>22,833</u>	<u>14,455</u>
Change in Net Position	182,573	19,979
NET POSITION - Beginning of Year	<u>8,104,177</u>	<u>8,084,198</u>
NET POSITION - END OF YEAR	<u>\$ 8,286,750</u>	<u>\$ 8,104,177</u>

See accompanying notes to financial statements.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

STATEMENTS OF CASH FLOWS - WATER AND WASTEWATER PROPRIETARY FUND

For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 2,207,733	\$ 2,072,698
Paid for personnel services	(437,249)	(387,035)
Paid to suppliers for goods and services	(1,345,155)	(1,433,000)
Net Cash Flows From Operating Activities	<u>425,329</u>	<u>252,663</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt issuance costs	(19,255)	-
Net proceeds on land sale	75,726	-
Purchase of capital assets	(341,860)	(172,535)
Net Cash Flows From Capital and Related Financing Activities	<u>(285,389)</u>	<u>(172,535)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	25,651	14,455
Purchase of investments	(104,325)	(100,000)
Sale of investments	54,752	220,392
Net Cash Flows From Investing Activities	<u>(23,922)</u>	<u>134,847</u>
Net Change in Cash and Cash Equivalents	116,018	214,975
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>1,080,227</u>	<u>865,252</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 1,196,245</u>	<u>\$ 1,080,227</u>
Cash and cash equivalents	\$ 1,164,805	\$ 1,046,389
Cash and cash equivalents - restricted	<u>31,438</u>	<u>33,838</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,196,243</u>	<u>\$ 1,080,227</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 159,740	\$ 5,524
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities		
Depreciation	284,113	280,066
Changes to Assets and Liabilities		
Accounts receivable	(5,127)	1,729
Inventory	-	4,253
Accounts payable	57,541	(7,680)
Customer deposits	(2,400)	1,101
Accrued expenses	2,055	7,749
Accrued compensated absences	-	1,553
Net pension liability (asset) - TCDRS	<u>(70,593)</u>	<u>(41,632)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 425,329</u>	<u>\$ 252,663</u>

See accompanying notes to financial statements.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Bexar County Water Control and Improvement District No. 10 (the "District") is a governmental agency that was created by an order of the Texas Water Rights Commission on November 28, 1955 under Section 59 of Article 16 of the Texas Constitution and operates under Chapter 49 of the Texas Water Code.

The creation of the District was confirmed by the electorate of the District at a confirmation election held on February 4, 1956. The board of directors ("board") held its first meeting on January 17, 1956 and the first bonds were sold on January 1, 1958.

The District is governed by an elected board of directors. As a water district, it is not controlled by, or dependent upon, any other entity, and does not exercise control over operations of any other entity.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the District are described below.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements of the District are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Deposits and Investments

For purposes of the statement of cash flows, cash, and cash equivalents have original maturities of three months or less from the date of acquisition.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Deposits and Investments (cont.)

The District may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas (PFIA). The District is allowed to invest in: (1) obligations of the United States 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 of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "AA" or its equivalent; (5) certificates of deposit issued by state and national banks domiciled in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or secured by obligations mentioned above or credit unions that are guaranteed by the National Credit Union Association; and (6) fully collateralized direct repurchase agreements having a defined termination date.

The District has adopted an investment policy. That policy follows the state statute for allowable investments. For the years ended December 31, 2018 and 2017, the District invested strictly in certificates of deposit and investment pools. The investment pool is recorded at amortized cost without any limitations or restrictions on withdrawals.

Receivables

All receivables are reported at gross values. There is no estimate for uncollectible amounts for water and wastewater accounts as the District has not had a history of uncollectible amounts.

Inventory

Inventory consists primarily of equipment and small parts that are used in the repair and maintenance of the District's existing gathering and distribution systems. The inventory is stated at the lower of cost (first-in, first-out method) or market value.

Preliminary Survey and Investigation

The balance represents initial project engineering costs related to District plant construction. The balance will be capitalized upon commencement of the project.

Capital Assets

Capital assets, which include land, water rights, gathering and distribution systems, machinery, equipment, and vehicles are reported in the District's financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. When capital assets are purchased, they are capitalized and depreciated in the financial statements.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Capital Assets (cont.)

Capital assets are valued at cost where historical records are available and at an estimated cost where no records exist. Donated capital assets are valued at their estimated acquisition 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.

Improvements to capital assets that materially extend the life of the asset or add to the value are capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated over their useful lives on a straight-line basis as follows:

<u>Assets</u>	<u>Years</u>
Gathering and Distribution Systems	15 - 40
Equipment	3 - 10

Deferred Outflow of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Accrued Expenses

Accrued expenses consists of accrued assessments and benefit related liabilities.

Customer Deposits

This account represents amounts received from new or delinquent customers. Deposits are refunded to the customer or credited to the customer's account after 12 months of good payment history or upon termination of services. The District does not pay interest on deposits. The corresponding cash is shown as restricted for customer deposits.

Compensated Absences

All full-time employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences for sickness do not vest or accumulate and are recorded as an expense when they are paid. Compensated absences for vacation pay and compensated time do have a vesting portion based on hours accumulated times the current rate of pay to be paid upon retirement, release from employment, or resignation. A liability for this amount is reflected in the financial statements.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Pension Plan

The District provides pension benefits for all its full-status employees through the Texas County and District Retirement System (TCDRS). For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the TCDRS and additions to/deductions from TCDRS' fiduciary net position have been determined on the same basis as they are reported by TCDRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

REVENUES AND EXPENSES

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges for water and wastewater services. Operating expenses for the District include the cost of goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Charges for Services

Billings are rendered and recorded monthly based on metered usage. The District does not accrue revenues beyond billing dates.

Current water rates were approved by the board effective February 23, 2018.

Current wastewater rates were approved by the board effective March 21, 2018.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 87, *Leases*, Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*. When they become effective, application of these standards may restate portions of these financial statements.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2018 and 2017

NOTE 2 – CASH AND INVESTMENTS

	Carrying Value		Risks
	2018	2017	
Checking and Savings	\$ 899,004	\$ 688,342	Custodial credit
TexPool Investment Pool	297,239	291,885	Credit
Certificates of Deposit	446,308	496,735	Custodial credit
Totals	<u>\$ 1,642,551</u>	<u>\$ 1,476,962</u>	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

Deposits in credit unions are insured by the National Credit Union Administration in the amount of \$250,000 for all share draft accounts and \$250,000 for all share certificate and regular share accounts as of December 31, 2018 and 2017.

CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The District's policy requires deposits to be collateralized by securities pledged by the District's agent, the District's financial institution or the financial institution's trust department, less the amounts of the Federal Deposit Insurance Corporation insurance (FDIC) and the National Credit Union Administration (NCUA). The board approves and designates all authorized depository institutions.

The District's total deposits at banks as of December 31, 2018 and 2017 was \$1,346,360 and \$1,252,970, respectively. In addition, the utility has collateral or depository insurance agreements in the amount of \$0 and \$839,350 at December 31, 2018 and 2017, respectively. \$622,726 and \$0 were exposed to custodial credit risk as of December 31, 2018 and 2017, respectively.

CREDIT RISK

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. Investing is performed in accordance with the investment policies adopted by the board of directors in complying with state statutes. State law limits investments in investment pools to those continuously rated no lower than "AAA" or an equivalent rating by at least one nationally recognized rating service. The District's investment policy does not further limit its investment choices. As of December 31, 2018 and 2017, the District's pooled investments were rated "AAA" by Standard and Poor's.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017

NOTE 3 – CAPITAL ASSETS

A summary of capital assets at December 31, 2018 is as follows:

	Balance 1/1/18	Increases	Decreases	Balance 12/31/18
Capital assets, not being depreciated				
Land and easements	\$ 227,565	\$ -	\$ (216,789)	\$ 10,776
Construction in progress	-	530,820	(530,820)	-
Water rights	2,091,790	-	-	2,091,790
 Total Capital Assets, Not Being Depreciated	 2,319,355	 530,820	 (747,609)	 2,102,566
Capital assets being depreciated				
Gathering and distribution systems	10,156,414	204,876	(34,283)	10,327,007
Equipment	403,377	108,346	(53,830)	457,893
Total Capital Assets Being Depreciated	10,559,791	313,222	(88,113)	10,784,900
Less: Accumulated depreciation for				
Gathering and distribution systems	(5,781,526)	(247,452)	34,283	(5,994,695)
Equipment	(277,080)	(36,661)	53,830	(259,911)
Total Accumulated Depreciation	(6,058,606)	(284,113)	88,113	(6,254,606)
Net Capital Assets Being Depreciated	4,501,185	29,109	-	4,530,294
Net Capital Assets	\$ 6,820,540	\$ 559,929	\$ (747,609)	\$ 6,632,860

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2018 and 2017

NOTE 3 – CAPITAL ASSETS (cont.)

A summary of capital assets at December 31, 2017 is as follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
Capital assets, not being depreciated:				
Land and easements	\$ 227,565	\$ -	\$ -	\$ 227,565
Construction in progress	-	57,139	(57,139)	-
Water rights	2,091,790	-	-	2,091,790
 Total Capital Assets, Not Being Depreciated	 2,319,355	 57,139	 (57,139)	 2,319,355
Capital assets being depreciated:				
Gathering and distribution systems	10,092,848	63,566	-	10,156,414
Equipment	358,639	44,738	-	403,377
 Total Capital Assets Being Depreciated	 10,451,487	 108,304	 -	 10,559,791
Less: Accumulated depreciation for:				
Gathering and distribution systems	(5,536,096)	(245,430)	-	(5,781,526)
Equipment	(242,445)	(34,635)	-	(277,080)
 Total Accumulated Depreciation	 (5,778,541)	 (280,065)	 -	 (6,058,606)
 Net Capital Assets Being Depreciated	 4,672,946	 (171,761)	 -	 4,501,185
 Net Capital Assets	 \$ 6,992,301	 \$ (114,622)	 \$ (57,139)	 \$ 6,820,540

NOTE 4 – EMPLOYEES' RETIREMENT SYSTEM

PLAN DESCRIPTION

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide 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 656 nontraditional defined benefit pension plans. TCDRS in aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The most recent comprehensive annual financial report for TCDRS can be found at the following link, www.tcds.org.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2018 and 2017

NOTE 4 – EMPLOYEES' RETIREMENT SYSTEM (cont.)

BENEFITS PROVIDED

All full- and part-time nontemporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership. The plan provides retirement, disability and survivor benefits. TCDRS is a savings-based plan. For the District's plan, 7% of each employee's pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage (current match is 100%) and is then converted to an annuity. There are no automatic COLAs. Each year, the District may elect an ad hoc COLA for its retirees (if any). There are two COLA types, each limited by actual inflation.

Employees Covered by Benefit Terms

At the valuation and measurement date, the following employees were covered by the benefit terms as of December 31:

	2017	2016
Inactive employees or beneficiaries currently receiving benefits	4	4
Inactive employees entitled to but not yet receiving benefits	3	1
Active employees	7	7
Total	14	12

CONTRIBUTIONS

The contributions rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employees gross earnings, as adopted by the employer's governing body. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. Employer contribution rates are determined annually and approved by the TCDRS Board of Trustees. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available to the TCDRS Act.

The District has elected the variable rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer, based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The District contribution rate is based on the TCDRS funding policy adopted by the TCDRS Board of Trustees and must conform with the TCDRS Act. The District contributed using the actuarially determined rate of 7.0% for the 2018 and 2017 calendar years. The employee contribution rates are set by the District and are 7.0% for the 2018 and 2017 calendar years.

NET PENSION LIABILITY (ASSET)

The District's Net Pension Liability (Asset) (NPL/NPA) recorded as of December 31, 2018 and 2017 was measured as of December 31, 2017 and 2016, respectively, and the Total Pension Liability (Asset) (TPL/TPA) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date. The December 31, 2017 actuarial valuation is the most recent valuation.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2018 and 2017

NOTE 4 – EMPLOYEES' RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (ASSET) (cont.)

Actuarial Valuation Information

The Total Pension Liability (Asset) in the December 31, 2017 and 2016 actuarial valuations were determined using the following actuarial assumptions:

Actuarial Valuation Dates:	December 31, 2017 and 2016
Actuarial Cost Method:	Entry Age
Amortization Method:	Level Percentage of Payroll, Closed
Amortization Period:	0.0 Years
Asset Valuation Method:	5 Year Smoothed Market
Actuarial Assumptions:	
Investment Return* (includes administrative expenses)	8.00%
Projected Salary Increase*	4.9
Inflation	2.75
Cost-of-Living Adjustments	0.0

* Includes inflation at the stated rate.

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.25% (made up of 2.75% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.6% per year for a career employee. Mortality rates for active members were based on gender-distinct RP2014 Active Employee Mortality Table, projected with 110% of the MP-2014 Ultimate scale after 2014. Mortality rates for retirees, beneficiaries, and nonactive members were based on the gender-distinct RP2014 Healthy Annuitant Mortality Table, projected with 110% of the MP-2014 Ultimate scale after 2014. For disabled annuitants, the gender-distinct RP2014 Disabled Annuitant Mortality Table is used, projected with 110% of the MP-2014 Ultimate scale after 2014.

The long-term expected rate of return on pension plan investments is 8.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

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 2017.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017

NOTE 4 – EMPLOYEES' RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (ASSET)(cont.)

Actuarial Valuation Information (cont.)

The capital market assumptions and information are provided by TCDRS's investment consultants, Cliffwater LLC. The numbers shown are based on January 2018 information for a 10-year time horizon.

Asset Class	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected Minus Inflation) ⁽²⁾
U.S. equities	11.5%	4.55%
Private equity	16.0%	7.55%
Global equities	1.5%	4.85%
International equities – developed	11.0%	4.55%
International equities – emerging	8.0%	5.55%
Investment-grade bonds	3.0%	0.75%
Strategic credit	8.0%	4.12%
Direct lending	10.0%	8.06%
Distressed debt	2.0%	6.30%
REIT equities	2.0%	4.05%
Master Limited Partnerships (MLPs)	3.0%	6.00%
Private real estate partnerships	6.0%	6.25%
Hedge funds	18.0%	4.10%
Total	100.0%	

(1) Target asset allocation adopted at the April 2018 TCDRS Board meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.95%, per Cliffwater's 2018 capital market assumptions.

Discount Rate

A single discount rate of 8.1% was used to measure the Total Pension Liability (Asset) as of December 31, 2018 and 2017. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability (Asset).

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017

NOTE 4 – EMPLOYEES' RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (ASSET) (cont.)

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balance at December 31, 2017	\$ 596,451	\$ 574,172	\$ 22,279
Changes for the year:			
Service cost	33,218	-	33,218
Interest on total pension liability	48,396	-	48,396
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	(28,615)	-	(28,615)
Effect of assumptions changes or inputs	(355)	-	(355)
Refund of contributions	(42,098)	(42,098)	-
Benefit payments	(23,559)	(23,559)	-
Administrative expense	-	(426)	426
Member contributions	-	23,971	(23,971)
Net investment income	-	83,546	(83,546)
Employer contributions	-	25,340	(25,340)
Other	-	(223)	223
Net Changes	(13,013)	66,551	(77,564)
Balance at December 31, 2018	\$ 583,438	\$ 640,723	\$ (57,285)

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017

NOTE 4 – EMPLOYEES' RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (ASSET) (cont.)

Changes in the Net Pension Liability (Asset) (cont.)

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at December 31, 2016	\$ 546,698	\$ 531,127	\$ 15,571
Changes for the year:			
Service cost	33,858	-	33,858
Interest on total pension liability	44,402	-	44,402
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	2,319	-	2,319
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(7,267)	(7,267)	-
Benefit payments	(23,559)	(23,559)	-
Administrative expense	-	(415)	415
Member contributions	-	23,542	(23,542)
Net investment income	-	38,224	(38,224)
Employer contributions	-	24,887	(24,887)
Other	-	(12,367)	12,367
Net Changes	49,753	43,045	6,708
Balance at December 31, 2017	\$ 596,451	\$ 574,172	\$ 22,279

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the District, calculated using the discount rate of 8.1%, as well as what the District's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-point higher (9.1%) than the current rate:

December 31, 2018	1% Decrease in Discount Rate (7.1%)	Discount Rate (8.1%)	1% Increase in Discount Rate (9.1%)
Total pension liability	\$ 654,133	\$ 583,438	\$ 523,066
Fiduciary net position	640,723	640,723	640,723
District's Net Pension Liability (Asset)	\$ 13,410	\$ (57,285)	\$ (117,657)

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017

NOTE 4 – EMPLOYEES' RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (ASSET) (cont.)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate (cont.)

December 31, 2017	1% Decrease in Discount Rate (7.1%)	Discount Rate (8.1%)	1% Increase in Discount Rate (9.1%)
Total pension liability	\$ 679,047	\$ 596,451	\$ 527,868
Fiduciary net position	574,172	574,172	574,172
District's Net Pension Liability (Asset)	<u>\$ 104,875</u>	<u>\$ 22,279</u>	<u>\$ (46,304)</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. That report may be obtained on the Internet at www.tcdrs.org.

PENSION EXPENSE

For the years ended December 31, 2018 and 2017, the District recognized pension expense of \$(41,786) and \$(16,622), respectively.

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES RELATED TO PENSIONS

At December 31, 2018, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,034	\$ 237,372
Changes in actuarial assumptions	2,520	284
Differences between projected and actual investment earnings	-	8,487
Contributions subsequent to the measurement date	<u>28,942</u>	<u>-</u>
Totals	<u>\$ 33,496</u>	<u>\$ 246,143</u>

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2018 and 2017

NOTE 4 – EMPLOYEES' RETIREMENT SYSTEM (cont.)

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES RELATED TO PENSIONS (cont.)

At December 31, 2017, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,664	\$ 268,100
Changes in actuarial assumptions	3,151	-
Differences between projected and actual investment earnings	33,134	-
Contributions subsequent to the measurement date	25,475	-
Totals	<u>\$ 64,424</u>	<u>\$ 268,100</u>

The following table presents the future amortization of deferred outflows and deferred inflows of resources, excluding the balance attributable to the employer's contribution to the plan in the current calendar year and subsequent to the net pension liability (asset) measurement date. The deferred outflows of resources balance for such contribution amounts at the end of the calendar year are recognized fully as adjustments to the net pension liability in the subsequent calendar year.

<u>Years Ended December 31,</u>	
2019	\$ (54,246)
2020	(56,461)
2021	(64,942)
2022	(65,940)
Thereafter	-
Total	<u>\$ (241,589)</u>

NOTE 5 – CONTINGENCIES

The District is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets, error and omissions; injuries to employees; and natural disasters for which the District carries commercial insurance. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2018 and 2017

NOTE 6 – SUBSEQUENT EVENTS

The District evaluated subsequent events through March 21, 2019, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

The District approved new water and sewer rates, effective February 23, 2019.

On February 27, 2019, the district issued \$4,950,000 Waterworks and Sewer System Revenue Notes, Series 2019A to finance system improvements. The debt is payable over 24 years and bears a net interest rate of 4%.

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APPENDIX E

FORM OF LEGAL OPINION OF BOND COUNSEL

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Proposed Form of Opinion of Bond Counsel

*An opinion in substantially the following form will be delivered by
McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Notes,
assuming no material changes in facts or law.*

December __, 2019

**BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10
WATERWORKS AND SEWER SYSTEM REVENUE NOTES, SERIES 2019B
DATED AS OF NOVEMBER 1, 2019
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$_____**

AS BOND COUNSEL FOR THE BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10 (the "**District**") in connection with the issuance of the notes described above (the "**Notes**"), we have examined into the legality and validity of the Notes, which bear interest from the dates specified in the text of the Notes until maturity or prior redemption at the rates, and are payable on the dates, as stated in the text of the Notes, all in accordance with the terms and conditions stated in the text of the Notes.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the District, and other pertinent instruments authorizing and relating to the issuance of the Notes including (i) the resolution authorizing the issuance of the Notes (the "**Resolution**"), (ii) one of the executed Notes (Note No. T-1), and (iii) the District's Federal Tax Certificate of even date herewith.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Notes have been authorized, issued and delivered in accordance with law; that the Notes constitute valid and legally binding general obligations of the District in accordance with their terms except as the enforceability thereof may be limited by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally; that the District has the legal authority to issue the Notes and to repay the Notes; and that the Notes are special obligations of the District, secured by and payable from an irrevocable first and prior lien on and pledge of the "Net Revenues" (as defined and described in the Resolution) derived from the operation of the District's combined Waterworks and Sewer System.

THE DISTRICT HAS RESERVED THE RIGHT, subject to the restrictions stated in the Resolution, to issue additional parity revenue bonds, designated as "Additional Obligations" in the Resolution, which also may be secured by and payable from an irrevocable lien on and pledge of the aforesaid Net Revenues on a parity and of equal dignity in all respects with the Notes.



THE DISTRICT ALSO HAS RESERVED THE RIGHT to amend the Resolution with the approval of the holders and owners of at least 51% of all outstanding Parity Obligations (as defined in the Resolution), subject to the restrictions stated in the Resolution.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Notes is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Notes are not "specified private activity bonds" and that, accordingly, interest on the Notes will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "**Code**"). In expressing the aforementioned opinions, we have relied on, and assumed compliance by the District with, certain representations and covenants regarding the use and investment of the proceeds of the Notes. We call your attention to the fact that failure by the District to comply with such representations and covenants may cause the interest on the Notes to become includable in gross income retroactively to the date of issuance of the Notes.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Notes, including the amount, accrual or receipt of interest on, the Notes. Owners of the Notes should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Notes.

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 a result and are not binding on the Internal Revenue Service (the "**Service**"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Notes. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Notes as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Notes is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Notes under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Notes for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the



financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Notes, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Notes and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of, and the sufficiency of the Net Revenues of, the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Notes has been limited as described therein.

Respectfully,

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Capital
Markets